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**FINANCIAL  
STATEMENTS AND  
REPORT OF  
INDEPENDENT  
CERTIFIED PUBLIC  
ACCOUNTANTS**

**STATE OF NEW MEXICO  
SCHOOL FOR THE DEAF**

**June 30, 2009 and 2008**

atkinson

PRECISE. PERSONAL. PROACTIVE.

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State of New Mexico  
School For The Deaf

**BOARD OF REGENTS**

June 30, 2009

Ms. Lynann Barbero	President
Ms. Sue Petrov	Vice-President
Mr. James Borrego	Secretary/Treasurer
Ms. Eugenia M. Kincaid	Member
Mr. Ernesto Ortega	Member

**ADMINISTRATION**

Dr. Ronald Stern	Superintendent
Mr. Mark Apodaca	Director of Finance
Ms. Rosemary Gallegos	Assistant Superintendent
Mr. Roddy Cabbage	Director of Student Life



CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

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ALBUQUERQUE, NM 87125

## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Mr. Hector H. Balderas  
New Mexico State Auditor  
And  
The Board of Regents  
State of New Mexico – New Mexico School for the Deaf  
Santa Fe, New Mexico

We have audited the accompanying financial statements of the business-type activities of the New Mexico School for the Deaf (the School or NMSD) as of and for the years ended June 30, 2009 and 2008, as listed in the table of contents. We also have audited the budgetary comparison statements listed as schedules 1, 2, 3, and 4 presented as supplementary information in the accompanying financial statements as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note B1, the financial statements of the New Mexico School for the Deaf are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of its business-type activities that are attributable to the transactions of the New Mexico School for the Deaf. They do not purport to, and do not, present fairly the financial position of The State of New Mexico as of June 30, 2009 and 2008, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

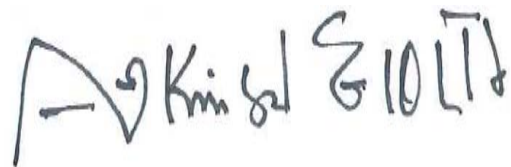
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the School as of June 30, 2009 and 2008 and the respective changes in financial position and cash flows, thereof, for the years then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the budgetary comparisons referred to above present fairly, in all material respects, the respective budgetary comparisons of the School for the year ended June 30, 2009 in conformity with accounting principles generally accepted in the United States of America.

As described in Note L1, the School adopted a new accounting policy for bond revenue for 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2009 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 4 through 9 are not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the New Mexico School for the Deaf's basic financial statements and the budgetary comparisons. The accompanying schedules of cash and investments, pledged collateral requirements, bonds, appropriations, and joint powers agreements are presented for purpose of additional analysis and as required by the New Mexico Public Education Department, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in blue ink, appearing to read "Atkinson & Co., Ltd.", with a stylized logo to the left consisting of a large 'A' and a heart shape.

**Atkinson & Co., Ltd.**

Albuquerque, New Mexico  
November 2, 2009

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2009

For financial reporting purposes, the New Mexico School for the Deaf (the School or NMSD) is considered a special school providing public education for deaf and hard-of-hearing children. NMSD's financial statements have been presented using the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred. Comparative information for the Management Discussion and Analysis is provided in this report.

**FINANCIAL STATEMENTS**

The Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets indicate the School's net assets and how they have changed. The School's financial position is measured by its net assets – the difference between assets and liabilities. Over time, the School's net assets increase and decrease indicating whether its financial position is improving or deteriorating. This Statement includes all assets and liabilities using the accrual basis of accounting, which is consistent with accounting methods used by private sector institutions. All of the current year's revenues and expenses are recognized when earned or incurred, regardless of when cash is received or disbursed.

**FINANCIAL HIGHLIGHTS**

Statement of Net Assets

The New Mexico School for the Deaf ended the fiscal year June 30, 2009 with total assets of \$35,866,051, total liabilities of \$1,338,888, and net assets of \$34,527,163. Total assets and total net assets increased from the previous fiscal year mostly due to recording certain capital assets not previously recorded. Capital assets include property located in Albuquerque, Paradise Hills, and the Dairyland which is located in the southern part of Santa Fe.

The current ratio, which is used to measure the ability of the School to pay its short-term debts, decreased from 14.19 in 2008 to 8.91 in 2009. The decrease was mostly due to an increase in current liabilities from \$637,203 in FY08 to \$1,208,815 in FY09, an 89.7% increase.

Statement of Revenues, Expenses, and Changes in Net Assets

Operating revenues for 2009 decreased by 7.7% over the prior year. This was caused by a decrease of \$33,871 or 15.7% in federal grants and contracts, and a decrease of \$76,315 or 23.6% in other revenue. During FY09, NMSD received \$180,740 from Joint Powers Agreements, a \$59,460 or 49% increase from the previous fiscal year.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED  
REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2009

**FINANCIAL HIGHLIGHTS – CONTINUED**

In addition, total operating expenses increased by \$133,156 or .9% during the same period. A significant decrease came from outside contracts and grants which stood at 25.6% and operation and maintenance of plant by 13.9%.

Non-operating revenues increased during FY09 by 15.2% largely due to increases in land and permanent fund, bond proceeds and a gain on disposal of assets.

During fiscal year 2009, NMSD received \$11,009,507 from the Land and Permanent Fund and \$4,128,100 from State Appropriations. In addition to the Land and Permanent Fund and State Appropriations, the School received \$4,611,804 in bond revenue, \$102,915 in investment income, and \$577,053 from the sale of disposal of capital assets. The total non-operating revenues of \$20,429,379 which was greater than the \$(14,588,880) in net operating loss caused the School's net assets to increase by \$5,840,499.

Capital Assets

During FY09, NMSD was involved with a number of capital projects. NMSD had previously received a \$5.5 million severance tax bond which was used for its electricity utility upgrade (\$1.6 million), a new maintenance building (\$1.5 million), a part of its central plant project (\$1.4 million), and installation of a new elevator at Dillon Hall (\$301,578). The new maintenance building replaced the 1935 maintenance building which was demolished. The 1935 building was originally built as a barn.

NMSD used a different severance tax bond to demolish the old Hester Hall elementary school building which was replaced by a newer Hester Hall in 2008. The older Hester Hall building along with the 1935 maintenance building were demolished for \$191,668.

Also during FY09, NMSD started reconstruction on its 1928 Connor Hall historical building. The project is being funded by a general obligation bond for \$7 million and will be completed during the middle of FY10.

Lastly, at the end of FY09, construction of a new central plant was still in effect. The project is divided into two parts involving two different construction companies. In addition to what was mentioned above, the second part of the central plant will cost \$1 million when completed during FY10.



**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED  
REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2009

**FINANCIAL HIGHLIGHTS – CONTINUED**

Cash and Investments

NMSD ended the fiscal year with a cash balance of \$2,676,885. Investments with the Local Government Investment pool and certificates of deposits ended at \$6.3 million, up 1.6% from the previous fiscal year. Approximately 95 percent of the investment funds are under the State Treasurer's Office Local Government Investment Pool which has no unit shares.

Assets, Liabilities and Net Assets

The following summarizes the NMSD's assets, liabilities and net assets as of June 30, 2009 and 2008:

ASSETS

	<u>2009</u>	<u>2008</u>
Current assets	\$ 10,768,301	\$ 9,043,624
Non-current assets	<u>25,097,750</u>	<u>20,402,918</u>
Total assets	<u>\$ 35,866,051</u>	<u>\$ 29,446,542</u>

LIABILITIES

Current liabilities	\$ 1,208,815	\$ 637,203
Non-current liabilities	<u>130,073</u>	<u>122,675</u>
Total liabilities	<u>\$ 1,338,888</u>	<u>\$ 759,878</u>

NET ASSETS

	<u>2009</u>	<u>(Restated) 2008</u>
Invested in capital assets	\$ 23,208,716	\$ 19,939,601
Restricted student aid and other program	1,965,592	526,238
Unrestricted	<u>9,352,855</u>	<u>8,220,825</u>
Total net assets	<u>\$ 34,527,163</u>	<u>\$ 28,686,664</u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED  
REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2009

**ANALYSIS OF NET ASSETS**

Assets may serve as an indicator of the school's financial position. Overall, NMSD continues to have a strong standing in net assets.

At June 30, 2009, total assets increased 21.8% from the previous fiscal year. Total liabilities increased by \$571,612 or 89.7%. NMSD continues to have strong total assets.

Total assets exceed total liabilities by \$34,527,163. About 64.7% of net assets reflect its investment in Capital Assets. NMSD uses these Capital Assets to provide educational and other services to deaf and hard of hearing students. Therefore, these assets are not available for future spending.

An additional amount of \$1,965,592 of the School's net assets is subject to external restrictions on how it may be used. The remaining balance, \$9,352,855, may be used at the Board of Regent's discretion to meet the School's ongoing educational and operational needs.

**REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**

The following summarizes the School's revenues, expenses, and changes in net assets for the years ended June 30, 2009 and 2008:

	<u>2009</u>	<u>(Restated) 2008</u>
Operating revenues	\$ 608,896	\$ 659,622
Operating expenses	<u>(15,197,776)</u>	<u>(15,064,620)</u>
Operating loss	(14,588,880)	(14,404,998)
Non-operating revenues	<u>20,429,379</u>	<u>17,732,604</u>
Increase in net assets	<u>\$ 5,840,499</u>	<u>\$ 3,327,606</u>

**ANALYSIS OF CHANGES IN NET ASSETS**

As stated earlier, changes in net assets was the result of an increase in capital asset investment, unrestricted funds, and increases in restricted student aid and other programs. Investment in capital assets included reporting the value of the Dairyland property, and the Albuquerque Preschool and Paradise Hills properties. In addition, the unrestricted fund balance increased due to increases in the land and permanent fund, bond proceed appropriations used for construction in progress, and gain on disposal of capital assets.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED  
REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2009

**OPERATING REVENUES**

NMSD had operating revenues of \$608,896 for the fiscal year ended June 30, 2009 down 7.7 percent from fiscal year 2008. The reason for the decrease was a drop in federal grants and contracts by 15.7 percent and other operating revenues by 23.6 percent. However, revenues from Joint Power Agreements increased by 49 percent during the same period. The remaining revenues are non-operating which include the land and permanent fund, state appropriations, and other revenue.

**OPERATING EXPENSES**

The following analysis summarizes the School's operating expenses of \$15,197,776 for the fiscal year ended June 30, 2009. There was a .9 percent increase from June 30, 2008.

	<u>2009</u>	<u>2008</u>
Academic support	\$ 3,549,862	\$ 3,194,053
Operation and maintenance of plant	2,748,489	3,191,137
Instruction	2,585,928	2,421,203
Student services	2,407,138	2,260,968
Institutional support	1,974,952	1,861,566
Depreciation	1,026,500	919,991
Outside contracts and grants	<u>904,907</u>	<u>1,215,702</u>
Total operating expenses	<u>\$ 15,197,776</u>	<u>\$ 15,064,620</u>

**NON-OPERATING REVENUES AND EXPENSES**

The following analysis summarizes the School's Non-Operating Revenues of \$20,429,379 for the fiscal year ended June 30, 2009. Increases include gain on land acquisition, an increase in land and permanent fund income and gain on disposal of capital assets.

	<u>2009</u>	<u>2008</u>
Land and permanent fund income	\$ 11,009,507	\$ 10,086,766
State appropriations	4,128,100	4,314,220
Investment income	102,915	316,438
Gain on disposal of capital assets	577,053	19,400
Bond proceeds appropriations	<u>4,611,804</u>	<u>2,995,780</u>
Total non-operating revenues and expenses	<u>\$ 20,429,379</u>	<u>\$ 17,732,604</u>

State of New Mexico  
School For The Deaf

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED  
REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2009

**CAPITAL ASSETS**

At June 30, 2009, total capital assets increased by \$3,269,115 or 16.4% net of accumulated depreciation. The increase was due mostly to construction in progress, additions to buildings, and infrastructure.

	<u>2009</u>	<u>2008</u>
Buildings	\$ 17,257,948	\$ 15,585,071
Construction in progress	3,127,933	1,278,865
Vehicles	438,283	421,037
Land and improvements	1,698,068	2,094,934
Infrastructure	127,382	-
Equipment and furniture	289,854	275,705
Artworks	209,550	209,550
Computer equipment	<u>59,698</u>	<u>74,439</u>
Total capital assets – net	<u>\$ 23,208,716</u>	<u>\$ 19,939,601</u>

During fiscal year 2009, NMSD purchased new vehicles. They replaced older vehicles which had high mileage and were fully depreciated. Construction in progress increased by 144.6% due to several capital projects in work during the fiscal year.

**BUDGET ANALYSIS**

During fiscal year 2009, only one budget adjustment request (BAR) was made. The BAR was submitted to update the beginning fund balances resulting from the FY08 audit, transfer funds from within instruction and general, to correct transfers within BRR and capital outlay, and to transfer additional funds to public service. It also included a decrease in appropriation funds.

**ECONOMIC OUTLOOK**

NMSD's economic outlook is closely related to its role as the only school for the deaf and hard of hearing in the state of New Mexico. It is largely dependent upon ongoing financial support from the state government and the land and permanent fund income. Since the end of the fiscal year June 30, 2009, the economy has been unpredictable due to the increases and declining prices of oil which affects the school's land and permanent fund. Also, the New Mexico state government had met some budgetary challenges and NMSD experienced a small cut in appropriations. In addition, the school's funds within the Local Government Investment Pool are being affected due to the volatility in stock market prices. The NMSD's business office will continue to monitor the economic activity on an ongoing basis.

State of New Mexico  
School for the Deaf

**STATEMENTS OF NET ASSETS**

June 30,

**ASSETS**

	<u>2009</u>	<u>2008</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 2,676,885	\$ 1,316,905
Short-term investments	6,315,375	6,213,410
Accounts receivable, net of allowance for uncollectible amounts of \$11,075 for 2009 and 2008	1,047,981	1,412,549
Bonds receivable	631,492	-
Inventories	96,568	100,760
	<hr/>	<hr/>
Total current assets	10,768,301	9,043,624
<b>NONCURRENT ASSETS</b>		
Restricted cash and cash equivalents	1,889,034	439,317
Deposits held for escrow	-	24,000
Capital assets, net	23,208,716	19,939,601
	<hr/>	<hr/>
Total noncurrent assets	25,097,750	20,402,918
	<hr/>	<hr/>
Total assets	<u>\$ 35,866,051</u>	<u>\$ 29,446,542</u>

The accompanying notes are an integral part of these financial statements.

**LIABILITIES AND NET ASSETS**

	<u>2009</u>	<u>2008</u>
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 928,956	\$ 362,480
Deferred income	67,780	100,943
Accrued compensated absences - current portion	109,756	125,864
Payroll taxes and fringe benefits - accrued and withheld	<u>102,323</u>	<u>47,916</u>
Total current liabilities	1,208,815	637,203
<b>NONCURRENT LIABILITIES</b>		
Accrued compensated absences	36,192	38,383
Deposits from students	<u>93,881</u>	<u>84,292</u>
Total noncurrent liabilities	<u>130,073</u>	<u>122,675</u>
Total liabilities	1,338,888	759,878
<b>NET ASSETS</b>		
Invested in capital assets	23,208,716	19,939,601
Restricted - expendable for:		
Other programs	1,889,034	439,317
Scholarships	54,534	64,897
Special events	22,024	22,024
Unrestricted	<u>9,352,855</u>	<u>8,220,825</u>
Total net assets	<u>34,527,163</u>	<u>28,686,664</u>
Total liabilities and net assets	<u>\$ 35,866,051</u>	<u>\$ 29,446,542</u>

The accompanying notes are an integral part of these financial statements.

State of New Mexico  
School for the Deaf

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**

Years ended June 30,

	2009	2008
<b>OPERATING REVENUES</b>		
Federal grants and contracts	\$ 181,282	\$ 215,153
Joint power agreements	180,740	121,280
Other operating revenue	246,874	323,189
Total operating revenues	608,896	659,622
<b>OPERATING EXPENSES</b>		
Academic support	3,549,862	3,194,053
Operation and maintenance of plant	2,748,489	3,191,137
Instruction	2,585,928	2,421,203
Student services	2,407,138	2,260,968
Institutional support	1,974,952	1,861,566
Depreciation	1,026,500	919,991
Outside contracts and grants	904,907	1,215,702
Total operating expenses	15,197,776	15,064,620
Net operating loss	(14,588,880)	(14,404,998)
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Land and permanent fund income	11,009,507	10,086,766
Bond proceeds appropriations	4,611,804	2,995,780
State appropriations	4,128,100	4,314,220
Gain on disposal of capital assets	577,053	19,400
Investment income	102,915	316,438
Non-operating revenues	20,429,379	17,732,604
Changes in net assets	5,840,499	3,327,606
<b>NET ASSETS</b>		
Beginning of year, as previously reported	28,686,664	23,660,990
Restatements		
Capital assets not previously recorded	-	1,698,068
Beginning net assets, as restated	28,686,664	25,359,058
Ending net assets	\$ 34,527,163	\$ 28,686,664

The accompanying notes are an integral part of these financial statements.

State of New Mexico  
School for the Deaf

**STATEMENTS OF CASH FLOWS**

Years ended June 30,

	<u>2009</u>	<u>2008</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Grants and contracts received	\$ 328,859	\$ 380,663
Payments to suppliers	(2,785,100)	(3,859,640)
Payments to employees and for employee benefits	(10,769,811)	(10,133,873)
Other revenues	<u>(20,050)</u>	<u>(147,822)</u>
Net cash (used in) operating activities	(13,246,102)	(13,760,672)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	4,128,100	4,314,220
Land and permanent fund income	<u>11,009,507</u>	<u>9,911,781</u>
Net cash provided by noncapital financing activities	15,137,607	14,226,001
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital bond drawdowns	4,611,804	2,995,780
Purchases, construction, and/or renovation of capital assets	(4,295,615)	(2,058,074)
Gain on sale of capital assets	<u>577,053</u>	<u>19,400</u>
Net cash provided by financing activities	893,242	957,106
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on investments	102,915	316,438
Purchase of investments	<u>(77,965)</u>	<u>(282,080)</u>
Net cash provided by investing activities	<u>24,950</u>	<u>34,358</u>
<b>NET INCREASE IN CASH AND RESTRICTED CASH AND CASH EQUIVALENTS</b>		
	2,809,697	1,456,793
Cash and restricted cash and cash equivalents - beginning of year	<u>1,756,222</u>	<u>299,429</u>
Cash and restricted cash and cash equivalents - end of year	<u>\$ 4,565,919</u>	<u>\$ 1,756,222</u>

The accompanying notes are an integral part of these financial statements.



