A large orange circle is positioned on the left side of the page, partially cut off by the edge. It contains the text for the financial statements.

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

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

**June 30, 2011 and 2010**

atkinson

PRECISE. PERSONAL. PROACTIVE.

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State of New Mexico  
New Mexico School For The Deaf

**BOARD OF REGENTS**

June 30, 2011

Ms. Lynann Barbero	President
Mr. James Borrego	Vice-President
Mr. Kenneth Litherland	Secretary/Treasurer
Ms. Eugenia M. Kincaid	Member
Mr. Ricardo D. Gonzales	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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## 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, 2011 and 2010, 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, 2011, 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.

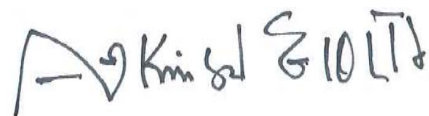
As discussed in Note B1, the financial statements of the New Mexico School for the Deaf are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of its business-type activities that are attributable to the transactions of the New Mexico 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, 2011 and 2010, 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, 2011 and 2010 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, 2011 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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.



**Atkinson & Co., Ltd.**

Albuquerque, New Mexico  
November 15, 2011

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

June 30, 2011

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, 2011 with total assets of \$44,561,346, total liabilities of \$957,848, and net assets of \$43,603,498, an increase of 6% from the prior year. Total assets increased by \$2,077,855 or 5% and liabilities decreased by \$322,142 or 25% from the prior year. Due to the increase in total assets and decrease in total liabilities, the New Mexico School for the Deaf's net assets increased by \$2,399,997 or 6%.

The current ratio, which is used to measure the ability of the School to pay its short-term debts, increased from 8.1:1 in 2010 to 11.2:1 in 2011. The increase was due to a decrease in total current liabilities which involved a 43% decrease in accounts payable.

Statement of Revenues, Expenses, and Changes in Net Assets

Operating revenues for 2011 increased by 37% or \$256,863 over the previous year. Federal grants and contracts, joint power agreements, and other operating revenue had gains over the previous fiscal year by 17%, 23%, and 126% respectively. Total operating expenses increased by only 1% or \$152,827 during the same period.

State of New Mexico  
New Mexico School For The Deaf

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

June 30, 2011

**FINANCIAL HIGHLIGHTS – CONTINUED**

During fiscal year 2011, NMSD received \$11,755,023 from the Land and Permanent Fund and \$3,631,600 from State Appropriations. In addition to the Land and Permanent Fund and State Appropriations, the School received \$27,477 in investment income. The total non-operating revenues were \$15,414,100, a net increase of \$203,158 or 1% from the previous year.

Under capital items, bond proceeds appropriations was much lower in FY11 than FY10 by \$4,583,535 or 71%. Change in net assets for FY11 was a positive \$2,399,997.

Capital Assets

Construction of Connor Hall, which houses computer labs, woodshop, art classes, outreach services and transition services, was completed during the month of August 2010. Also completed was the construction of the school's football and athletic playfield. Afterwards, during the school year, Dillon Hall, which houses the school's middle and high school students, went through construction improvements. At the end of the school year, improvements to the school's dining hall began. A new air condition and heating system was in the process of being installed. All projects were funded by the state's general obligation bonds, severance tax bonds, and funds from Public Schools Facilities Authority.

Cash and Investments

NMSD ended the fiscal year with a cash balance including restricted cash of \$3,775,771 and investments of \$6,347,668. Approximately 95% of the investment funds are under the State Treasurer's Office Local Government Investment Pool which has no unit shares.



State of New Mexico  
New Mexico School For The Deaf

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

June 30, 2011

**FINANCIAL HIGHLIGHTS – CONTINUED**

Assets, Liabilities and Net Assets

The following summarizes the NMSD's assets, liabilities and net assets as of June 30, 2011 and 2010:

**ASSETS**

	<u>2011</u>	<u>2010</u>
Current assets	\$ 9,186,786	\$ 9,421,255
Non-current assets	<u>35,374,560</u>	<u>33,062,236</u>
Total assets	<u>\$ 44,561,346</u>	<u>\$ 42,483,491</u>

**LIABILITIES**

Current liabilities	\$ 825,852	\$ 1,162,975
Non-current liabilities	<u>131,996</u>	<u>117,015</u>
Total liabilities	<u>\$ 957,848</u>	<u>\$ 1,279,990</u>

**NET ASSETS**

Invested in capital assets	\$ 32,836,608	\$ 29,903,565
Restricted student aid and other programs	2,625,573	3,231,139
Unrestricted	<u>8,141,317</u>	<u>8,068,797</u>
Total net assets	<u>\$ 43,603,498</u>	<u>\$ 41,203,501</u>

**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.

State of New Mexico  
New Mexico School For The Deaf

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

June 30, 2011

**ANALYSIS OF NET ASSETS – CONTINUED**

At June 30, 2011, total assets increased 5% from the previous fiscal year. Total liabilities decreased by 25%. NMSD continues to have a strong position in total assets.

Total Net Assets for FY11 ended at \$43,603,498, a \$2,399,997 or 6% increase from FY10. Of that total amount, \$2,625,573 of the School's net assets is subject to external restrictions on how it may be used, and \$8,141,317 may be used at the Board of Regent's discretion to meet the School's ongoing educational and operational needs. The balance of \$32,836,608 is invested in capital assets.

**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, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Operating revenues	\$ 1,100,680	\$ 691,339
Operating expense	<u>(15,839,531)</u>	<u>(15,686,704)</u>
Operating loss	(14,738,851)	(14,995,365)
Non-operating revenues	15,414,100	15,210,942
Capital appropriations	<u>1,724,748</u>	<u>6,460,761</u>
Increase in net assets	<u><u>\$ 2,399,997</u></u>	<u><u>\$ 6,676,338</u></u>

**ANALYSIS OF CHANGES IN NET ASSETS**

While there was an increase in net assets for FY11 and FY10, FY11 was much lower due to capital appropriations. Without including Bond Proceeds Appropriations (capital appropriations), change in net assets before capital items for FY11 was \$522,771, a \$307,194 or 142% increase from FY10.

