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, 2012 and 2011

atkinson

PRECISE. PERSONAL. PROACTIVE.

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State of New Mexico
New Mexico School for the Deaf

BOARD OF REGENTS

June 30, 2012

Ms. Lynann Barbero	President
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Mr. Roddy Cabbage	Director of Student Life
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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, 2012 and 2011, 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, 2012, 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, 2012 and 2011, 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.

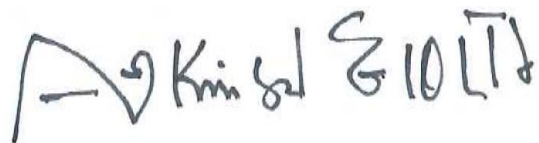
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the School as of June 30, 2012 and 2011 and the respective changes in financial position and cash flows, thereof, for the years then ended in 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, 2012 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 November 6, 2012 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 17 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 audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School's financial statements. The accompanying schedules of cash and investments, pledged collateral requirements, bonds, appropriations, and joint powers agreements are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

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

Atkinson & Co., Ltd.

Albuquerque, New Mexico
November 6, 2012

State of New Mexico
New Mexico School for the Deaf

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

June 30, 2012

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 Statements of Net Assets and Statements 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. These statements include 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.

USING THE BASIC FINANCIAL STATEMENTS

There are three basic financial statements presented in this audit report and they are the Statements of Net Assets, Statements of Revenues, Expenses, and Changes in Net Assets, and the Cash Flow Statements.

Statements of Net Assets

These statements present NMSD’s assets, liabilities, and net assets for three fiscal years. On the assets side, for FY2012, total assets increased by 11% or \$5,118,936 over FY2011. Current assets, which include cash, cash equivalents, short-term investments, accounts receivable, bond proceeds receivable and inventories, decreased by 1% or \$96,822 while noncurrent assets, which includes restricted cash and cash equivalents and capital assets (buildings, equipment, and property) increased by 15% or \$5,215,758 from the previous fiscal year.

For liabilities, total liabilities decreased by 22% or \$214,794. This was mostly due to current liabilities (accounts payable, deferred income, accrued compensated absences and payroll taxes) decreasing by 28% or \$228,413 from FY2011. Noncurrent liabilities, which includes accrued compensated absences and deposits from students, increased by only \$13,619 or 10% from FY2011.

Net assets, the third part of the Statements of Net Assets, includes investments in capital assets, restricted funds (scholarships and special events) and unrestricted funds (funds which cover the operation of the school). As of June 30, 2012, net assets increased by 12% or

State of New Mexico
New Mexico School for the Deaf

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

June 30, 2012

FINANCIAL HIGHLIGHTS – CONTINUED

Statements of Net Assets – Continued

\$5,333,730 from FY2011 mostly due to investments in capital assets which increased by 15% or \$4,944,115 from FY2011. Restricted and unrestricted funds increased by 11% and 1% respectively from FY2011.

ASSETS

	2012	2011
Current assets	\$ 9,089,964	\$ 9,186,786
Non-current assets	40,590,318	35,374,560
Total assets	\$ 49,680,282	\$ 44,561,346

LIABILITIES

Current liabilities	\$ 597,439	\$ 825,852
Non-current liabilities	145,615	131,996
Total liabilities	\$ 743,054	\$ 957,848

NET ASSETS

Invested in capital assets	\$ 37,780,723	\$ 32,836,608
Restricted	2,902,044	2,625,573
Unrestricted	8,254,461	8,141,317
Total net assets	48,937,228	43,603,498
Total liabilities and net assets	\$ 49,680,282	\$ 44,561,346

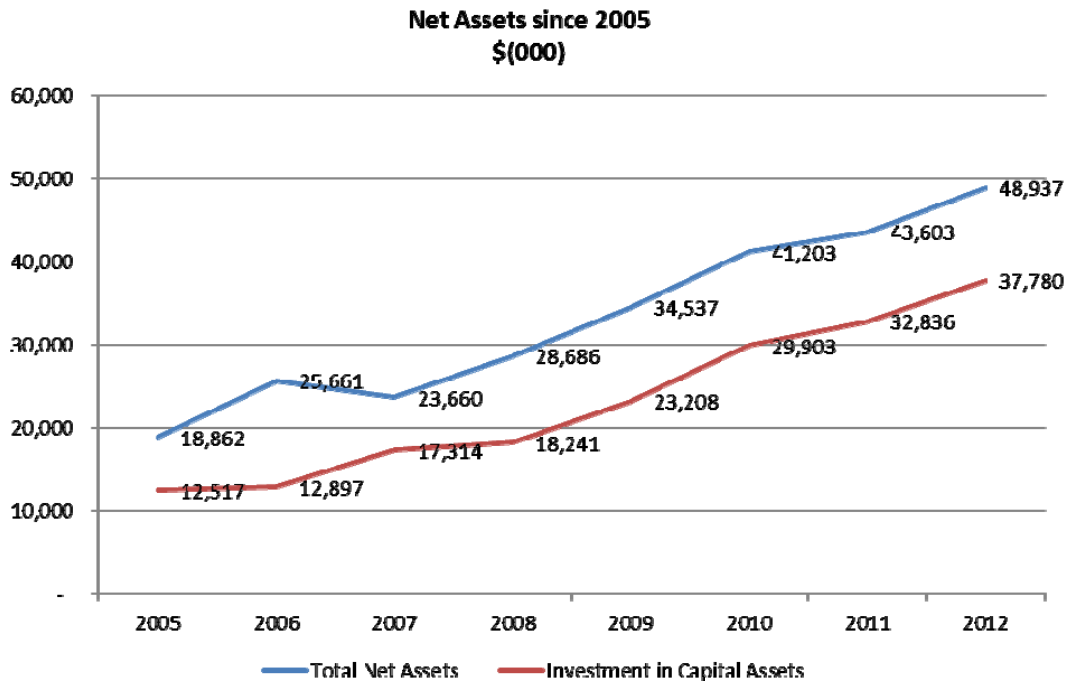
NMSD's net assets have grown over the years due to the school's investment in capital assets. As stated in the chart on the next page, on June 30, 2005, total net assets and investment in capital assets were \$18,862,831 and \$12,517,124 respectively. Since the end of that fiscal year (FY2005), the school's total net assets and investment in capital assets had grown to \$49,937,228 and \$37,780,723 respectively. NMSD continues to have a strong total assets and total net assets base.