State of New Mexico  
School for the Deaf

**STATEMENTS OF CASH FLOWS - CONTINUED**

Years ended June 30,

**RECONCILIATION OF NET OPERATING LOSS TO  
NET CASH (USED IN) OPERATING ACTIVITIES**

	<u>2009</u>	<u>2008</u>
Operating loss	\$ (14,588,880)	\$ (14,404,998)
Adjustments to reconcile operating loss to net cash (used in) operating activities:		
Depreciation expense	1,026,500	919,991
Changes in assets and liabilities:		
Operating accounts receivable	(266,924)	(296,026)
Inventory	4,192	(12,950)
Accounts payable	566,476	(21,001)
Accrued liabilities and compensated absences	45,697	10,082
Deferred income	<u>(33,163)</u>	<u>44,230</u>
Net cash (used in) operating activities	<u>\$ (13,246,102)</u>	<u>\$ (13,760,672)</u>

The accompanying notes are an integral part of these financial statements.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2009 and 2008

### NOTE A – ORGANIZATION

The New Mexico School for the Deaf (the School or NMSD) was established as a state educational institution by Section 21, Article VI, of the Constitution of the State of New Mexico, and is responsible for providing free public education for deaf and hard-of-hearing children. Pursuant to Section 13, Article XII of the Constitution, the State Legislature has provided for the control and management of the institution by a Board of Regents consisting of six members appointed by the Governor, who also serves as an ex-officio member of the Board.

### NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 1. Reporting Entity

The financial reporting entity as defined by Governmental Accounting Standards Board (GASB) Statement 14, consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. This definition of the reporting entity is based primarily on the notion of financial accountability as the "cornerstone of all financial reporting in government".

A primary government is any state government or general purpose local government consisting of all the organizations that make up its legal entity. All funds, organizations, institutions, agencies, departments, and offices that are not legally separate are, for financial reporting purposes, part of the primary government. The School is not part of the primary government of the State of New Mexico, and its financial data is therefore not included with the financial data of the State. The School has no component units.

#### 2. Basis of Presentation and Accounting

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This was followed by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities* in November 1999; which applied GASB 34 to Public Colleges and Universities.

For financial reporting purposes, under GASB 34, GASB 35 and State Audit Rule, the School is considered a special-purpose government engaged only in business-type activities. Accordingly, the School's primary institution financial statements have been presented in a single column using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2009 and 2008

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

2. Basis of Presentation and Accounting - Continued

The School engages in federal grant programs commonly referred to as “reimbursement type” programs. These grant programs require that the recipient (the School) must incur allowable costs as defined by the grant agreement in order to draw down funds against the particular grant. This is the principal eligibility requirement for the recognition of the revenue. Upon incurring an allowable cost, the School simultaneously recognizes a receivable and revenue in the amount of the expenditures incurred. All other eligibility requirements or grants, as applicable must also be satisfied.

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Government Accounting Standards Board (GASB) and the Higher Education Department’s Financial Reporting for Public Institutions in New Mexico.

The School has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless the FASB pronouncement conflicts with GASB guidance. The School has elected to not apply FASB pronouncements issued after the applicable date.

The financial statement presentation required by GASB provides a comprehensive, entity-wide perspective of the School’s assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows, and replaces the fund-group perspective previously required.

3. Cash and Investments

Cash and cash equivalents consist of cash on hand and current investments, which are defined as investments that are readily convertible to cash or reach their original maturity date within three months. Cash restricted by grants, Joint Powers Agreements and collected for auxiliary projects is included in cash and cash equivalents. The School accounts for its investments at fair market value in accordance with GASB Statement No. 31, *Certain Investments and External Investment Pools*.

4. Accounts Receivable

Accounts receivable includes services provided to students, faculty, and staff and amounts due from the federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures. Accounts receivable are recorded net of estimated uncollectible amounts.

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2009 and 2008

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

5. Inventories

Inventories consist of departmental inventories, classroom and laboratory supplies, teaching materials, food and related items, and office supply items which are consumed in the teaching and administrative process. Inventories are stated at the lower of cost or market, with cost being determined by the first in, first out basis.

6. Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. The School's capitalization policy is in compliance with Section 12-6-10 NMSA 1978 and includes all items with a unit cost in excess of \$5,000 beginning with the year ended June 30, 2006. For 2005 and earlier years assets greater than \$1,000 were capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Certain buildings are componentized and depreciated based on the useful life of each individual component, such as flooring, structure, or roof with the depreciable lives ranging from 12 to 50 years. The School records depreciation over 6 or 15 years for equipment and 5 years for automotive equipment. Software is not reported as a separate line item, but rather is reported as included in the cost of hardware and depreciated along with associated hardware. Land and land improvements, artwork and construction in progress are not depreciated.

7. Annual and Sick Leave Policies

School policy allows accumulated annual leave for individuals employed by the School to be paid upon termination. The amount of annual leave that may be paid is 240 hours. Accumulated sick leave up to 400 hours (above 600 hours for 12-month employees and 400 hours for school year employees) is paid upon termination at one-half the employee's hourly rate.

8. Net Assets

The School's net assets are classified as follows:

*Invested in capital assets:* This represents the School's capital assets less depreciation, net of any outstanding debt obligations related to those capital assets. Capital assets are defined as tangible or intangible assets that are used in operations and have a useful life beyond a single reporting period. The School had no debt related to capital assets for 2009 and 2008.

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2009 and 2008

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

8. Net Assets – Continued

*Restricted net assets – expendable:* Restricted expendable net assets include resources which the School is obligated to spend in accordance with restrictions imposed by external third parties. Restrictions imposed on asset use can be imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation, which includes a legally enforceable requirement that the resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that a government can be compelled by an external party to use resources created by enabling legislation only for purposes specified by the legislation. The amount of net assets restricted by enabling legislation and the amount of restricted net assets from state sources are both \$0 at June 30, 2009 and 2008.

*Restricted net assets – nonexpendable:* Nonexpendable restricted net assets consist of endowment and similar type assets for which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. There are no nonexpendable restricted net assets at June 30, 2009.

*Unrestricted net assets:* Unrestricted net assets represent all other resources that are not restricted or invested in capital assets including those derived from student fees, state appropriations, sales and services. These resources are used for transactions relating to the educational and general operations of the School, and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

When an expense that can be paid using either restricted or unrestricted resources is incurred, the School's policy is to first apply the expense to restricted resources, and then to those that are unrestricted.

9. Income Taxes

The income generated by the School, as an instrumentality of the State of New Mexico, is generally exempt from federal income tax under Section 115(a) of the Internal Revenue Code. However, taxes will be assessed at the normal corporate rates on income derived from business activities not substantially related to the School's exempt function (unrelated business income under Internal Revenue Code Section 511). Contributions to the School are deductible by donors as provided under Section 170 of the Internal Revenue Code.

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2009 and 2008

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

10. Classification of Revenues

The School has classified its revenues as either operating or non-operating revenues according to the following criteria:

*Operating revenues:* Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student fees; (2) sales and services of auxiliary enterprises; and (3) most federal, state and local grants and contracts, and transactions arising from joint power agreements.

*Non-operating revenues:* Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, state appropriations, investment income, bond proceeds appropriations and other revenue sources that are defined as non-operating revenues by GASB Statement No. 9, *Reporting Cash Flows Proprietary and Nonexpendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting*, and GASB Statement No. 34.

11. Classification of Expenses

The School has classified its expenses as either operating or non-operating expenses according to the following criteria:

*Operating expenses:* Operating expenses include activities that have the characteristics of exchange transactions, such as (1) employee salaries, benefits, and related expenses; (2) utilities, supplies, and other services; (3) professional fees; and (4) depreciation expenses related to School property, plant, and equipment.

*Non-operating expenses:* Non-operating expenses include activities that have the characteristics of non-exchange transactions, such as interest on capital asset-related debt and other expenses that are defined as non-operating expenses by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting*, and GASB Statement No. 34.

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2009 and 2008

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

12. Budgetary Process

Operating budgets are submitted for approval by the Board of Regents, the New Mexico Higher Education Department (HED), and the New Mexico Department of Finance and Administration-State Budget Division (DFA). Similarly, budget adjustment requests are submitted to and approved by the Board of Regents, then forwarded to the HED and DFA. These state-level agencies develop consolidated funding recommendations for all higher education institutions which are considered for appropriation during the annual legislative sessions. If total expenditures by branch are expected to exceed the approved budget, the School is required to submit a Board of Regents approved Budget Adjustment Request to the HED which is subsequently forwarded to the DFA. The legal level of budgetary control is at functional category levels as defined for higher education entities.

The budgetary basis, used by the School as confirmed with the Higher Education Department of the State of New Mexico is full accrual except for capital outlay and the utilization of bond proceeds. Annual depreciation is not budgeted. There are no non instructional or general components budget schedules applicable to the School.

13. Appropriations

In general, unexpended state appropriations to the School do not revert at the end of each fiscal year. (None of the current appropriations received are subject to reversion. NMSA 1978 6-4-2.) The School received an annual non-reverting State General Fund appropriation of approximately \$3,548,600 for fiscal year 2009, Laws 2008, Chapter 28, Section 4. The appropriation was fully spent during the year. There is no remaining balance to bring forward to fiscal year 2010. The 2008 appropriation of \$3,156,000 was fully spent during the prior year.