**OPERATING REVENUES**

NMSD had operating revenues of \$1,100,680 for FY11, an increase of \$409,341 or 59% from FY10. The increase was due to increases in revenues from federal grants and contract, joint power agreements, and other revenues.

State of New Mexico  
New Mexico School For The Deaf

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

June 30, 2011

**OPERATING EXPENSES**

The following analysis summarizes the School's operating expenses of \$15,839,531 for the fiscal year ended June 30, 2011. This was a 1% increase from June 30, 2010.

	<u>2011</u>	<u>2010</u>
Academic support	\$ 3,385,175	\$ 3,544,001
Operation and maintenance of plant	2,622,830	2,693,953
Instruction	2,987,635	2,648,276
Student services	2,487,688	2,352,429
Institutional support	2,194,475	2,207,817
Depreciation	916,376	1,136,014
Outside contracts and grants	<u>1,245,352</u>	<u>1,104,214</u>
 Total operating expenses	 <u>\$ 15,839,531</u>	 <u>\$ 15,686,704</u>

**NON-OPERATING REVENUES AND EXPENSES**

The following analysis summarizes the School's Non-Operating Revenues of \$17,138,848 for the fiscal year ended June 30, 2011. For Land and Permanent Fund Income, FY11 received \$11,755,023 which was \$11,182,314 or 5% more than FY10. Also, during FY11, NMSD experienced a \$339,300 or 9% cut in state appropriations from FY10. For investment income, there was a \$12,176 or 31% decrease from FY10. For bond proceedings, FY11 stood at \$1,877,226, a 71% decrease from FY10.

	<u>2011</u>	<u>2010</u>
Land and permanent fund income	\$ 11,755,023	\$ 11,182,314
State appropriations	3,631,600	3,970,900
Investment income	27,477	39,653
Gain on disposal of capital assets	<u>-</u>	<u>18,075</u>
 Total non-operating revenues	 15,414,100	 15,210,942
 Capital Items		
Bond proceeds appropriations	<u>1,724,748</u>	<u>6,460,761</u>
 Total non-operating revenue and capital items	 <u>\$ 17,138,848</u>	 <u>\$ 21,671,703</u>

State of New Mexico  
New Mexico School For The Deaf

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

June 30, 2011

**CAPITAL ASSETS**

At June 30, 2011, total capital assets totaled a net of \$32,836,308, a \$2,933,043 or 10% increase from June 30, 2010.

	<u>2011</u>	<u>2010</u>
Buildings	\$ 26,565,253	\$ 16,407,517
Construction in progress	3,482,846	10,655,350
Vehicles	455,582	485,779
Land and improvements	1,698,068	1,698,068
Infrastructure	96,811	101,906
Equipment and furniture	302,317	301,275
Artwork	209,550	209,550
Computer equipment	<u>26,181</u>	<u>44,120</u>
Total capital assets - net	<u>\$ 32,836,608</u>	<u>\$ 29,903,565</u>

During fiscal year 2010, NMSD was heavily involved with several projects which included the football/athletic field, Connor Hall, utility upgrade, central plants, Dillon Hall improvements. During fiscal year 2011, NMSD mostly focused on Dillon Hall and the Dining Hall. Also, the school's keyless system was implemented during FY11.

**BUDGET ANALYSIS**

During fiscal year 2011, two budget adjustment requests (BAR) were made. The BARs were submitted to update bond proceeds, capital outlay activity, decrease in State appropriation funding, and other expense reclassifications.

**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, the land and permanent fund income and other revenue sources. During fiscal year June 30, 2011, the New Mexico economy went through economic hardship. The state's revenue sources declined which caused a cut in NMSD's appropriation share. The school was fortunate to experience an increase in revenues from the land and permanent fund and other sources to cover the decrease. However, it may be possible for NMSD will face further revenue reductions from appropriations during FY12. The NMSD's business office will continue to monitor the economic activity on an ongoing basis.

State of New Mexico  
New Mexico School for the Deaf

**STATEMENTS OF NET ASSETS**

June 30,

**ASSETS**

	2011	2010
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,237,819	\$ 1,171,174
Short-term investments with LGIP	6,347,668	6,330,614
Accounts receivable, net of allowance for uncollectible amounts of \$11,075 for 2011 and 2010	1,088,322	1,112,637
Bond proceeds receivable - due from DFA - Board of Finance (85300)	468,068	756,730
Inventories	44,909	50,100
Total current assets	9,186,786	9,421,255
<b>NONCURRENT ASSETS</b>		
Restricted cash and cash equivalents	2,537,952	3,158,671
Capital assets, net	32,836,608	29,903,565
Total noncurrent assets	35,374,560	33,062,236
Total assets	\$ 44,561,346	\$ 42,483,491

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

### LIABILITIES AND NET ASSETS

	2011	2010
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 516,428	\$ 907,270
Deferred income	67,780	67,780
Accrued compensated absences - current portion	158,183	136,276
Payroll taxes and fringe benefits - accrued and withheld	83,461	51,649
Total current liabilities	825,852	1,162,975
<b>NONCURRENT LIABILITIES</b>		
Accrued compensated absences, less current portion	41,145	32,315
Deposits from students	90,851	84,700
Total noncurrent liabilities	131,996	117,015
Total liabilities	957,848	1,279,990
<b>NET ASSETS</b>		
Invested in capital assets	32,836,608	29,903,565
Restricted - expendable for:		
Other programs	2,537,952	3,158,671
Scholarships	65,597	50,444
Special events	22,024	22,024
Unrestricted	8,141,317	8,068,797
Total net assets	43,603,498	41,203,501
Total liabilities and net assets	\$ 44,561,346	\$ 42,483,491