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

June 30, 2012

FINANCIAL HIGHLIGHTS – CONTINUED

Statements of Net Assets – Continued



Statements of Revenues, Expenses, and Changes in Net Assets

These statements cover four parts. The first is called operating revenues which covers federal grants and contracts, agreements such as the Joint Power Agreements, and other operating revenue. The next part covers operating expenses which includes expenditures from academic support, operation and maintenance of plant, instruction, student services, and institutional support. This section also includes depreciation and outside contracts and grants. If total operating revenues is greater than total operating expenses, there will be a net operating gain. If total operating expenses are greater than total operating revenue, then there will be a net operating loss. There is always a net operating loss and non-operating revenues such as land and permanent fund, state appropriations, investment income and gain on disposal of capital assets offset the losses. The fourth part has to do with capital items such as bond proceeds appropriations. Bond proceeds appropriation covers revenues from General Obligation Bonds, Severance Tax Bonds, and funds from Public Schools Facility Authority. When the four parts are combined and show a gain, net assets will increase. If there is a loss, then net assets will decrease.

State of New Mexico
New Mexico School for the Deaf

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

June 30, 2012

FINANCIAL HIGHLIGHTS – CONTINUED

Statements of Revenues, Expenses, and Changes in Net Assets – Continued

Operating Revenues

Operating revenues for FY2012 was \$987,256, down 10.3% from FY2011. While revenues from federal grants and contracts and Joint Power Agreements were more in FY2012 than FY2011, other operating revenues were 37.2% less. Other operating revenues include income from rentals, cafeteria, auditorium, interpreter week, sign language classes, the CASA conference, and other miscellaneous income.

Federal grants and contracts cover funds from AmeriCorps, IDEA-B, and Medicare. As for JPA, NMSD received 15% more in funds from public schools in FY2012 than in FY2011. Most of the funds came from the Santa Fe Public Schools (\$67,500) and Albuquerque Public Schools (\$66,360) followed by seven other public schools districts.

	2012	2011	Variance	Percent
OPERATING REVENUES				
Federal grants and contracts	\$ 473,939	\$ 466,295	\$ 7,644	1.6%
Joint power agreements	253,113	220,016	33,097	15.0%
Other operating revenues	260,204	414,369	(154,165)	-37.2%
Total operating revenues	987,256	1,100,680	(113,424)	-10.3%
OPERATING EXPENSES				
Academic support	3,479,678	3,385,175	94,503	2.8%
Operation and maintenance of plant	2,866,182	2,622,830	243,352	9.3%
Instruction	2,876,361	2,987,635	(111,274)	-3.7%
Student services	2,529,986	2,487,688	42,298	1.7%
Institutional support	2,219,415	2,194,475	24,940	1.1%
Depreciation	1,268,493	916,376	352,117	38.4%
Outside contracts and grants	1,388,922	1,245,352	143,570	11.5%
Total operating expenses	16,629,037	15,839,531	789,506	5.0%
Net operating loss	(15,641,781)	(14,738,851)	(902,930)	6.1%