During fiscal year 2009, the School also received three special appropriations for \$100,000 (Laws 2006, Chapter 111, Section 63(J)) for renovations, \$211,400 (Laws 2008, Chapter 28, Section 8) for salary and retirement increases, and \$268,100 (Chapter 21, Section 44) for statewide outreach services. Any unexpended amounts for special appropriations revert at June 30, 2009. The School has no unexpended amounts relating to the special appropriations.

14. Permanent Land Income

The School is a beneficiary of the Ferguson legislation (1898) whereby lands of the State of New Mexico were allocated to the benefit of state educational institutions including income derived there from. NMSA 19-1-17 1978 is the enabling legislation to allocate specific lands to educational institutions including the School for the Deaf. Currently oil and gas royalties, coal royalties, and grazing fees produce investment income which is distributed monthly to beneficiaries based on their allocated lands.

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2009 and 2008

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

15. Other Accrued Liabilities

Accrued liabilities include pension benefits accrued and withheld, certain insurance amounts payable, and miscellaneous payroll amounts accrued and withheld.

16. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**NOTE C – CASH AND INVESTMENTS**

The Board of Regents of New Mexico School for the Deaf acts as the Board of Finance for the School under section 6-10-9, NMSA 1978. As such, it shall receive, handle, invest, and account, as provided by law, for all public monies received by it, and shall deposit the funds in a depository or depositories qualified in accordance with the requirements of the Public Money Act. The School does not have an investment policy apart from state statute.

Deposits (cash and certificates of deposits) are carried at cost, which approximates market value. Bank deposits at June 30, 2009, (book balances) were \$4,565,919 and bank balances were \$5,408,826 of which \$5,408,826 are fully insured or collateralized with securities held by the bank's agent pledged to the School or the Federal Deposit Insurance Corporation (FDIC) through the Transaction Account Guarantee Program that runs through June 30, 2010. At June 30, 2009, there were no bank deposits not insured or collateralized. See also Schedule 5.

<b>Depository Account</b>	<b>Bank Balance</b>
Insured	\$ 252,000
Collateralized	
Collateral held by pledging bank's trust department in the School's name - par value	144,002
Federal Deposit Insurance Corporation (FDIC) Transaction Account Guarantee Program	5,408,826
Uninsured and uncollateralized	-
Total deposits	\$ 5,804,828



**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2009 and 2008

**NOTE C – CASH AND INVESTMENTS – CONTINUED**

**Disclosure**

*Custodial Credit Risk – Deposits*

Custodial Credit Risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The School does not have a deposit policy. As of June 30, 2009, \$0 of the School's bank balance of \$5,729,166 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$	-
Total	\$	-

The remaining balance of \$5,995,036 in the local government investment pool is valued by the State Treasurer. The School has adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, which amends GASB Statement No. 3, *Deposits with Financial Institutions, Investments (Including Repurchase Agreements) and Reverse Repurchase Agreements*.

The investment in the State Treasurer's investment pool is valued at fair value based on quoted market prices as of the valuation date. The State Treasurer Local Government Investment Pool (LGIP) is not SEC registered. Section 6-10-10 I, NMSA 1978, empowers the State Treasurer, with the advice and consent of the State Board of Finance, to invest money held in the short-term investment fund in securities that are issued by the United States government or by its departments or agencies and are either direct obligations of the United States or are backed by the full faith and credit of the United States government or are agencies sponsored by the United States government. The Local Government Investment Pool investments are monitored by the same investment committee and the same policies and procedures that apply to all other state investments. The pool does not have unit shares. Per Section 6-10-10.1F, NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the funds were invested. Participation in the local government investment pool is voluntary. The School has no control over the State Treasurer's investment pools and provides the following disclosure provided by the State Treasurer's Office concerning the School's investment in the *New MexiGROW* LGIP:

June 30, 2009			
<i>New MexiGROW</i> LGIP	AAA <sub>m</sub> rated	\$5,995,036	43 day WAM

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2009 and 2008

**NOTE C – CASH AND INVESTMENTS – CONTINUED**

**Uncertainty**

As stated above, NMSD has funds invested in the State Treasurer Local Government Investment Pool (LGIP). The New Mexico State Treasurer’s Office invested a portion of the LGIP in the Reserve Primary Fund (the Fund), a money market fund, in fiscal years 2006, 2007, 2008 and 2009. On September 15, 2008, the balance of the LGIP’s investment in the Fund was \$381.7 million. On September 16, 2008, the Reserve Primary Fund’s net asset value fell below \$1 and holdings in the Fund were frozen. Since September 2008, the Reserve Primary Fund has returned approximately \$0.90 per share to shareholders. The New Mexico State Treasurer’s Office believes that the Reserve Primary Fund will ultimately end up distributing between 98.38% and 98.77% of the balance that the LGIP had in the Reserve Primary Fund as of September 15, 2008. Significant distributions were made to the shareholders between June 30, 2009 and November 2, 2009, the date of the financial statements. At October 31, 2009, the New Mexico School for the Deaf had \$115,196 segregated as a “reserve” contingency as reported by the State Treasurer’s Office to the School. These funds are unavailable to the School. Uncertainty remains as to the amount and timing of remaining distributions from reserve contingency fund.

**NOTE D – ACCOUNTS RECEIVABLE**

Accounts receivable consists of the following at June 30, 2009 and 2008:

	2009	2008
Land and permanent fund	\$ 904,591	\$ 930,693
Federal funding sources	105,099	163,680
Other receivables	49,366	329,251
Total receivables	1,059,056	1,423,624
Allowance for doubtful accounts	(11,075)	(11,075)
Net receivables	\$ 1,047,981	\$ 1,412,549

The allowance for doubtful accounts includes consideration for the credit risk associated with the various receivables. This allowance is attributed to accounts that have been deemed to be 100% uncollectible.

**NOTE E – CAPITAL ASSETS**

Capital assets as detailed below are stated at cost, or if contributed, at fair market value at the date of gift. Changes in capital asset balances for the year ended June 30, 2009 and 2008 were as follows:

State of New Mexico  
School for the Deaf

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2009 and 2008

**NOTE E – CAPITAL ASSETS - CONTINUED**

<b>2009</b>					
Asset Description	Balance at 6/30/2008	Current Year Additions	Current Year Deletions	Reclass	Balance at 6/30/2009
<b>Non-Depreciable</b>					
Construction in progress	\$ 1,278,865	\$ 1,942,595	\$ -	\$ (93,527)	\$ 3,127,933
Land and improvements	2,094,934	-	396,866	-	1,698,068
Infrastructure	-	127,382	-	-	127,382
Artworks	209,550	-	-	-	209,550
<b>Depreciable</b>					
Buildings	27,348,129	2,453,459	494,203	93,527	29,400,912
Equipment and furniture	977,730	49,006	3,144	-	1,023,592
Computers	605,632	16,603	-	-	622,235
Automotive equipment	841,065	107,013	-	-	948,078
<b>Capital assets</b>	<b>33,355,905</b>	<b>4,696,058</b>	<b>894,213</b>	<b>-</b>	<b>37,157,750</b>
<b>Accumulated depreciation</b>					
Buildings	11,763,058	854,341	474,435	-	12,142,964
Equipment and furniture	702,025	44,309	12,596	-	733,738
Computers	531,193	38,083	6,739	-	562,537
Automotive equipment	420,028	89,767	-	-	509,795
<b>Total accumulated depreciation</b>	<b>13,416,304</b>	<b>1,026,500</b>	<b>493,770</b>	<b>-</b>	<b>13,949,034</b>
<b>Total net capital assets</b>	<b>\$ 19,939,601</b>	<b>\$ 3,669,558</b>	<b>\$ 400,443</b>	<b>\$ -</b>	<b>\$ 23,208,716</b>

<b>2008</b>						
Asset Description	Balance at 6/30/2007	Adjustment to Beginning Balance	Current Year Additions	Current Year Deletions	Reclass	Balance at 6/30/2008
<b>Non-Depreciable</b>						
Construction in progress	\$ 5,814,448	\$ -	\$ 1,278,865	\$ -	\$ (5,814,448)	\$ 1,278,865
Land and improvements	396,866	1,698,068	-	-	-	2,094,934
Artworks	209,550	-	-	-	-	209,550
<b>Depreciable</b>						
Buildings	21,291,013	-	278,457	35,789	5,814,448	27,348,129
Equipment and furniture	882,030	-	104,416	8,716	-	977,730
Computers	694,967	-	65,181	154,516	-	605,632
Automotive equipment	727,958	-	331,155	218,048	-	841,065
<b>Capital assets</b>	<b>30,016,832</b>	<b>1,698,068</b>	<b>2,058,074</b>	<b>417,069</b>	<b>-</b>	<b>33,355,905</b>
<b>Accumulated depreciation</b>						
Buildings	11,068,943	-	729,904	35,789	-	11,763,058
Equipment and furniture	638,744	-	71,997	8,716	-	702,025
Computers	633,024	-	52,685	154,516	-	531,193
Automotive equipment	572,671	-	65,405	218,048	-	420,028
<b>Total accumulated depreciation</b>	<b>12,913,382</b>	<b>-</b>	<b>919,991</b>	<b>417,069</b>	<b>-</b>	<b>13,416,304</b>
<b>Total net capital assets</b>	<b>\$ 17,103,450</b>	<b>\$ 1,698,068</b>	<b>1,138,083</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 19,939,601</b>

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2009 and 2008

**NOTE F – LONG TERM LIABILITIES**

On June 30, the School had the following accrued compensated absences:

	2008	Increase	Decrease	2009
Accrued sick leave	\$ 25,590	\$ 17,893	\$ 9,203	\$ 34,280
Accrued annual leave payable	138,657	120,434	147,423	111,668
Total accrued compensated absences	\$ 164,247	\$ 138,327	\$ 156,626	\$ 145,948

Amounts due within one year for the years ended June 30, 2009 is \$109,756. Current operations liquidate compensated absences liabilities.