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

State of New Mexico  
New Mexico School for the Deaf

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

Years ended June 30,

	2011	2010
<b>OPERATING REVENUES</b>		
Federal grants and contracts	\$ 466,295	\$ 397,093
Joint power agreements	220,016	178,575
Other operating revenue	414,369	115,671
Total operating revenues	1,100,680	691,339
<b>OPERATING EXPENSES</b>		
Academic support	3,385,175	3,544,001
Operation and maintenance of plant	2,622,830	2,693,953
Instruction	2,987,635	2,648,276
Student services	2,487,688	2,352,429
Institutional support	2,194,475	2,207,817
Depreciation	916,376	1,136,014
Outside contracts and grants	1,245,352	1,104,214
Total operating expenses	15,839,531	15,686,704
Net operating loss	(14,738,851)	(14,995,365)
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Land and permanent fund income	11,755,023	11,182,314
State appropriations	3,631,600	3,970,900
Investment income	27,477	39,653
Gain on disposal of capital assets	-	18,075
Change in net assets before capital items	675,249	215,577
<b>CAPITAL ITEMS</b>		
Bond proceeds appropriations	1,724,748	6,460,761
Changes in net assets	2,399,997	6,676,338
<b>NET ASSETS</b>		
Beginning of year	41,203,501	34,527,163
Ending net assets	\$ 43,603,498	\$ 41,203,501

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

State of New Mexico  
New Mexico School for the Deaf

**STATEMENTS OF CASH FLOWS**

Years ended June 30,

	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Grants and contracts received	\$ 686,311	\$ 481,118
Payments to suppliers	(4,933,265)	(4,643,247)
Payments to employees and for employee benefits	(10,306,841)	(9,919,873)
Other revenues	364,857	225,192
Net cash used in operating activities	(14,188,938)	(13,856,810)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	3,631,600	3,970,900
Land and permanent fund income	11,828,850	11,102,687
Net cash provided by noncapital financing activities	15,460,450	15,073,587
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Bond proceeds appropriations	1,690,066	6,335,523
Purchases, construction, and/or renovation of capital assets	(3,526,075)	(7,830,863)
Gain on sale of capital assets	-	18,075
Net cash (used in) provided by financing activities	(1,836,009)	(1,477,265)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on investments	27,477	39,653
Purchase of investments	(17,054)	(15,239)
Net cash provided by investing activities	10,423	24,414
<b>NET (DECREASE) IN CASH AND RESTRICTED CASH AND CASH EQUIVALENTS</b>	(554,074)	(236,074)
Cash and restricted cash and cash equivalents		
- beginning of year	4,329,845	4,565,919
Cash and restricted cash and cash equivalents		
- end of year	\$ 3,775,771	\$ 4,329,845

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



State of New Mexico  
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>2011</u>	<u>2010</u>
Operating loss	\$ (14,738,851)	\$ (14,995,365)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation expense	916,376	1,136,014
Changes in assets and liabilities:		
Operating accounts receivable	(49,512)	14,971
Inventory	5,191	46,468
Accounts payable	(390,842)	(21,686)
Accrued liabilities and compensated absences and deposits	68,700	(37,212)
Net cash used in operating activities	<u>\$ (14,188,938)</u>	<u>\$ (13,856,810)</u>

**SUPPLEMENTAL SCHEDULE OF NONCASH CAPITAL  
AND RELATED FINANCING ACTIVITIES**

	<u>2011</u>	<u>2010</u>
Capital assets acquired through payments made by Public Schools Facility Administration	<u>\$ 323,344</u>	<u>\$ -</u>

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

## NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

### 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) standards 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, 2011 and 2010

**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 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, with reimbursement of allowable expenditures. Accounts receivable are recorded net of estimated uncollectible amounts.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2011 and 2010

**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 2011 and 2010.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2011 and 2010

**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, 2011 and 2010.

*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, 2011.

*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, 2011 and 2010

**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.

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.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2011 and 2010

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

12. Budgetary Process - Continued

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 is no restricted non instructional and general budget schedule applicable to the School. The School exceeded its final budgeted amount of expenditures for institutional support, operation and maintenance of plant, student services, public services and capital outlay for 2011. See page 48.

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 \$3,631,600 for fiscal year 2011, Laws 2010, Chapter 6, Section 4. The appropriation was fully spent during the year. There is no remaining balance to bring forward to fiscal year 2011. The 2010 appropriation of \$3,970,900 was fully spent during the prior year.

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.

15. Other Accrued Liabilities

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

State of New Mexico  
New Mexico School for the Deaf

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2011 and 2010

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

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 fair value. Bank deposits at June 30, 2011, (book balances) were \$3,775,771 and bank balances were \$5,039,954 of which \$5,039,954 are fully insured or collateralized with securities held by the bank's agent pledged to the School or the Federal Deposit Insurance Corporation (FDIC). At June 30, 2011, there were no bank deposits not insured or collateralized. See also Schedule 5.

<u>Depository Account</u>	<u>Bank Balance</u>
Insured	\$ 2,503,217
Collateralized	
Collateral held by pledging bank's trust department in the School's name - par value	3,217,198
Uninsured and uncollateralized	<u>-</u>
Total deposits	<u>\$ 5,720,415</u>



State of New Mexico  
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**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2011 and 2010

**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, 2011, \$0 of the School's bank balance of \$5,039,954 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$	-
Total	\$	-

The remaining balance of \$6,003,952 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, 2011			
<i>New MexiGROW</i> LGIP	AAA <sub>m</sub> rated	\$6,017,574	36 day WAM

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**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2011 and 2010

**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 , the date of the financial statements. At October 31, 2011, the New Mexico School for the Deaf had \$17,369 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, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Land and permanent fund	\$ 978,418	\$ 984,218
Federal funding sources	117,485	97,629
Other receivables	<u>70,770</u>	<u>41,865</u>
Total receivables	1,166,673	1,123,712
Allowance for doubtful accounts	<u>(11,075)</u>	<u>(11,075)</u>
Net receivables	<u>\$ 1,155,598</u>	<u>\$ 1,112,637</u>

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, 2011 and 2010 were as follows:

State of New Mexico  
New Mexico School for the Deaf

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2011 and 2010

**NOTE E – CAPITAL ASSETS - CONTINUED**

<b>2011</b>					
Asset Description	Balance at 6/30/2010	Current Year Additions	Current Year Deletions	Reclass	Balance at 6/30/2011
<b>Non-depreciable</b>					
Construction in progress	\$ 10,655,350	\$ 3,525,281	\$ -	\$ (10,697,785)	\$ 3,482,846
Land and improvements	1,698,068	-	-	-	1,698,068
Artworks	209,550	-	-	-	209,550
<b>Depreciable</b>					
Buildings	29,479,016	173,302	1,232,922	10,697,785	39,117,181
Equipment and furniture	1,081,191	48,312	-	-	1,129,503
Computers	627,318	-	-	-	627,318
Automotive equipment	881,255	102,524	-	-	983,779
Infrastructure	127,382	-	-	-	127,382
<b>Capital assets</b>	<b>44,759,130</b>	<b>3,849,419</b>	<b>1,232,922</b>	<b>-</b>	<b>47,375,627</b>
<b>Accumulated depreciation</b>					
Buildings	13,071,499	713,351	1,232,922	-	12,551,928
Equipment and furniture	779,916	47,270	-	-	827,186
Computers	583,198	17,939	-	-	601,137
Automotive equipment	395,476	132,721	-	-	528,197
Infrastructure	25,476	5,095	-	-	30,571
<b>Total accumulated depreciation</b>	<b>14,855,565</b>	<b>916,376</b>	<b>1,232,922</b>	<b>-</b>	<b>14,539,019</b>
<b>Total net capital assets</b>	<b>\$ 29,903,565</b>	<b>\$ 2,933,043</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 32,836,608</b>
<b>2010</b>					
Asset Description	Balance at 6/30/2009	Current Year Additions	Current Year Deletions	Reclass	Balance at 6/30/2010
<b>Non-depreciable</b>					
Construction in progress	\$ 3,127,933	\$ 7,527,417	\$ -	\$ -	\$ 10,655,350
Land and improvements	1,698,068	-	-	-	1,698,068
Artworks	209,550	-	-	-	209,550
<b>Depreciable</b>					
Buildings	29,400,912	78,104	-	-	29,479,016
Equipment and furniture	1,023,592	57,599	-	-	1,081,191
Computers	622,235	5,083	-	-	627,318
Automotive equipment	948,078	162,660	229,483	-	881,255
Infrastructure	127,382	-	-	-	127,382
<b>Capital assets</b>	<b>37,157,750</b>	<b>7,830,863</b>	<b>229,483</b>	<b>-</b>	<b>44,759,130</b>
<b>Accumulated depreciation</b>					
Buildings	12,142,964	928,535	-	-	13,071,499
Equipment and furniture	733,738	46,178	-	-	779,916
Computers	562,537	20,661	-	-	583,198
Automotive equipment	509,795	115,164	229,483	-	395,476
Infrastructure	-	25,476	-	-	25,476
<b>Total accumulated depreciation</b>	<b>13,949,034</b>	<b>1,136,014</b>	<b>229,483</b>	<b>-</b>	<b>14,855,565</b>
<b>Total net capital assets</b>	<b>\$ 23,208,716</b>	<b>\$ 6,694,849</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 29,903,565</b>

State of New Mexico  
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**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2011 and 2010

**NOTE F – LONG TERM LIABILITIES**

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

	<u>2010</u>	<u>Increase</u>	<u>Decrease</u>	<u>2011</u>
Accrued sick leave	\$ 40,598	\$ 17,997	\$ 4,627	\$ 53,968
Accrued annual leave payable	<u>127,993</u>	<u>123,493</u>	<u>106,126</u>	<u>145,360</u>
Total accrued compensated absences	<u>\$ 168,591</u>	<u>\$ 141,490</u>	<u>\$ 110,753</u>	<u>\$ 199,328</u>

Amounts due within one year for the year ended June 30, 2011 is \$158,183. 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 (certified teachers, and other employees of State public school districts, colleges and universities) 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:* Effective July 1, 2009 through June 30, 2011, plan members were required by statute to contribute 7.9% of their gross salary if they earned \$20,000 or less annually, and plan members earning more than \$20,000 annually were required to contribute 9.4% of their gross salary. The School was required to contribute 12.4% of the gross covered salary for employees earning \$20,000 or less, and 10.9% of the gross covered salary of employees earning more than \$20,000 annually. Effective July 1, 2011 plan members are required by statute to contribute 7.9% of their gross salary if they earned \$20,000 or less annually, and plan

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2011 and 2010

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

1. Educational Retirement Act – Continued

members earning more than \$20,000 annually are required to contribute 11.15% of their gross salary. The School is required to contribute 12.4% of the gross covered salary for employees earning \$20,000 or less, and 9.15% of the gross covered salary for employees earning more than \$20,000 annually. 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, 2011, 2010, and 2009 were \$389,553, \$366,308, and \$406,375, respectively, which equals the amount of required contributions for each fiscal year.

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).

*Funding policy:* For 2011 and 2010, plan members are required to contribute 8.92% of their gross pay. The School is required to contribute 15.09% of gross covered salary which is a temporary shift of 1.5% of the cost from the School to the plan members. This temporary shift is effective until June 30, 2011. 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, 2011, 2010, and 2009 were \$640,476, \$630,732, and \$645,717, respectively, which equal the amount of the required contributions for each fiscal year.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2011 and 2010

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

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               | d. Dependent care                     |
| b. Term life insurance           | e. Medical care expense reimbursement |
| c. Dependent term life insurance |                                       |

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.

5. Post Employment Benefits – State Retiree Health Care Plan

The New Mexico School for the Deaf, as an employer, 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 New Mexico 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 the period of time made contributions as a participant in RHCA's 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.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2011 and 2010

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

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

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 New Mexico 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 NMRHCA 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 NMRHCA 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. During the fiscal year ending June 30, 2011, the statute requires each participating employer to contribute 1.666% of each participating employee's annual salary; each participating employee is required to contribute .8333% of their salary.