State of New Mexico
New Mexico School for the Deaf

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

June 30, 2012

FINANCIAL HIGHLIGHTS – CONTINUED

Statements of Revenues, Expenses, and Changes in Net Assets – Continued

	2012	2011	Variance	Percent
NON-OPERATING REVENUES (EXPENSES)				
Land and permanent fund income	\$ 11,635,496	\$ 11,755,023	\$ (119,527)	-1.0%
State appropriations	3,385,300	3,631,600	(246,300)	-6.8%
Investment income	18,179	27,477	(9,298)	-33.8%
Gain on disposal of capital assets	4,386	-	4,386	-
Total non-operating revenues	15,043,361	15,414,100	(370,739)	-2.4%
Change in net assets before capital assets	(598,420)	675,249	(1,273,669)	-188.6%
CAPITAL ITEMS				
Bond proceeds appropriations	5,932,150	1,724,748	4,207,402	243.9%
Changes in net assets	\$ 5,333,730	\$ 2,399,997	\$ 2,933,733	122.2%
NET ASSETS				
Beginning of year	\$ 43,603,498	\$ 41,203,501	\$ 2,399,997	5.8%
Ending net assets	\$ 48,937,228	\$ 43,603,498	\$ 5,333,730	12.2%

Operating Expenses

Operating expenses cover all aspects with operating NMSD's campuses in Santa Fe, Albuquerque, Las Cruces, and Farmington. Operating expenses include staff salaries and fringe benefits, supplies, travel, training, professional services, student transportation, groceries for dining hall, and maintenance costs. During FY2012, the school's operating expenses were \$16,629,037 and about 5% more than FY2011. Instruction and General covers academic support, instruction, student services, institutional support and operation and maintenance of plant. During FY2012, \$8,886,025 covered costs associated to students (instruction, academic support, and student support) which were 0.3% more than FY2011. However, of the total Instruction and General costs for FY2012, 64% covered instruction, academic support and student support. The rest (36%) covered institutional support and operation and maintenance of plant.

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New Mexico School for the Deaf

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

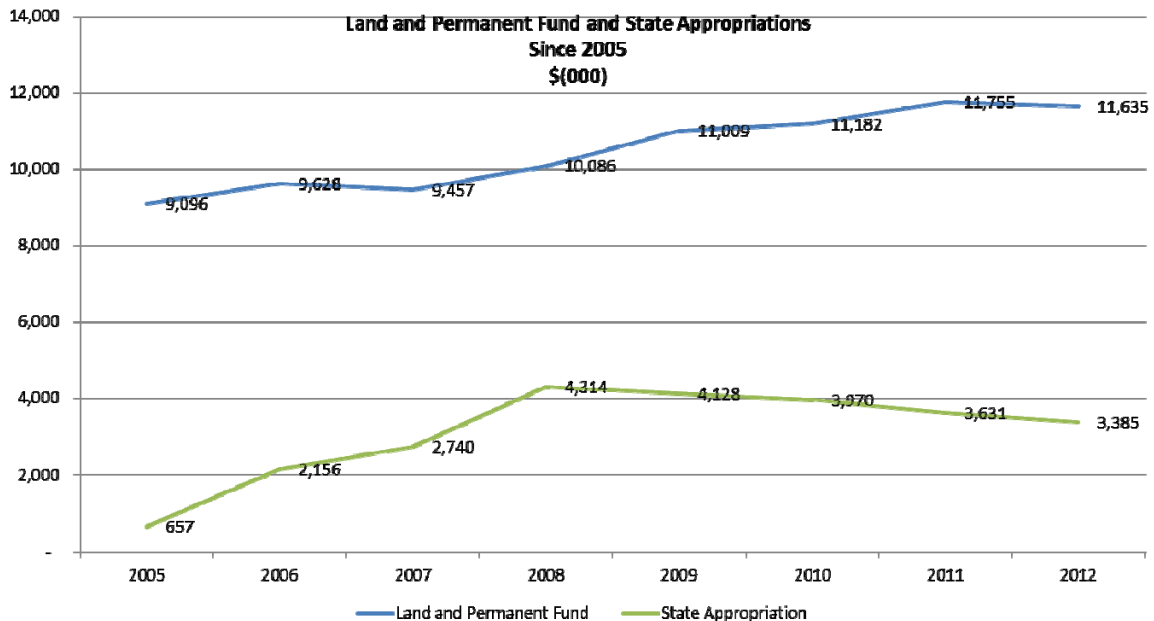
June 30, 2012

FINANCIAL HIGHLIGHTS – CONTINUED

Statements of Revenues, Expenses, and Changes in Net Assets – Continued

Non-operating Revenues

Revenues from land and permanent fund and state appropriations cover nearly 95% of NMSD’s total revenues (operating and non-operating). During FY2012, NMSD received \$11,635,496 from the state’s Land and Permanent funds and \$3,385,300 from state appropriation. Both were lower than FY2011 by 1% and 6.8% respectively. Below is a historical chart of the schools revenue from the land and permanent fund and state appropriation since June 30, 2005.



Interest income was earned from the schools investments in certificate of deposits and local government investment pool (LGIP). The school has CDs with the First National Bank of Santa Fe and LGIP is managed by the New Mexico State Treasurer’s Office. The balance as of June 30, 2012 for NMSD’s CD and LGIP accounts was \$330,171 and \$6,016,960, respectively.