**NOTE G – RETIREMENT AND BENEFIT PROGRAMS**

The School offers three retirement plans:

1. Educational Retirement Act

*Plan description:* Substantially all of the School's employees who are certified school instructors participate in a public employee retirement system authorized under the Educational Retirement Act (ERA) of the State of New Mexico (Chapter 22, Article 11 NMSA 1978). The Educational Retirement Board (ERB) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits and cost-of-living adjustments to plan members and beneficiaries. ERB issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to ERB; P.O. Box 26129, Santa Fe, New Mexico 87502-1029. The report is also available on ERB's website at [www.nmerb.org](http://www.nmerb.org).

*Funding policy:* Plan Members are required to contribute 7.42% of their gross salary. The School is required to contribute 10.9% of the gross covered salary. Effective July 1, 2008, Plan members were required to contribute 7.9% of their gross salary. The employer contribution will increase .75% each year until July 1, 2011, when the employer contribution will be 13.9%. The contribution requirements of plan members and the School are established in State Statute under Chapter 22, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The School's contribution to the ERB for the fiscal years ended June 30, 2009, 2008, and 2007 were \$406,375, \$362,768, and \$313,116, respectively, which equals the amount of required contributions for each fiscal year.

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2009 and 2008

**NOTE G – RETIREMENT AND BENEFIT PROGRAMS – CONTINUED**

2. PERA Retirement Plan

*Plan description:* Substantially all of the School's full-time non-educational employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11 NMSA 1978). The Public Employees' Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits, and cost-of-living adjustments to plan members and beneficiaries.

PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, New Mexico 87504-2123. The report is also available on PERA's website at [www.pera.state.nm.us](http://www.pera.state.nm.us).

*Fund policy:* Plan members are required to contribute 7.42% of their gross pay. The School is required to contribute 16.59% of gross covered salary.

The contribution requirements of plan members and the NMSD are established under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the Legislature.

The School's contributions to PERA for the years ended June 30, 2009, 2008, and 2007 were \$645,717, \$632,962, and \$587,435, respectively, which equal the amount of the required contributions for each fiscal year.

3. IRC 125 – Cafeteria Plan

The School maintains an IRC Section 125 cafeteria plan for its employees. Qualified expenditures for the plan include:

- a. Health benefits
- b. Term life insurance
- c. Dependent term life insurance
- d. Dependent care
- e. Medical care expense reimbursement

The School is the plan administrator.

4. Tax Sheltered Annuity

The School maintains a tax sheltered annuity plan under Section 403(b) of the IRC. Neither the School nor the State makes any contributions to this plan.

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2009 and 2008

**NOTE G – RETIREMENT AND BENEFIT PROGRAMS – CONTINUED**

5. Post Employment Benefits – State Retiree Health Care Plan

*Plan description.* The School contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf unless that person retires before the employer's RHCA effective date, in which event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the postemployment healthcare plan. That report and further information can be obtained by writing to the Retiree Health Care Authority at 4308 Carlisle NE, Suite 104, Albuquerque, NM 87107.

*Funding policy.* The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at [www.nmrhca.state.nm.us](http://www.nmrhca.state.nm.us).

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. The statute requires each participating employer to contribute 1.3% of each participating employee's annual salary; each participating employee is required to contribute .65% of their salary.

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2009 and 2008

**NOTE G – RETIREMENT AND BENEFIT PROGRAMS – CONTINUED**

5. Post Employment Benefits – State Retiree Health Care Plan – Continued

Employers joining the program after January 1, 1998, are also required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

The RHCA plan is financed on a pay-as-you-go basis. The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the contributions can be changed by the New Mexico State Legislature.

The School's contributions to the RHCA for the year ended June 30, 2009, 2008, and 2007 were \$90,488, \$89,103, and \$81,477, respectively, which equal the required contributions for each year.

6. Adoption of GASB No. 45

Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits other than Pensions*, was adopted by the School for the year ended June 30, 2008.

The Plan administered by the New Mexico Retiree Health Care Authority is a cost-sharing multiple employer plan as defined in GASB 45. Cost-sharing employers such as the School are required to recognize other post employment benefit expense on the accrual basis or modified accrual of accounting for their contractually required contributions. Contributions are set by legislation and are not based on actuarial calculation. The legislature periodically reviews the contribution rates pursuant to 10-7c-156 NMSA 1978. The effects of GASB 45 are not significantly different from the previous pay as you go requirement for monthly contributions. Required disclosures of GASB 45 are contained in this footnote and note G5.

**NOTE H – COMMITMENTS**

Construction commitments and financing:

During 2008, the School has entered into a contract with McDade-Woodcock, Inc. for a utility upgrade for the entire school. As of this report date, this project was still under construction and is expected to be completed during fiscal year 2010. The project is being funded by severance tax bonds issued pursuant to Laws of 2007, Chapter 42, Section 11. The amount of the project is \$1,600,000.

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2009 and 2008

**NOTE H – COMMITMENTS – CONTINUED**

During 2008, the School has entered into a contract with Brycon Construction for the Connor Hall renovation project. As of this report date, this project was still under construction and is expected to be completed during fiscal year 2010. The project is being funded by general obligation bonds issued pursuant to Laws of 2006, Chapter 108, Section 10/ B11. The amount of the project is \$5,044,027.

During 2008, the School has entered into a contract with DKG & Associates for a reroofing project. As of this report date, this project is considered complete and is included in buildings for capital assets reporting. The project is being funded by general obligation bonds issued pursuant to Laws of 2004, Chapter 117, Section 10/B/29 and through the School's own funding. The amount of the project is \$196,090.

During 2008, the School has entered into a contract with Rivercrest Construction for the installation of an elevator in Dillon Hall. As of this report date, this project was still under construction and is expected to be completed during fiscal year 2010. The project is being funded by severance tax bonds issued pursuant to Laws of 2007, Chapter 42, Section 11. The amount of the project is \$301,578.

During 2008, the School has entered into a contract with Coronado Wrecking for the demolition of the old maintenance building and the old Hester Hall. As of this report date, this project was still under construction and is expected to be completed during fiscal year 2010. The project is being funded by severance tax bonds issued pursuant to Laws of 2007, Chapter 42, Section 11 and by the School. The bond will be used to pay for the demolition of Hester Hall and the School will fund the demolition of the maintenance building. The amount of the project is \$191,668.

During 2008, the School has entered into a contract with Studio Southwest Architects for ADA improvements throughout the school. As of this report date, this project is considered complete and is included in buildings for capital assets reporting. The project is being funded by general obligation bonds issued pursuant to Laws of 2004, Chapter 117, Section 10/B/3. The amount of the project is \$17,741.

During 2008, the School has entered into a contract with Brycon Construction for the construction of a new maintenance building. As of this report date, this project was still under construction and is expected to be completed during fiscal year 2010. The project is being funded by severance tax bonds issued pursuant to Laws of 2007, Chapter 42, Section 11. The amount of the project is \$1,501,464.



**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2009 and 2008

**NOTE H – COMMITMENTS – CONTINUED**

During 2008, the School has entered into a contract with RMCI, Inc. for phase one of the Central Plant project. As of this report date, this project was still under construction and is expected to be completed during fiscal year 2010. The project is being funded by severance tax bonds issued pursuant to Laws of 2007, Chapter 42, Section 11. The amount of the project is \$1,412,038.

During 2008, the School has entered into a contract with K.R. Swerdfeger for phase two of the Central Plant project. As of this report date, this project was still under construction and is expected to be completed during fiscal year 2010. The project is being funded by general obligation bonds issued pursuant to Laws of 2006, Chapter 108, Section 10/B11. The amount of the project is \$1,022,983.

**NOTE I – CONTINGENT LIABILITIES**

The School participates in the State of New Mexico Risk Management Program (Risk Management), which provides liability, medical malpractice and physical damage insurance. The School pays premiums for its participation. From time to time the School is subject to lawsuits including personnel and student liability matters in the ordinary course of business. No lawsuit settlements or outcomes have exceeded insurance coverage for the last 3 years.

The School receives grants and other forms of reimbursement from various federal and state agencies. These activities are subject to audit by agents of the funding authority, the purpose of which is to ensure compliance with conditions precedent to providing such funds. School administration believes that the liability, if any, for reimbursement which may arise as the result of audits, would not be material.

**NOTE J – JOINT POWERS AGREEMENTS**

The School has entered into joint powers agreements to provide services to deaf and hard-of-hearing children in school districts throughout New Mexico. The school districts pay for services from the School to benefit children in their district. The school districts are considered governmental agencies and are required to have their own financial audit. These agreements are renewed annually. The following is a list of participating school districts for:

Albuquerque Public Schools  
Belen Public Schools  
Las Cruces Public Schools  
Los Lunas Public Schools  
Rio Rancho Public Schools  
Santa Fe Public Schools

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2009 and 2008

**NOTE K – PRIOR PERIOD ADJUSTMENT: LAND HOLDINGS NOT RECORDED**

Land assets are recorded at cost of acquisition or at fair market value at date of donation as applicable.