In the fiscal years ending June 30, 2012 and June 30, 2013 the contribution rates for employees and employers will rise as follows:

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
FY12	1.834%	.917%
FY13	2.000%	1.000%

Also, employers joining the program after January 1, 1998 are 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, 2011, 2010, and 2009 were \$127,131, \$93,388, and \$90,488, respectively, which equal the required contributions for each year.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2011 and 2010

**NOTE H – COMMITMENTS**

Construction commitments and financing:

The School has entered into a contract with Brycon Construction for the Connor Hall renovation project. As of this report date, this project was completed and included in buildings for capital asset reporting. 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.

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 completed and included in buildings for capital asset reporting. 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.

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 completed and included in buildings for capital asset reporting. 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 completed and included in buildings for capital asset reporting. 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.

During 2010, the School has entered into a contract with Star Construction for the Dillon Hall Historic Renovation project. As of this report date, this project is still under construction and is expected to be completed during fiscal year 2012. This project is funded by general obligation bonds issued pursuant to laws of 2008, Chapter 80, Section 10 administered through the Public Schools Facility Association (PSFA). The amount of the project is approximately \$5,025,958.

During 2011, the School has entered into a contract with Star Construction and with the Roof Doctor, for the NMSD 2011 Roof Repairs project and for other campus deficiency projects. As of this report date, this project is still under construction and is expected to be completed during fiscal year 2012. This project is funded by Laws of 2009 Chapter 125 and through PSFA. The amount of the project is approximately \$2,500,000.



**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2011 and 2010

**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:

Albuquerque Public Schools	Espanola Municipal Schools
Las Cruces Public Schools	Farmington Municipal Schools
Rio Rancho Public Schools	Aztec Municipal Schools
Santa Fe Public Schools	Bloomfield Consolidated Schools
Estancia Public Schools	Gadsden Independent Schools
Central Consolidated Schools	

The School has entered into a joint power agreement with the Public School Facility Authority (PSFA) whereby both parties will work together in completing any capital outlay projects.

State of New Mexico  
New Mexico School for the Deaf

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2011 and 2010

**NOTE K – BOND ACCOUNTING**

The School has periodically received severance tax and general obligation bonds appropriations for capital asset projects on the campus of the School. 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. See Schedule 7.

**NOTE L – 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 2010, Chapter 6, Section 4	<u>\$ 3,631,600</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 and Laws of 2008, Chapter 125 as detailed in Schedule 7	<u>\$ 1,401,404</u>

## **SUPPLEMENTARY INFORMATION**

State of New Mexico  
New Mexico School for the Deaf

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

For the year ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
Beginning fund balance	\$ 13,698,471	\$ 13,698,471	\$ 13,698,471	\$ -
<b>REVENUES</b>				
State general fund appropriations	3,753,400	3,631,600	3,631,600	-
Land and permanent funds	11,030,000	11,539,096	11,755,023	215,927
Federal revenue sources	183,110	183,110	466,295	283,185
Joint powers agreements	231,000	231,000	220,016	(10,984)
Bond proceeds	9,533,333	2,885,000	1,724,748	(1,160,252)
Other sources	287,699	377,697	441,846	64,149
	<u>25,018,542</u>	<u>18,847,503</u>	<u>18,239,528</u>	<u>(607,975)</u>
Total revenues				
Revenues per GAAP basis			<u>18,239,528</u>	
<b>EXPENDITURES</b>				
Instruction and general:				
Instruction	3,267,324	3,494,454	3,545,210	(50,756)
Academic support	3,708,656	3,775,847	3,385,175	390,672
Institutional support	2,330,265	2,194,047	2,194,475	(428)
Operation and maintenance of plant	2,212,042	2,098,659	2,173,895	(75,236)
Student services	2,556,593	2,360,542	2,487,688	(127,146)
Public service	884,459	725,395	755,053	(29,658)
Capital outlay	10,983,899	3,568,500	4,028,487	(459,987)
Renewals and replacements	200,000	200,000	91,389	108,611
	<u>26,143,238</u>	<u>18,417,444</u>	<u>18,661,372</u>	<u>(243,928)</u>
Total instruction and general expenditures				
<b>TRANSFERS</b>				
Transfers in	1,320,130	1,960,836	1,960,836	-
Transfers out	(1,320,130)	(1,960,836)	(1,960,836)	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total transfers				
Fund balance budgeted	<u>(1,124,696)</u>	<u>430,059</u>	<u>(421,844)</u>	<u>(364,047)</u>
Ending fund balance	<u>\$ 14,823,167</u>	<u>\$ 13,268,412</u>	<u>\$ 14,120,315</u>	<u>\$ 364,047</u>
Changes in net assets (budgetary basis)			\$ (421,844)	
Capital outlay - construction in progress			3,338,853	
Capital outlay - equipment, vehicles, etc.			399,364	
Depreciation			<u>(916,376)</u>	
Change in net assets - GAAP basis			<u>\$ 2,399,997</u>	