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

June 30, 2012

FINANCIAL HIGHLIGHTS – CONTINUED

Statements of Revenues, Expenses, and Changes in Net Assets – Continued

Capital Items

During FY2012, NMSD was involved with a major capital project having to do with the renovation of Dillon Hall which houses the school's middle and high school students. The total expenditures for the year were \$5,932,150. The funding sources were a general obligation bond and severance tax bond from the state, and funding from the Public Schools Facility Authority (PSFA). There was a question as to how revenues and expenditures were to be recorded for PSFA because NMSD did not cover any of the expenditures or receive any revenues from PSFA as their accounting department handled all the transactions. This topic is covered in a later part of this report.

For the year ended June 30, 2012, net assets increased by \$5,333,730 mostly due to Dillon Hall renovations. This brought the school's net assets to \$48,937,228, a 12.2% increase from FY2011.

Statements of Cash Flows

NMSD ended FY2012 with a cash and cash equivalent balance of \$3,159,444. The cash flow statements are in four categories:

1. Cash flows from operating activities
2. Cash flows from non-capital financing activities
3. Cash flows from capital related financing activities
4. Cash flows from investing activities

The cash flow statements indicate the sources and uses of cash during the fiscal year. The first part is cash flows from operating activities:

	<u>2012</u>	<u>2011</u>	<u>Net Increase (Decrease)</u>	<u>Percent</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Grants and contracts received	\$ 729,561	\$ 686,311	\$ 43,250	6.3%
Payments to suppliers	(5,112,779)	(4,933,265)	(179,514)	3.6%
Payments to employees and for employee benefits	(10,475,473)	(10,306,841)	(168,632)	1.6%
Other revenues	<u>325,548</u>	<u>364,857</u>	<u>(39,309)</u>	-10.8%
Net cash used in operating activities	<u>\$ (14,533,143)</u>	<u>\$ (14,188,938)</u>	<u>\$ (344,205)</u>	2.4%

State of New Mexico
New Mexico School for the Deaf

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

June 30, 2012

FINANCIAL HIGHLIGHTS – CONTINUED

Statements of Cash Flows – Continued

During FY2012, cash received from operating activities totaled \$1,055,109 which was only 0.4% more than during FY2011. Cash utilized during the same period was \$15,588,252 which was 2.3% more than in FY2011. The cash covered staff salaries, benefits, and operating costs such as supplies, travel, and professional services. In this category, more cash was utilized than what was received by \$14,533,143 which was 2.4% more than in FY2011.

The next category covers non-capital financing activities. This basically covers state appropriations and the land and permanent funds. NMSD received less cash in FY2012 from those two funds than in FY2011 by about \$461,835. State appropriations were down by 6.8% while land and permanent fund was about 1.8% less.

	2012	2011	Net Increase (Decrease)	Percent
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State appropriations	\$ 3,385,300	\$ 3,631,600	\$ (246,300)	-6.8%
Land and permanent fund income	11,613,315	11,828,850	(215,535)	-1.8%
	<u>\$ 14,998,615</u>	<u>\$ 15,460,450</u>	<u>\$ (461,835)</u>	-3.0%

Cash flows from capital related financing activities cover capital outlays which includes capital projects, vehicles, and technology. During FY2012, NMSD received \$2,937,564 cash from bond proceeds appropriations from General Obligation and Severance Tax Bonds. The amount does not include funds from PSFA since NMSD received no funds as PSFA handled all transactions.

Cash covered purchases of vehicles, network servers, technology devices, and capital project costs in the amount of \$4,042,465 during FY2012. The amount does not include PSFA's payments to the Dillon Hall construction company as PSFA handled all cash transactions at their end.

The last category covers cash flows from investing activities. During FY2012, NMSD received only \$18,179 in interest from LGIP and CDs, down by 33.8% from FY2011.

State of New Mexico
New Mexico School for the Deaf

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

June 30, 2012

FINANCIAL HIGHLIGHTS – CONTINUED

Statements of Cash Flows – Continued

	2012	2011	Net Increase (Decrease)	Percent
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on investments	\$ 18,179	\$ 27,477	\$ (9,298)	-33.8%
Purchase of investments	537	(17,054)	17,591	-103.1%
Net cash provided by investing activities	<u>\$ 18,716</u>	<u>\$ 10,423</u>	<u>\$ 8,293</u>	79.6%

According to the State Treasurer's office, NMSD's LGIP funds are invested in US Government Obligations, Commercial Paper, and Money Market Funds. Daily rates have been below 1% during the first six months of 2012.

BUDGET COMPARISONS

Within this CPA financial audit report, the first four of nine schedules cover the budget vs. actuals:

1. All operations (unrestricted and restricted)
2. Unrestricted non-instruction and general
3. Unrestricted instruction and general
4. Restricted instruction and general

Schedule 1 is a combination of schedules 2, 3, and 4 where it covers all the school's budgeted and actual revenues and expenditures for FY2012. Schedules 2 through 4 are covered here.

Unrestricted non-instruction and general (Schedule 2)

This schedule covers capital outlays and the Educational Consultation Training (ECT) department (formerly the school's Outreach department). Comparing the final budget with the actuals for bond proceeds (under Revenue) and capital outlay (under Expenditures), the reason for the large variance was due to the final budget not including PSFA. Under the Revenue Recognition principle, revenues are recorded when the transaction takes place and its associated expenditures are recorded when the expenses are transacted. This has been the case when NMSD Finance used GOB and STB funds to pay for capital project costs and was reimbursed by the NM Department of Finance and Administration.