Certain land holdings of the School were not previously recorded due the lack of cost information and to the long period of time since the School acquired the largest parcels of land. Land on the Westside of Santa Fe near Airport Road (the Dairyland) consisting of 261 acres were appraised in the current year and the appraisal amount of \$7,900,000 was discounted back to the 1959 acquisition date to arrive at an estimated cost. Hermosa and Westside property in Albuquerque, New Mexico acquired in 1994 were recorded at an estimated cost of \$586,438 using the same appraisal and discount approach.

The main campus of the School acquired before 1900 is recorded at a -0- value due to difficulty in estimating an amount and probable low cost of acquisition based on available records.

Beginning of the year net assets for 2008 were increased by \$1,698,068 due to the recording of land not previously recorded. 6.2 acres of Dairyland was sold during the year for \$600,000. Part of this land may be used to provide low cost housing to families of students of the School.

**NOTE L – BONDS**

1. Bonds Accounting

The School has periodically received severance tax and general obligation bonds appropriations for capital asset projects on the campus of the School. All bond issues must be successfully sold and are drawn down by the School upon the presentation of support and cost documentation of related construction activity that is approved by the Board of Finance. Previously, bonds were recorded as revenue upon their sale with a corresponding account receivable.

Bond accounting for the State of New Mexico was changed for fiscal year 2008; the new method conforms to DFA instructions based on Governmental Accounting Standards No. 33. Bond revenue is now recorded only when eligibility requirements have been met. The eligibility requirements for capital projects financed by bonds are satisfied when all required documentation to support a drawdown of a bond funds is submitted and approved by the Board of Finance. Accordingly, amounts in fund balance from past sales of bonds not yet drawn are reclassified out of accounts receivable against fund balance.

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2009 and 2008

**NOTE L – BONDS – CONTINUED**

2. Bond Projects

\$6,000,000 was awarded to the School for the construction of Hester Hall (House Bill 294, Laws 2004) 85% of bond proceeds must be spent within 3 years of certification. The School drew the full available amount in 2008 and 2007 and recorded the building amount out of construction in progress in the current year. During fiscal year 2008 General Obligation Bond and Severance Tax Bond Funds became available to the School in the amount of \$12,500,000, pursuant to Laws of 2006, Chapter 108 and Laws of 2007, Chapter 42, for the construction of Conner Hall and other upgrade projects on campus. The utility upgrade project construction started in fiscal year 2009. During fiscal year 2009 General Obligation Bond and Severance Tax Bond Funds became available to the School in the amount of \$637,688, pursuant to Laws of 2004, Chapter 117 and Laws of 2008, Chapter 92, for safety access improvements around campus and for the demolition of Hester Hall.

**NOTE M – INTERAGENCY TRANSFERS**

During the year, the following cash transfers were made from the State of New Mexico's General Fund (SHARE Fund 85300) to the School.

Appropriations, Laws 2008, Section 4 and special appropriations as detailed in Schedule 8	<u>\$ 4,128,100</u>
Bond Proceed Appropriations – Approved draws, Laws 2004, Chapter 117 and Laws 2006, Chapter 108 and Laws of 2007, Chapter 42 and Laws of 2008, Chapter 92 as detailed in Schedule 7	<u>\$ 4,611,804</u>

## **SUPPLEMENTARY INFORMATION**

State of New Mexico  
School for the Deaf

**STATEMENT OF REVENUES AND EXPENDITURES - BUDGET COMPARISON  
UNRESTRICTED AND RESTRICTED - ALL OPERATIONS**

For the Year Ended June 30, 2009

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
Beginning fund balance	\$ 9,961,032	\$ 9,961,032	\$ 9,961,032	\$ -
<b>REVENUES</b>				
State general fund appropriations	4,131,400	4,028,100	4,128,100	100,000
Land and permanent funds	10,000,000	10,000,000	11,009,507	1,009,507
Federal revenue sources	183,000	181,071	181,282	211
Joint powers agreements	142,500	178,780	180,740	1,960
Bond proceeds	11,000,000	17,737,090	4,611,804	(13,125,286)
Other sources	818,500	793,000	926,842	133,842
	<u>26,275,400</u>	<u>32,918,041</u>	<u>21,038,275</u>	<u>(11,879,766)</u>
Total revenues			<u>21,038,275</u>	
Revenues per GAAP basis			-	
<b>EXPENDITURES</b>				
Instruction and general:				
Instruction	3,383,194	3,326,039	2,860,982	465,057
Academic support	3,795,379	3,734,303	3,549,862	184,441
Institutional support	1,952,517	2,033,958	1,974,952	59,006
Operation and maintenance of plant	2,093,710	2,087,609	1,861,057	226,552
Student services	2,477,184	2,554,426	2,407,138	147,288
Public service	811,160	1,020,813	619,853	400,960
Capital outlay	12,825,000	19,019,362	3,674,486	15,344,876
Renewals and replacements	-	350,879	350,879	-
	<u>27,338,144</u>	<u>34,127,389</u>	<u>17,299,209</u>	<u>16,828,180</u>
Total instruction and general expenditures				
<b>TRANSFERS</b>				
Transfers in	1,900,000	2,570,513	2,570,513	-
Transfers out	<u>(1,900,000)</u>	<u>(2,570,513)</u>	<u>(2,570,513)</u>	<u>-</u>
Total transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance budgeted	<u>(1,062,744)</u>	<u>(1,209,348)</u>	<u>3,739,066</u>	<u>4,948,414</u>
Ending fund balance	<u>\$ 8,898,288</u>	<u>\$ 8,751,684</u>	<u>\$ 13,700,098</u>	<u>\$ 4,948,414</u>
Changes in net assets (budgetary basis)			\$ 3,739,066	
Capital outlay - construction in progress			3,127,933	
Depreciation			<u>(1,026,500)</u>	
Change in net assets - GAAP basis			<u>\$ 5,840,499</u>	

State of New Mexico  
School for the Deaf

**STATEMENT OF REVENUES AND EXPENDITURES - BUDGET COMPARISON  
UNRESTRICTED NON - INSTRUCTION AND GENERAL**

For the year ended June 30, 2009

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
Beginning fund balance	\$ 5,012,271	\$ 5,012,271	\$ 5,012,271	\$ -
<b>REVENUES</b>				
Bond proceeds	11,000,000	17,737,090	4,611,804	(13,125,286)
Interest income	325,000	97,000	14,520	(82,480)
Sales and services	10,000	212,500	28,729	(183,771)
Other sources	-	-	577,053	577,053
	<u>11,335,000</u>	<u>18,046,590</u>	<u>5,232,106</u>	<u>(12,814,484)</u>
Total revenues	<u>11,335,000</u>	<u>18,046,590</u>	<u>5,232,106</u>	<u>(12,814,484)</u>
Total unrestricted revenues	<u>16,347,271</u>	<u>23,058,861</u>	<u>10,244,377</u>	<u>(12,814,484)</u>
<b>EXPENDITURES</b>				
Instruction and general:				
Public service	811,160	1,020,813	619,853	400,960
Capital outlay	12,825,000	19,019,362	3,674,486	15,344,876
Renewals and replacements	-	350,879	350,879	-
	<u>13,636,160</u>	<u>20,391,054</u>	<u>4,645,218</u>	<u>15,745,836</u>
Total instruction and general expenditures	<u>13,636,160</u>	<u>20,391,054</u>	<u>4,645,218</u>	<u>15,745,836</u>
<b>TRANSFERS</b>				
Transfers in	1,900,000	2,570,513	2,570,513	-
Transfers out	-	-	-	-
	<u>1,900,000</u>	<u>2,570,513</u>	<u>2,570,513</u>	<u>-</u>
Total transfers	<u>1,900,000</u>	<u>2,570,513</u>	<u>2,570,513</u>	<u>-</u>
Changes in net assets (budgetary basis)	<u>(401,160)</u>	<u>226,049</u>	<u>3,157,401</u>	<u>2,931,352</u>
Ending fund balance	<u>\$ 4,611,111</u>	<u>\$ 5,238,320</u>	<u>\$ 8,169,672</u>	<u>\$ 2,931,352</u>