State of New Mexico  
New Mexico School for the Deaf

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

For the year ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
Beginning fund balance	\$ 10,215,084	\$ 10,215,084	\$ 10,215,084	\$ -
<b>REVENUES</b>				
Bond proceeds	9,533,333	2,885,000	1,724,748	(1,160,252)
Interest income	-	-	2,690	2,690
Sales and services	90,199	78,118	268,214	190,096
Other sources	-	-	-	-
	<u>9,623,532</u>	<u>2,963,118</u>	<u>1,995,652</u>	<u>(967,466)</u>
Total revenues	<u>9,623,532</u>	<u>2,963,118</u>	<u>1,995,652</u>	<u>(967,466)</u>
Total unrestricted revenues	<u>19,838,616</u>	<u>13,178,202</u>	<u>12,210,736</u>	<u>(967,466)</u>
<b>EXPENDITURES</b>				
Instruction and general:				
Public service	884,459	725,395	755,053	(29,658)
Capital outlay	10,983,899	3,568,500	4,028,487	(459,987)
Renewals and replacements	200,000	200,000	91,389	108,611
	<u>12,068,358</u>	<u>4,493,895</u>	<u>4,874,929</u>	<u>(381,034)</u>
Total instruction and general expenditures	<u>12,068,358</u>	<u>4,493,895</u>	<u>4,874,929</u>	<u>(381,034)</u>
<b>TRANSFERS</b>				
Transfers in	1,320,130	1,960,836	1,960,836	-
Transfers out	-	-	-	-
	<u>1,320,130</u>	<u>1,960,836</u>	<u>1,960,836</u>	<u>-</u>
Total transfers	<u>1,320,130</u>	<u>1,960,836</u>	<u>1,960,836</u>	<u>-</u>
Changes in net assets (budgetary basis)	<u>(1,124,696)</u>	<u>430,059</u>	<u>(918,441)</u>	<u>(586,432)</u>
Ending fund balance	<u>\$ 9,090,388</u>	<u>\$ 10,645,143</u>	<u>\$ 9,296,643</u>	<u>\$ (586,432)</u>
Changes in net assets (budgetary basis)			\$ (918,441)	
Capital outlay - construction in progress			3,338,853	
Capital outlay - equipment, vehicles, etc.			399,364	
Depreciation			<u>(916,376)</u>	
Changes in net assets - GAAP basis			<u>\$ 1,903,400</u>	

State of New Mexico  
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, 2011

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
Beginning fund balance	\$ 3,483,387	\$ 3,483,387	\$ 3,483,387	\$ -
<b>REVENUES</b>				
State appropriations	3,753,400	3,631,600	3,631,600	-
Endowments and land permanent funds	11,030,000	11,539,096	11,755,023	215,927
Other sources	197,500	299,579	170,942	(128,637)
Total revenues	<u>14,980,900</u>	<u>15,470,275</u>	<u>15,557,565</u>	<u>87,290</u>
Total unrestricted revenues	<u>18,464,287</u>	<u>18,953,662</u>	<u>19,040,952</u>	<u>87,290</u>
<b>EXPENDITURES</b>				
Instruction and general:				
Academic support	3,708,656	3,775,847	3,385,175	390,672
Instruction	2,853,214	3,080,344	2,987,635	92,709
Institutional support	2,330,265	2,194,047	2,194,475	(428)
Operation and maintenance of plant	2,212,042	2,098,659	2,173,895	(75,236)
Student services	2,556,593	2,360,542	2,487,688	(127,146)
Total instruction and general expenditures	<u>13,660,770</u>	<u>13,509,439</u>	<u>13,228,868</u>	<u>280,571</u>
<b>TRANSFERS</b>				
Transfers in	-	-	-	-
Transfers out	(1,320,130)	(1,960,836)	(1,960,836)	-
Total transfers	<u>(1,320,130)</u>	<u>(1,960,836)</u>	<u>(1,960,836)</u>	<u>-</u>
Changes in net assets (budgetary basis)	<u>-</u>	<u>-</u>	<u>367,861</u>	<u>(193,281)</u>
Ending fund balance	<u>\$ 3,483,387</u>	<u>\$ 3,483,387</u>	<u>\$ 3,851,248</u>	<u>\$ (193,281)</u>

State of New Mexico  
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, 2011

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
Beginning fund balance	\$ 86,968	\$ 86,968	\$ 86,968	\$ -
<b>REVENUES</b>				
Federal revenue sources	183,110	183,110	466,295	283,185
Joint powers agreements	231,000	231,000	220,016	(10,984)
Total revenues	<u>414,110</u>	<u>414,110</u>	<u>686,311</u>	<u>272,201</u>
Total restricted revenues	<u>501,078</u>	<u>501,078</u>	<u>773,279</u>	<u>272,201</u>
<b>EXPENDITURES</b>				
Instruction and general:				
Instruction	414,110	414,110	557,575	(143,465)
Public service	-	-	-	-
Total instruction and general expenditures	<u>414,110</u>	<u>414,110</u>	<u>557,575</u>	<u>(143,465)</u>
<b>TRANSFERS</b>				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Changes in net assets (budgetary basis)	<u>-</u>	<u>-</u>	<u>128,736</u>	<u>415,666</u>
Ending fund balance	<u>\$ 86,968</u>	<u>\$ 86,968</u>	<u>\$ 215,704</u>	<u>\$ 415,666</u>

State of New Mexico  
New Mexico School for the Deaf

**SCHEDULE OF CASH AND INVESTMENTS**

June 30, 2011

	First Community Bank	First National Bank of Santa Fe	State Treasurer's Office	Total
<b>CASH</b>				
Operational checking	\$ 2,001,217	\$ 2,708,643	\$ -	\$ 4,709,860
Less outstanding checks	(203,402)	(733,637)	-	(937,039)
Plus petty cash	2,950	-	-	2,950
<b>Total cash</b>	<u>\$ 1,800,765</u>	<u>\$ 1,975,006</u>	<u>\$ -</u>	<u>\$ 3,775,771</u>
<b>INVESTMENTS</b>				
Certificate of deposits	\$ 328,094	\$ 2,000	\$ -	\$ 330,094
Local gov. inv. pool	-	-	6,017,574	6,017,574
<b>Total investments</b>	<u>\$ 328,094</u>	<u>\$ 2,000</u>	<u>\$ 6,017,574</u>	<u>\$ 6,347,668</u>



State of New Mexico  
New Mexico School for the Deaf

**SCHEDULE OF PLEDGED COLLATERAL REQUIREMENTS**

June 30, 2011

	US Bank	First National Bank of Santa Fe	Total
Total bank balance - demand deposits	\$ 2,001,217	\$ 2,708,643	\$ 4,709,860
Less FDIC coverage	(2,001,217)	(250,000)	(2,251,217)
Uninsured balance of demand deposits	-	2,458,643	2,458,643
Total bank balance - time and savings deposits	328,094	2,000	330,094
Less FDIC coverage	(250,000)	(2,000)	(252,000)
Uninsured balance of time and savings deposits	78,094	-	78,094
Total uninsured bank balance	78,094	2,458,643	2,536,737
Collateralization requirement (50%)	39,047	1,229,322	1,268,369
Pledged securities:			
FNMA CUSIP# 38374UG62 (par value which approximates market value)	199,721	-	199,721
FNMA CUSIP# 31398AZG0 (par value which approximates market value)	-	2,014,798	2,014,798
FNMA CUSIP# 31398AYN6 (par value which approximates market value)	-	1,002,679	1,002,679
Amount over (under) collateralized	\$ 160,674	\$ 1,788,155	\$ 1,948,829