State of New Mexico
New Mexico School for the Deaf

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

June 30, 2012

BUDGET COMPARISONS – CONTINUED

Statement of Revenues and Expenditures - Budget Comparison
Unrestricted Non-I&G

	Final Budget	Actual	Over/(under) Budget	Percent
Beginning fund balance	\$ 9,797,749	\$ 9,797,749	\$ -	-
REVENUES				
Bond proceeds	3,258,000	5,932,150	2,674,150	82%
Interest income	-	1,703	1,703	-
Government grants and contracts	-	-	-	-
Sales and services	55,000	59,802	4,802	9%
Other sources	4,000	6,378	2,378	59%
Total revenues	3,317,000	6,000,033	2,683,033	81%
EXPENDITURES				
Instruction and general:				
Public service	802,970	751,560	(51,410)	-6%
Capital outlay	4,252,587	6,691,866	2,439,279	57%
Renewals and replacements	-	-	-	
Total instruction and general expenditures	5,055,557	7,443,426	2,387,869	47%
TRANSFERS				
Transfers in	2,566,097	2,566,097	-	-
Transfers out	-	-	-	-
Total transfers	2,566,097	2,566,097	-	-
Ending fund balance	\$ 10,625,289	\$ 10,920,453	\$ 295,164	3%

In the case of PSFA, NMSD Finance did not cover any expenditure during the construction of Dillon Hall period. The invoices were forwarded to PSFA which in turn made the payments. Because NMSD did not make any payments, the school did not receive any reimbursements. NMSD Finance did not include PSFA's funding source in the final budget.

State of New Mexico
New Mexico School for the Deaf

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

June 30, 2012

BUDGET COMPARISONS – CONTINUED

During FY2012, \$2,566,097 was transferred from Unrestricted Instruction and General to cover Educational Consultation Training salaries, benefits, and expenses, and capital outlay involving vehicles, technology devices, network servers, and construction costs not covered by the bond proceeds.

Unrestricted Current Funds – Instruction and General (Schedule 3)

This schedule covers NMSD's instructional operations and its support. For the revenue side, NMSD was budgeted for \$15,041,364 but actuals were 2% more which is favorable. The school received more funds from the land and permanent fund than what was projected. On the expenditure side, the final budget was \$14,273,100 and actuals ended up at 94% of what was budgeted which was also favorable.

Statement of Revenues and Expenditures - Budget Comparison
Unrestricted I&G

	Final Budget	Actual	Over/(under) Budget	Percent
Beginning fund balance	\$ 4,322,566	\$ 4,345,679	\$ 23,113	1%
REVENUES				
State appropriations	3,385,300	3,385,300	-	-
Endowments and land permanent funds	11,347,583	11,635,496	287,913	3%
Other sources	308,481	294,081	(14,400)	-5%
Total revenues	15,041,364	15,314,877	273,513	2%
EXPENDITURES				
Instruction and general:				
Academic support	3,845,293	3,479,678	(365,615)	-10%
Instruction	3,222,641	2,876,361	(346,280)	-11%
Institutional support	2,240,330	2,230,919	(9,411)	-
Operation and maintenance of plant	2,375,923	2,367,258	(8,665)	-
Student services	2,588,913	2,531,016	(57,897)	-2%
Total instruction and general expenditures	14,273,100	13,485,232	(787,868)	-6%
TRANSFERS				
Transfers in	-	-	-	-
Transfers out	(2,566,097)	(2,566,097)	-	-
Total transfers	(2,566,097)	(2,566,097)	-	-
Ending fund balance	\$ 2,524,733	\$ 3,609,227	\$ 1,084,494	43%

State of New Mexico
New Mexico School for the Deaf

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

June 30, 2012

BUDGET COMPARISONS – CONTINUED

Under the transfers section, \$2,566,097 was transferred to Capital Outlays and Public Service (Educational Consultant Training). This brought the ending fund balance to \$3,609,227, a 17% decrease from what was the beginning fund balance.

Restricted Current Funds – Instruction and General (Schedule 4)

Schedule 4 covers funds which are restricted for instruction and public services. Under this report, revenues from federal government sources such as IDEA-B, AmeriCorps, and Medicare totaled \$394,744 while revenues from Joint Partnership Agreements with public schools earned the school \$253,113. Both were more than what Finance forecasted for by a total of \$111,151 or 21%.

All the revenues received during FY2012 were expedited for instruction and the AmeriCorps program under Public Services. Because we received more funds than we budgeted for, we also expedited the same amount of funds which were also more than what Finance budgeted for.