State of New Mexico  
School for the Deaf

**STATEMENT OF REVENUES AND EXPENDITURES - BUDGET COMPARISON  
UNRESTRICTED CURRENT FUNDS - INSTRUCTION AND GENERAL**

For the year ended June 30, 2009

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
Beginning fund balance	\$ 4,948,761	\$ 4,948,761	\$ 4,948,761	\$ -
<b>REVENUES</b>				
State appropriations	4,131,400	4,028,100	4,128,100	100,000
Endowments and land permanent funds	10,000,000	10,000,000	11,009,507	1,009,507
Other sources	483,500	483,500	306,540	(176,960)
<b>Total revenues</b>	<b>14,614,900</b>	<b>14,511,600</b>	<b>15,444,147</b>	<b>932,547</b>
<b>Total unrestricted revenues</b>	<b>19,563,661</b>	<b>19,460,361</b>	<b>20,392,908</b>	<b>932,547</b>
<b>EXPENDITURES</b>				
Instruction and general:				
Academic support	3,795,379	3,734,303	3,549,862	184,441
Instruction	3,057,694	2,966,188	2,585,928	380,260
Institutional support	1,952,517	2,033,958	1,974,952	59,006
Operation and maintenance of plant	2,093,710	2,087,609	1,861,057	226,552
Student services	2,477,184	2,554,426	2,407,138	147,288
<b>Total instruction and general expenditures</b>	<b>13,376,484</b>	<b>13,376,484</b>	<b>12,378,937</b>	<b>997,547</b>
<b>TRANSFERS</b>				
Transfers in	-	-	-	-
Transfers out	(1,900,000)	(2,570,513)	(2,570,513)	-
<b>Total transfers</b>	<b>(1,900,000)</b>	<b>(2,570,513)</b>	<b>(2,570,513)</b>	<b>-</b>
Changes in net assets (budgetary basis)	(661,584)	(1,435,397)	494,697	1,930,094
<b>Ending fund balance</b>	<b>\$ 4,287,177</b>	<b>\$ 3,513,364</b>	<b>\$ 5,443,458</b>	<b>\$ 1,930,094</b>

State of New Mexico  
School for the Deaf

**STATEMENT OF REVENUES AND EXPENDITURES - BUDGET COMPARISON  
RESTRICTED CURRENT FUNDS - INSTRUCTION AND GENERAL**

For the year ended June 30, 2009

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
<b>REVENUES</b>				
Federal revenue sources	\$ 183,000	\$ 181,071	\$ 181,282	\$ 211
Joint powers agreements	142,500	178,780	180,740	1,960
 Total revenues	 325,500	 359,851	 362,022	 2,171
 Cash balance budgeted	 -	 -	 -	 -
 Total revenues and cash balance budgeted	 325,500	 359,851	 362,022	 2,171
<b>EXPENDITURES</b>				
Instruction and general:				
Instruction	325,500	359,851	275,054	84,797
Public service	-	-	-	-
 Total instruction and general expenditures	 325,500	 359,851	 275,054	 84,797
<b>TRANSFERS</b>				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
 Total transfers	 -	 -	 -	 -
 Cash balance budgeted	 <u>\$ -</u>	 <u>\$ -</u>		 <u>\$ 86,968</u>
 Changes in net assets (budgetary basis) and ending fund balance			 <u>\$ 86,968</u>	



State of New Mexico  
School for the Deaf

**SCHEDULE OF CASH AND INVESTMENTS**

June 30, 2009

	First Community Bank	First National Bank of Santa Fe	State Treasurer's Office	Total
<b>CASH</b>				
Operational checking	\$ 5,408,826	\$ -	\$ -	\$ 5,408,826
Less outstanding checks	(846,107)	-	-	(846,107)
Plus petty cash	3,200	-	-	3,200
	<u>\$ 4,565,919</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,565,919</u>
<b>INVESTMENTS</b>				
Certificate of deposits	\$ 318,339	\$ 2,000	\$ -	\$ 320,339
Local gov. inv. pool	-	-	5,995,036	5,995,036
	<u>\$ 318,339</u>	<u>\$ 2,000</u>	<u>\$ 5,995,036</u>	<u>\$ 6,315,375</u>

State of New Mexico  
School for the Deaf

**SCHEDULE OF PLEDGED COLLATERAL REQUIREMENTS**

June 30, 2009

	First Community Bank	First National Bank of Santa Fe	Total
Total bank balance - demand deposits	\$ 5,408,826	\$ -	\$ 5,408,826
Less FDIC coverage	<u>-</u>	<u>-</u>	<u>-</u>
Uninsured balance of demand deposits	5,408,826	-	5,408,826
Total bank balance - time and savings deposits	318,339	2,000	320,339
Less FDIC coverage	<u>(250,000)</u>	<u>(2,000)</u>	<u>(252,000)</u>
Uninsured balance of time and savings deposits	<u>68,339</u>	<u>-</u>	<u>68,339</u>
Total uninsured bank balance	<u>5,477,165</u>	<u>-</u>	<u>5,477,165</u>
Collateralization requirement (50%)	2,738,583	-	2,738,583
Pledged securities:			
FNMA CUSIP# 31389KJ77 (par value which approximates market value)	144,002	-	144,002
FDIC Transaction Account Guarantee Program	<u>5,408,826</u>	<u>-</u>	<u>5,408,826</u>
Amount over (under) collateralized	<u>\$ 2,814,245</u>	<u>\$ -</u>	<u>\$ 2,814,245</u>

The above pledged collateral is held at the Federal Reserve Bank in Richmond, VA. The pledged security have a fair market value of \$154,715 and mature on February 1, 2032.

The custodian is First Community Bank. The location of safekeeping collateral is Santa Fe, New Mexico.

State of New Mexico  
School for the Deaf

**SCHEDULE OF BONDS**

June 30, 2009

<u>Chapter</u>	<u>Laws</u>	<u>Term End</u>	<u>Type of Bond</u>	<u>Bonds Appropriated</u>	<u>Bonds Sold to Date</u>	<u>Bonds Unsold</u>
117	2004	2009	General Obligation	\$ 190,000	\$ 190,000	\$ -
117	2004	2009	General Obligation	22,688	22,688	-
108	2006	2010	General Obligation	7,000,000	7,000,000	-
42	2007	2011	Severance Tax	5,500,000	5,500,000	-
92	2008	2012	Severance Tax	2,700,000	-	2,700,000
92	2008	2012	Severance Tax	425,000	425,000	-
80	2008	2012	General Obligation	3,000,000	-	3,000,000
				<u>\$ 18,837,688</u>	<u>\$ 13,137,688</u>	<u>\$ 5,700,000</u>

SCHEDULE 7

<u>Amount Available</u>	<u>Art in Public Places</u>	<u>Expenditures Prior Years</u>	<u>Expenditures Current Year</u>	<u>Total Expenditures</u>	<u>Amount Remaining</u>	<u>Reversions Current Year</u>
\$ 190,000	\$ -	\$ -	\$ 190,000	\$ 190,000	\$ -	\$ -
22,688	-	-	17,741	17,741	4,947	-
7,000,000	70,000	-	1,323,837	1,323,837	5,606,163	-
5,500,000	-	959,693	2,967,679	3,927,372	1,572,628	-
-	-	-	-	-	-	-
425,000	-	-	112,547	112,547	312,453	-
-	-	-	-	-	-	-
<u>\$ 13,137,688</u>	<u>\$ 70,000</u>	<u>\$ 959,693</u>	<u>\$ 4,611,804</u>	<u>\$ 5,571,497</u>	<u>\$ 7,496,191</u>	<u>\$ -</u>

State of New Mexico  
School for the Deaf

**SCHEDULE OF APPROPRIATIONS**

June 30, 2009

Description	Authority	Appropriation Period	Total Appropriation	Prior Year Expenditures	Current Year Expenditures	Prior Year Reversion Amount	Current Year Reversion Amount	Unencumbered Balance
<b>GENERAL FUND</b>								
General Operation	Ch 28, Sec 4, Laws 2008	2009	\$ 3,548,600	\$ -	\$ 3,548,600	\$ -	\$ -	\$ -
Total General Fund			3,548,600	-	3,548,600	-	-	-
<b>SPECIAL APPROPRIATIONS</b>								
Renovations	Ch 111, Sec 63(J), Laws 2006	2009	100,000	-	100,000	-	-	-
Salary and retirement increases	Ch 28, Sec 8, Laws 2008	2009	211,400	-	211,400	-	-	-
Statewide outreach	Ch 21, Sec 44, Laws 2008	2009	268,100	-	268,100	-	-	-
Total Special Appropriations			579,500	-	579,500	-	-	-
Total - All Appropriations			\$ 4,128,100	\$ -	\$ 4,128,100	\$ -	\$ -	\$ -

State of New Mexico  
School for the Deaf

**SCHEDULE OF JOINT POWERS AGREEMENTS**

June 30, 2009

- 1) Participant: Albuquerque Public Schools (APS)  
Party responsible for operations: NMSFD  
Purpose: Educational services  
Dates of Agreement: 7/1/08-6/30/09  
Total estimated amount of project: Dependent upon number of students  
Amount agency contributed in the fiscal year: \$78,280  
Audit responsibility: NMSFD  
Fiscal agent: NMSFD  
Agency where revenues/expenditures are reported: APS & NMSFD
  
- 2) Participant: Belen Public Schools (BPS)  
Party responsible for operations: NMSFD  
Purpose: Educational services  
Dates of Agreement: 7/1/08-6/30/09  
Total estimated amount of project: Dependent upon number of students  
Amount agency contributed in the fiscal year: \$7,500  
Audit responsibility: NMSFD  
Fiscal agent: NMSFD  
Agency where revenues/expenditures are reported: BPS & NMSFD
  
- 3) Participant: Las Cruces Public Schools (LCPS)  
Party responsible for operations: NMSFD  
Purpose: Educational services  
Dates of Agreement: 7/1/08-6/30/09  
Total estimated amount of project: Dependent upon number of students  
Amount agency contributed in the fiscal year: \$10,500  
Audit responsibility: NMSFD  
Fiscal agent: NMSFD  
Agency where revenues/expenditures are reported: LCPS & NMSFD
  