State of New Mexico  
New Mexico School for the Deaf

**SCHEDULE OF BONDS**

June 30, 2011

Chapter	Laws	Term End	Type of Bond	Bonds Appropriated	Bonds Sold to Date	Bonds Unsold
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	2,600,000	2,600,000	-
92	2008	2012	Severance Tax	425,000	425,000	-
80	2008	2012	General Obligation	3,000,000	3,000,000	-
125	2009	2013	Severance Tax - (PSFA)	2,500,000	2,500,000	-
				<u>\$ 21,025,000</u>	<u>\$ 21,025,000</u>	<u>\$ -</u>

\* Monies were never drawn (received) since they were never spent. Amounts are properly not recorded within these financial statements.

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>
\$ 7,000,000	\$ 70,000	\$ 6,170,908	\$ 348,953	\$ 6,519,861	\$ 410,139	\$ 410,139
5,500,000	-	5,375,862	107,381	5,483,243	16,757	16,757
2,600,000	27,000	38,482	190,069	228,551	2,344,449	-
425,000	-	236,328	-	236,328	188,672	-
3,000,000	30,000	-	755,001	755,001	2,214,999	-
2,500,000	-	2,967	323,344	326,311	2,173,689	-
<u>\$ 21,025,000</u>	<u>\$ 127,000</u>	<u>\$ 11,824,547</u>	<u>\$ 1,724,748</u>	<u>\$ 13,549,295</u>	<u>\$ 7,348,705</u>	<u>\$ 426,896</u>

State of New Mexico  
New Mexico School for the Deaf

**SCHEDULE OF APPROPRIATIONS**

June 30, 2011

<u>Description</u>	<u>Authority</u>	<u>Appropriation Period</u>	<u>Total Appropriation</u>	<u>Prior Year Expenditures</u>	<u>Current Year Expenditures</u>	<u>Prior Year Reversion Amount</u>	<u>Current Year Reversion Amount</u>	<u>Unencumbered Balance</u>
GENERAL FUND								
General Operation	Ch 6 Sec 4, Laws 2010	2011	\$ 3,631,600	\$ -	\$ 3,631,600	\$ -	\$ -	\$ -
	Total appropriations		<u>\$ 3,631,600</u>	<u>\$ -</u>	<u>\$ 3,631,600</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

State of New Mexico  
New Mexico School for the Deaf

**SCHEDULE OF JOINT POWERS AGREEMENTS**

June 30, 2011

- 1) Participant: Albuquerque Public Schools (APS)  
Party responsible for operations: NMSFD  
Purpose: Educational services  
Dates of Agreement: 7/1/10-6/30/11  
Total estimated amount of project: Dependent upon number of students  
Amount agency contributed in the fiscal year: \$58,720  
Audit responsibility: NMSFD  
Fiscal agent: NMSFD  
Agency where revenues/expenditures are reported: APS & NMSFD
  
- 2) Participant: Las Cruces Public Schools (LCPS)  
Party responsible for operations: NMSFD  
Purpose: Educational services  
Dates of Agreement: 7/1/10-6/30/11  
Total estimated amount of project: Dependent upon number of students  
Amount agency contributed in the fiscal year: \$6,000  
Audit responsibility: NMSFD  
Fiscal agent: NMSFD  
Agency where revenues/expenditures are reported: LCPS & NMSFD
  
- 3) Participant: Rio Rancho Public Schools (RRPS)  
Party responsible for operations: NMSFD  
Purpose: Educational services  
Dates of Agreement: 7/1/10-6/30/11  
Total estimated amount of project: Dependent upon number of students  
Amount agency contributed in the fiscal year: \$15,000  
Audit responsibility: NMSFD  
Fiscal agent: NMSFD  
Agency where revenues/expenditures are reported: RRPS & NMSFD

State of New Mexico  
New Mexico School for the Deaf

**SCHEDULE OF JOINT POWERS AGREEMENTS – CONTINUED**

June 30, 2011

- 4) Participant: Santa Fe Public Schools (SFPS)  
Party responsible for operations: NMSFD  
Purpose: Educational services  
Dates of Agreement: 7/1/10-6/30/11  
Total estimated amount of project: Dependent upon number of students  
Amount agency contributed in the fiscal year: \$56,250  
Audit responsibility: NMSFD  
Fiscal agent: NMSFD  
Agency where revenues/expenditures are reported: SFPS & NMSFD
- 5) Participant: Estancia Public Schools (EPS)  
Party responsible for operations: NMSFD  
Purpose: Educational services  
Dates of Agreement: 7/1/10-6/30/11  
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: EPS & NMSFD
- 6) Participant: Central Consolidated Public Schools (CCPS)  
Party responsible for operations: NMSFD  
Purpose: Educational services  
Dates of Agreement: 7/1/10-6/30/11  
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: CCPS & NMSFD
- 7) Participant: Espanola Municipal Schools (EMS)  
Party responsible for operations: NMSFD  
Purpose: Educational services  
Dates of Agreement: 7/1/10-6/30/11  
Total estimated amount of project: Dependent upon number of students  
Amount agency contributed in the fiscal year: \$29,046  
Audit responsibility: NMSFD  
Fiscal agent: NMSFD  
Agency where revenues/expenditures are reported: EMS & NMSFD