Statement of Revenues and Expenditures - Budget Comparison
Restricted I&G

	Final Budget	Actual	Over/(under) Budget	Percent
Beginning fund balance	\$ -	\$ -	\$ -	-
REVENUES				
Federal revenue sources	310,180	394,744	84,564	27%
Joint powers agreements	226,526	253,113	26,587	12%
Total revenues	536,706	647,857	111,151	21%
EXPENDITURES				
Instruction and general:				
Instruction	389,517	536,221	146,704	38%
Public service	147,189	111,636	(35,553)	-24%
Total instruction and general expenditures	536,706	647,857	111,151	21%
TRANSFERS				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total transfers	-	-	-	-
Changes net assets	-	-	-	-
Changes in endowment net assets	-	9,300	9,300	-
Ending fund balance	\$ -	\$ 9,300	\$ 9,300	-

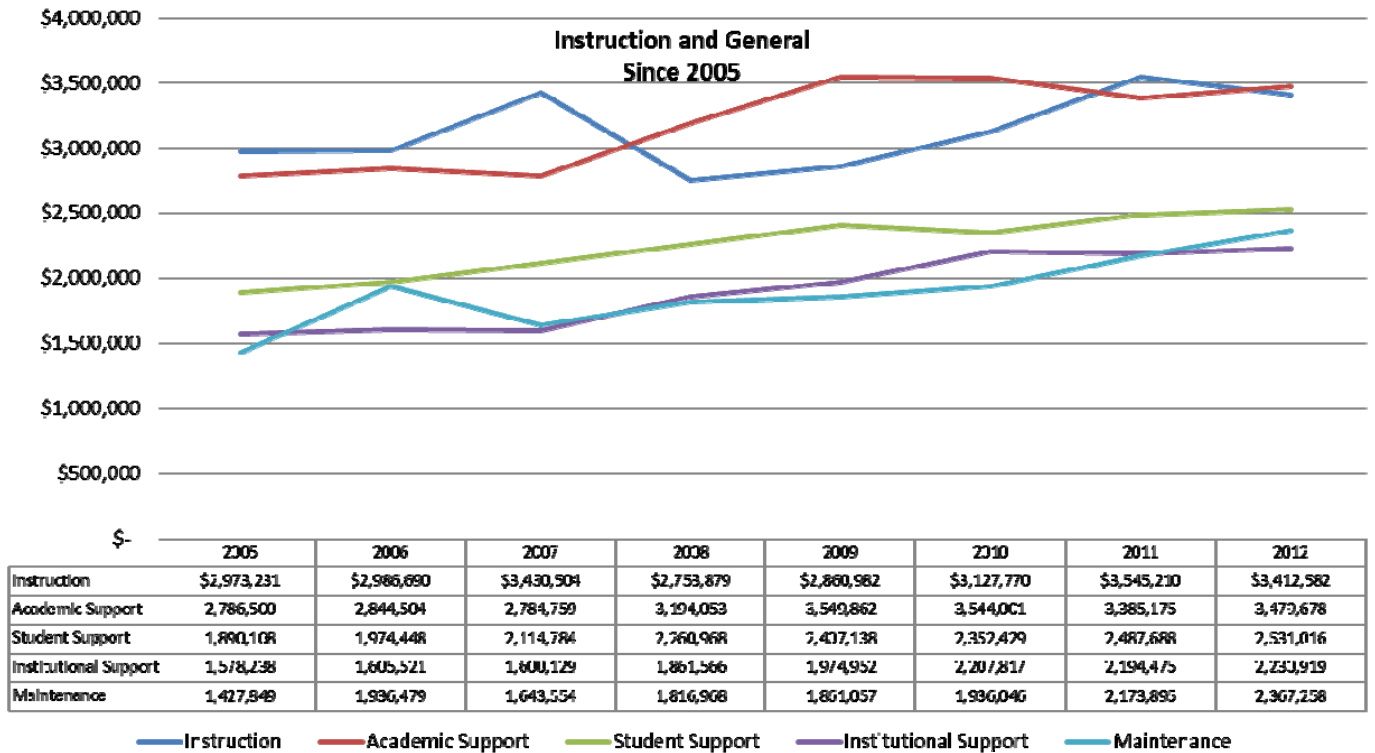
State of New Mexico
New Mexico School for the Deaf

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

June 30, 2012

BUDGET COMPARISONS – CONTINUED

The next chart illustrates the trend in instruction and general funding since 2005. Instruction includes both unrestricted and restricted amounts.



CAPITAL ASSETS

At the end of the fiscal year June 30, 2012, the school's capital assets increased by 15.1% or \$4,944,115 from FY2011. The Dillon Hall project contributed to the increase and all other capital items either decreased in value due to depreciation or remained unchanged (land and artwork).