- 4) Participant: Los Lunas Public Schools (LLPS)  
Party responsible for operations: NMSFD  
Purpose: Educational services  
Dates of Agreement: 7/1/08-6/30/09  
Total estimated amount of project: Dependent upon number of students  
Amount agency contributed in the fiscal year: \$7,500  
Audit responsibility: NMSFD  
Fiscal agent: NMSFD  
Agency where revenues/expenditures are reported: LLPS & NMSFD

State of New Mexico  
School for the Deaf

**SCHEDULE OF JOINT POWERS AGREEMENTS - CONTINUED**

June 30, 2009

- 5) Participant: Rio Rancho Public Schools (RRPS)  
Party responsible for operations: NMSFD  
Purpose: Educational services  
Dates of Agreement: 7/1/08-6/30/09  
Total estimated amount of project: Dependent upon number of students  
Amount agency contributed in the fiscal year: \$7,500  
Audit responsibility: NMSFD  
Fiscal agent: NMSFD  
Agency where revenues/expenditures are reported: RRPS & NMSFD
  
- 6) Participant: Santa Fe Public Schools (SFPS)  
Party responsible for operations: NMSFD  
Purpose: Educational services  
Dates of Agreement: 7/1/08-6/30/09  
Total estimated amount of project: Dependent upon number of students  
Amount agency contributed in the fiscal year: \$67,500  
Audit responsibility: NMSFD  
Fiscal agent: NMSFD  
Agency where revenues/expenditures are reported: SFPS & NMSFD



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS, BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Mr. Hector H. Balderas  
New Mexico State Auditor  
And  
The Board of Regents  
State of New Mexico – New Mexico School for the Deaf  
Santa Fe, New Mexico

We have audited the financial statements of the business-type activities of the New Mexico School for the Deaf (the School) as of and for the year ended June 30, 2009 as listed in the table of contents and have issued our report thereon dated November 2, 2009. We have also audited the budgetary comparison statements, listed as schedules 1, 2, 3, and 4, presented as supplementary information in the accompanying financial statements as of and for the year ended June 30, 2009 as listed in the table of contents and have issued our report thereon dated November 2, 2009. We conducted our audit in accordance with auditing standards general accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards (GAGAS)*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the School's internal control.



A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the agency's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

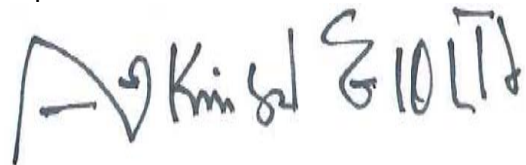
#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that are required to be reported under *Government Auditing Standards January 2007 Revision* paragraphs 5.14 and 5.16, and Section 12-6-5, NMSA 1978, which are described in the accompanying schedule of findings and responses as items 07-01, 09-01, and 09-02.

The School's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the School's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the School, the Board of Regents, the State Auditor, the New Mexico Legislature, the New Mexico Higher Education Department, the New Mexico Public Education Department, the Department of Finance and Administration and applicable federal grantors, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read 'Atkinson & Co., Ltd.', with a stylized logo to the left consisting of a large 'A' and 'C' intertwined.

**Atkinson & Co., Ltd.**

Albuquerque, New Mexico  
November 2, 2009

**SCHEDULE OF FINDINGS AND RESPONSES**

June 30, 2009 and 2008

**FINANCIAL STATEMENTS**

Type of auditor's report issued: Unqualified

**Internal control over financial reporting:**

Material weakness identified? No

Significant deficiencies identified not considered to be material weaknesses? No

Noncompliance material to financial statements noted? No

**FINANCIAL STATEMENT FINDINGS**

None

**FINDINGS IN ACCORDANCE WITH 2.2.2. NMAC**

- 07-01 Inventory not properly valued
- 09-01 Asset disposal not reported in a timely manner
- 09-02 Permission was not obtained for capital projects from HED

**PRIOR YEAR FINDINGS**

- 07-01 Inventory not properly valued
- 08-01 Physical inventory over capital assets
- 08-02 Real property not properly recorded
- 08-03 Capital assets – capitalization threshold
- 08-04 Certification of hard drive erasure not completed

**SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED**

June 30, 2009 and 2008

**I. STATUS OF PRIOR YEAR AUDIT FINDINGS**

<u>FINDING</u>	<u>STATUS</u>
07-01 Inventory not properly valued	Repeated and modified (07-01)
08-01 Physical inventory over capital assets	Resolved
08-02 Real property not properly recorded	Resolved
08-03 Capital assets – capitalization threshold	Resolved
08-04 Certification of hard drive erasure not completed	Resolved

**II. CURRENT YEAR FINDINGS**

**FINDINGS IN ACCORDANCE WITH 2.2.2. NMAC**

**07-01 – INVENTORY NOT PROPERLY VALUED (REPEATED AND MODIFIED)**

Statement of Condition:

Inventory valuation was not correct due to the following:

- Proper units of measure were not used when extending inventory costs (i.e. per unit versus per case) for certain items.
- Inventory purchase amounts were not properly updated in the accounting software for certain items.

The difference we observed were in relation to dining hall inventories and central supply inventories.

Criteria:

Model Accounting Practices, FIN 10.6, states that the cost of the last items purchased and on hand for the valuation of each inventory item should be value for ending inventory for entities using the FIFO (first-in, first-out) method. In addition, the cost of certain items should be broken out according to the appropriate unit of measure being used.

Cause:

The cost of inventory was not updated to the latest purchased cost in the accounting software. Additionally, the unit of measure was not updated for certain items (i.e. inventory quantity was on a per case basis while the cost was on a per unit basis). This affected certain inventory items.

Effect:

Inventory is likely understated by \$3,060.

**SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED**

June 30, 2009 and 2008

**II. CURRENT YEAR FINDINGS – CONTINUED**

**FINDINGS IN ACCORDANCE WITH 2.2.2. NMAC**

07-01 – INVENTORY NOT PROPERLY VALUED (REPEATED AND MODIFIED) – CONTINUED

Recommendation:

We recommend that proper training for all users be implemented for use of the new inventory software – Peachtree. In addition, we recommend that a process be implemented that will ensure that the proper costs and units of measure are being correctly recorded in Peachtree.

Management's Response:

The Director of Business and Finance will make arrangements for Peachtree Accounting training during the third quarter of fiscal year 2010. Guidelines and instructions will be developed for their use.

**SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED**

June 30, 2009 and 2008

**II. CURRENT YEAR FINDINGS – CONTINUED**

**FINDINGS IN ACCORDANCE WITH 2.2.2. NMAC**

**09-01 – ASSET DISPOSAL NOT REPORTED IN A TIMELY MANNER**

Statement of Condition:

During fiscal year 2009, the School elected to dispose of certain capital assets and failed to notify the Office of the State Auditor, in writing, of these disposals in a timely manner.

Criteria:

According to 2.2.2.10 NMAC Section V item (1), agencies must, at least thirty days prior to disposition, send a written notification of the proposed disposition to the Office of the State Auditor.

Cause:

The School was not aware of the requirement for certain dispositions and in another instance the Office of the State Auditor was notified, but not within the thirty day timeline.

Effect:

The Office of the State Auditor was not informed that certain capital assets were disposed of. Controls inherent in the approval process were not available to control and facilitate the disposal.

Recommendation:

We recommend the School follow applicable compliance requirements for future disposals of capital assets.

Management's Response:

Supervisors within accounting, maintenance, and technology have been informed of this policy. Any time capital assets are disposed of, the State Auditor's office will be notified as required.

**SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED**

June 30, 2009 and 2008

**II. CURRENT YEAR FINDINGS – CONTINUED**

**FINDINGS IN ACCORDANCE WITH 2.2.2. NMAC**

09-02 – PERMISSION WAS NOT OBTAINED FOR CAPITAL PROJECTS FROM HED

Statement of Condition:

The School did not follow proper procedures in acquiring approval for two capital projects.

Criteria:

According to 5.3.10.8 NMAC Section C item (4), agencies must get proper approval for proposed capital outlay projects from the State of New Mexico Commission on Higher Education.

Cause:

The School was not aware of the procedures to be followed regarding capital projects.

Effect:

Failure to obtain proper approval for capital projects could result in effects on capital project fundings. Controls inherent in the approval process were not available.

Recommendation:

We recommend that management establish written procedures that are in compliance with applicable state statutes regarding capital projects and that these written procedures are followed and applied to all future capital projects.

Management's Response:

On August 21, 2009, NMSD Policy No. 330 "Procurement Policies and Procedures" was approved by the NMSD Board of Regents. The policy was updated to include Section 12 which covers Construction Projects procedures. Since NMSD was notified about the procedures in April 2009 by HED, NMSD management has been following them without fail. In addition, shortly after NMSD was notified, HED hosted Capital Project Procedure training to universities, colleges, and special schools.

State of New Mexico  
School for the Deaf

**EXIT CONFERENCE**

An exit conference was held at the New Mexico School for the Deaf campus on November 6, 2009, with the following individuals in attendance:

**New Mexico School for the Deaf**

Mark Apodaca  
Angela Lucero  
Ronald Stern  
Lynann Barbere

Director of Business and Finance  
Accounting Supervisor  
Superintendent  
Board President

**Atkinson & Co., Ltd.**

Martin Mathisen, CPA  
Divan Coetzee, CPA

Audit Director  
Audit Senior

Presentation: The accompanying financial statements are the responsibility of the School and are based on information from the School's financial records. The School prepared the financial statements with assistance provided by Atkinson & Co., Ltd.

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