State of New Mexico  
New Mexico School for the Deaf

**SCHEDULE OF JOINT POWERS AGREEMENTS – CONTINUED**

June 30, 2011

- 8) Participant: Farmington Municipal Schools (FMS)  
Party responsible for operations: NMSFD  
Purpose: Educational services  
Dates of Agreement: 7/1/10-6/30/11  
Total estimated amount of project: Dependent upon number of students  
Amount agency contributed in the fiscal year: \$10,000  
Audit responsibility: NMSFD  
Fiscal agent: NMSFD  
Agency where revenues/expenditures are reported: FMS & NMSFD
  
- 9) Participant: Aztec Municipal Schools (AMS)  
Party responsible for operations: NMSFD  
Purpose: Educational services  
Dates of Agreement: 7/1/10-6/30/11  
Total estimated amount of project: Dependent upon number of students  
Amount agency contributed in the fiscal year: \$15,000  
Audit responsibility: NMSFD  
Fiscal agent: NMSFD  
Agency where revenues/expenditures are reported: AMS & NMSFD
  
- 10) Participant: Bloomfield Consolidated Public Schools (BCPS)  
Party responsible for operations: NMSFD  
Purpose: Educational services  
Dates of Agreement: 7/1/10-6/30/11  
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: BCPS & NMSFD
  
- 11) Participant: Gadsden Independent Public Schools (GIPS)  
Party responsible for operations: NMSFD  
Purpose: Educational services  
Dates of Agreement: 7/1/10-6/30/11  
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: GIPS & NMSFD



CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

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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, 2011 as listed in the table of contents and have issued our report thereon dated November 15, 2011. 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, 2011 as listed in the table of contents. 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

Management of the School is responsible for establishing and maintaining effective 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 *deficiency* in internal control 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and corrected on a timely basis.



Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

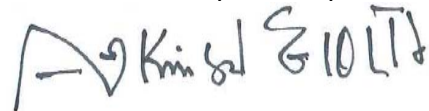
#### Compliance and Other Matters

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 and 10-01.

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 them.

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 pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in blue ink, appearing to read "Atkinson & Co., Ltd.", with a stylized initial "A" and "C" on the left.

**Atkinson & Co., Ltd.**

Albuquerque, New Mexico  
November 15, 2011

State of New Mexico  
New Mexico School for the Deaf

**SCHEDULE OF FINDINGS AND RESPONSES**

June 30, 2011 and 2010

**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? None noted

Noncompliance material to financial statements: No

**FINANCIAL STATEMENT FINDINGS**

None

**FINDINGS IN ACCORDANCE WITH 2.2.2. NMAC**

07-01 Inventory not properly valued – revised and repeated  
10-01 Budget violations – repeated

**PRIOR YEAR FINDINGS**

07-01 Inventory not properly valued – revised and repeated  
10-01 Budget violations – repeated  
10-02 Mileage and per diem – resolved

**SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED**

June 30, 2011 and 2010

**CURRENT YEAR FINDINGS**

**FINDINGS IN ACCORDANCE WITH 2.2.2. NMAC**

**07-01 – INVENTORY NOT PROPERLY VALUED**

Statement of Condition:

Inventory valuation was not correct due to the following:

- Inventory purchase amounts were not properly updated in the accounting software for 7 of 15 items tested for central supply.

The differences we observed were in relation to central supply inventories. Inventories were reduced compared to the prior year and food inventory test work was correctly recorded based on management emphasis.

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.

Effect:

Inventory is likely understated by \$1,600.

Recommendation:

We recommend that proper training for all users be implemented for use of the 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 emphasis should be extended to control supply inventories for 2011.

Management's Response:

Two accounting technicians already received training in the Peachtree Inventory Module. Supervisor of Accounting will do an analysis on the seven sample items to determine what caused the unit price difference. Accounting staff will also look at other items under dining hall and central supply.

State of New Mexico  
New Mexico School for the Deaf

**SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED**

June 30, 2011 and 2010

**CURRENT YEAR FINDINGS – CONTINUED**

**FINDINGS IN ACCORDANCE WITH 2.2.2. NMAC – CONTINUED**

10-01 – BUDGET VIOLATIONS

Statement of Condition:

The School exceeded budgeted items as follows:

	Final Budget	Actual	Variance
Institutional support	\$ 3,494,454	\$ 3,545,210	\$ (50,756)
Institutional support	2,194,047	2,194,475	(428)
Operation and maintenance of plant	2,098,659	2,173,895	(75,236)
Student services	2,360,542	2,487,688	(127,146)
Public service	725,395	755,053	(29,658)
Capital outlay	3,568,500	4,028,487	(459,987)

Criteria:

According to NMAC 6.20.2.9 A, budget preparation standards for public schools, over-expenditure of a function shall not be allowed.

Cause:

The School submitted a Budget Adjustment Request (BAR) which lowered the projected expenditures causing final expenditures to exceed the BAR amount.

Effect:

The School over expended their approved budget by approximately \$743,211.

Recommendation:

We recommend that management establish procedures that will monitor the approved legal budget especially in the latter part of the year to avoid over expenditures in the future.

Management's Response:

Preparing the financial forecast in order to prepare the final Budget Adjustment Requisition, which is due two months before the end of the fiscal year, is a tough challenge. And with the many transactions which need to be process each day; the appropriate account needs to be charged. Finance will revisit the forecast process and make necessary changes to better monitor the budget. Also, Finance will monitor the Actuals more closely to ensure that the right accounting code is used for the transaction.

State of New Mexico  
New Mexico School for the Deaf

**EXIT CONFERENCE**

For the year ended June 30, 2011

An exit conference was held at the New Mexico School for the Deaf campus on November 14, 2011, with the following individuals in attendance:

**New Mexico School for the Deaf**

Ms. Lynann Barbero

Mr. Mark Apodaca

Ms. Angela Lucero

Dr. Ronald Stern

Mr. Lalo Serna

Board President

Director of Business and Finance

Accounting Supervisor

Superintendent

Financial Analyst

**Atkinson & Co., Ltd.**

Martin Mathisen, CPA, CGFM

Clarke Cagle, CPA

David Thomas, CPA

Audit Director

Audit Senior Manager

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.

ATKINSON & CO. LTD.  
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