State of New Mexico
New Mexico School for the Deaf

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

June 30, 2012

CAPITAL ASSETS – CONTINUED

	2012	2011	Net Increase (Decrease)	Percent
Buildings	\$ 31,965,168	\$ 26,565,253	\$ 5,399,915	20.3%
Construction in progress	3,125,812	3,482,846	(357,034)	-10.3%
Vehicles	401,393	455,582	(54,189)	-11.9%
Land and improvements	1,698,068	1,698,068	-	-
Infrastructure	91,715	96,811	(5,096)	-5.3%
Equipment and furniture	280,774	302,317	(21,543)	-7.1%
Artwork	209,550	209,550	-	-
Computer equipment	8,243	26,181	(17,938)	-68.5%
Total capital assets	\$ 37,780,723	\$ 32,836,608	\$ 4,944,115	15.1%

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, 2012, 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 maintain its level of revenues from the land and permanent fund and other sources. However, it may be possible for NMSD will face further revenue reductions from appropriations during FY2013. 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

	<u>2012</u>	<u>2011</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 349,849	\$ 1,237,819
Short-term investments with LGIP	6,347,131	6,347,668
Accounts receivable, net of allowance for uncollectible amounts of \$11,075 for 2012 and 2011	1,045,159	1,088,322
Bond proceeds receivable - due from DFA - Board of Finance (85300)	1,292,511	468,068
Inventories	<u>55,314</u>	<u>44,909</u>
Total current assets	9,089,964	9,186,786
NONCURRENT ASSETS		
Restricted cash and cash equivalents	2,809,595	2,537,952
Capital assets, net	<u>37,780,723</u>	<u>32,836,608</u>
Total noncurrent assets	<u>40,590,318</u>	<u>35,374,560</u>
Total assets	<u>\$ 49,680,282</u>	<u>\$ 44,561,346</u>

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

LIABILITIES AND NET ASSETS

	2012	2011
CURRENT LIABILITIES		
Accounts payable	\$ 300,551	\$ 516,428
Deferred income	70,289	67,780
Accrued compensated absences - current portion	151,598	158,183
Payroll taxes and fringe benefits - accrued and withheld	75,001	83,461
Total current liabilities	597,439	825,852
NONCURRENT LIABILITIES		
Accrued compensated absences, less current portion	42,159	41,145
Deposits from students	103,456	90,851
Total noncurrent liabilities	145,615	131,996
Total liabilities	743,054	957,848
NET ASSETS		
Invested in capital assets	37,780,723	32,836,608
Restricted - expendable for:		
Other programs	2,809,595	2,537,952
Scholarships	70,425	65,597
Special events	22,024	22,024
Unrestricted	8,254,461	8,141,317
Total net assets	48,937,228	43,603,498
Total liabilities and net assets	\$ 49,680,282	\$ 44,561,346

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,

	2012	2011
OPERATING REVENUES		
Federal grants and contracts	\$ 473,939	\$ 466,295
Joint power agreements	253,113	220,016
Other operating revenue	260,204	414,369
Total operating revenues	987,256	1,100,680
OPERATING EXPENSES		
Academic support	3,479,678	3,385,175
Operation and maintenance of plant	2,866,182	2,622,830
Instruction	2,876,361	2,987,635
Student services	2,529,986	2,487,688
Institutional support	2,219,415	2,194,475
Depreciation	1,268,493	916,376
Outside contracts and grants	1,388,922	1,245,352
Total operating expenses	16,629,037	15,839,531
Net operating loss	(15,641,781)	(14,738,851)
NON-OPERATING REVENUES (EXPENSES)		
Land and permanent fund income	11,635,496	11,755,023
State appropriations	3,385,300	3,631,600
Investment income	18,179	27,477
Gain on disposal of capital assets	4,386	-
Change in net assets before capital items	(598,420)	675,249
CAPITAL ITEMS		
Bond proceeds appropriations	5,932,150	1,724,748
Change in net assets	5,333,730	2,399,997
NET ASSETS		
Beginning of year	43,603,498	41,203,501
Ending net assets	\$ 48,937,228	\$ 43,603,498

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,

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Grants and contracts received	\$ 729,561	\$ 686,311
Payments to suppliers	(5,112,779)	(4,933,265)
Payments to employees and for employee benefits	(10,475,473)	(10,306,841)
Other revenues	325,548	364,857
Net cash used in operating activities	(14,533,143)	(14,188,938)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	3,385,300	3,631,600
Land and permanent fund income	11,613,315	11,828,850
Net cash provided by noncapital financing activities	14,998,615	15,460,450
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Bond proceeds appropriations	2,937,564	1,690,066
Purchases, construction, and/or renovation of capital assets	(4,042,465)	(3,526,075)
Gain on sale of capital assets	4,386	-
Net cash (used in) provided by financing activities	(1,100,515)	(1,836,009)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	18,179	27,477
Purchase of investments	537	(17,054)
Net cash provided by investing activities	18,716	10,423
NET (DECREASE) IN CASH AND RESTRICTED CASH AND CASH EQUIVALENTS	(616,327)	(554,074)
Cash and restricted cash and cash equivalents		
- beginning of year	3,775,771	4,329,845
Cash and restricted cash and cash equivalents		
- end of year	\$ 3,159,444	\$ 3,775,771

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>2012</u>	<u>2011</u>
Operating loss	\$ (15,641,781)	\$ (14,738,851)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation expense	1,268,493	916,376
Changes in assets and liabilities:		
Operating accounts receivable	65,344	(49,512)
Inventory	(10,405)	5,191
Accounts payable	(215,877)	(390,842)
Accrued liabilities and compensated absences and deposits	(1,426)	68,700
Deferred income	2,509	-
Net cash used in operating activities	<u>\$ (14,533,143)</u>	<u>\$ (14,188,938)</u>

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

	<u>2012</u>	<u>2011</u>
Capital assets acquired through payments made by Public Schools Facility Administration	<u>\$ 2,170,143</u>	<u>\$ 323,344</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

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, 2012 and 2011

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, 2012 and 2011

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 2012 and 2011.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012 and 2011

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, 2012 and 2011.

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, 2012.

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, 2012 and 2011

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, 2012 and 2011

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 capital outlay for 2012. See page 56. The School also exceeded its final budgeted amount of restricted expenditures for instruction for 2012. See page 56.

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 \$3,385,300 for fiscal year 2012, Laws 2011, Chapter 179, Section 4. The appropriation was fully spent during the year. There is no remaining balance to bring forward to fiscal year 2013. The 2011 appropriation of \$3,631,600 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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012 and 2011

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.

17. Subsequent Events

Subsequent events have been evaluated through November 6, 2012, the date at which the financials were available for issuance, to determine whether such events should be recorded or disclosed in the financial statements for the year ended June 30, 2012. Management believes no material subsequent events have arisen that would require adjustment or disclosure.

18. New Accounting Standards

The Governmental Accounting Standards Board (GASB) has published Statements No. 67, *Financial Reporting for Pension Plans* and No. 68, *Accounting and Financial Reporting for Pensions*. These standards revise existing guidance for governments that provide their employees with pension benefits. A principal change is the requirement to record the government's pro rata share of unfunded actuarial accrued liability (UAAL) on its financial statements including multi employer cost sharing plans. The New Mexico School for the Deaf is a participating member of the Education Retirement Board (ERB) and the Public Employees Retirement Association (PERA), both are multi-employer cost sharing plans. See Note G. Other changes arising from these statements are significant and the School will comply with these changes as implementation information is provided by the State of New Mexico, ERB, and PERA. The implementation date for statement No. 68, most relevant to the School is for FY2014. The status of these plans at June 30, 2011 based on the most recent audited financial statements, report UAALs of 5.65 billion and 4.97 billion for ERB and PERA, respectively.

State of New Mexico
New Mexico School for the Deaf

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012 and 2011

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, 2012, (book balances) were \$3,159,444 and bank balances were \$4,869,854 of which \$3,251,977 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, 2012, bank deposits not insured or collateralized were \$1,617,877. See also Schedules 5 and 6.

Depository Account	Bank Balance
Insured	\$ 251,977
Collateralized	
Collateral held by pledging bank's trust department in the School's name - par value	3,000,000
Uninsured and uncollateralized	-
Total deposits	\$ 3,251,977

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, 2012, \$1,617,877 of the School's bank balance of \$4,869,854 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 1,617,877
Total	\$ 1,617,877

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012 and 2011

NOTE C – CASH AND INVESTMENTS – CONTINUED

The remaining balance of \$6,016,960 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, 2012

<i>New MexiGROW</i> LGIP	AAA _m rated	\$6,016,960	60 day WAM
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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 2010, the date of the financial statements. In June 2012, the New Mexico State Treasurer’s Office, at the recommendation of their auditors, “wrote down” a portion of the

State of New Mexico
New Mexico School for the Deaf

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012 and 2011

NOTE C – CASH AND INVESTMENTS – CONTINUED

Reserve Primary Fund. The amount allocated to the School was \$14,460. At June 30, 2012, the New Mexico School for the Deaf had \$2,910 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, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Land and permanent fund	\$ 956,237	\$ 978,418
Federal funding sources	51,585	50,209
Other receivables	<u>48,412</u>	<u>70,770</u>
Total receivables	1,056,234	1,099,397
Allowance for doubtful accounts	<u>(11,075)</u>	<u>(11,075)</u>
Net receivables	<u>\$ 1,045,159</u>	<u>\$ 1,088,322</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.

State of New Mexico
New Mexico School for the Deaf

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012 and 2011

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, 2012 and 2011 were as follows:

Asset Description	2012				Balance at 6/30/2012
	Balance at 6/30/2011	Current Year Additions	Current Year Deletions	Reclass	
Non-depreciable					
Construction in progress	\$ 3,482,846	\$ 6,031,361	\$ -	\$ (6,388,395)	\$ 3,125,812
Land and improvements	1,698,068	-	-	-	1,698,068
Artworks	209,550	-	-	-	209,550
Depreciable					
Buildings	39,117,181	72,993	-	6,388,395	45,578,569
Equipment and furniture	1,129,503	28,687	-	-	1,158,190
Computers	627,318	-	18,807	-	608,511
Automotive equipment	983,779	82,930	12,749	-	1,053,960
Infrastructure	127,382	-	-	-	127,382
Capital assets	47,375,627	6,215,971	31,556	-	53,560,042
Accumulated depreciation					
Buildings	12,551,928	1,061,473	-	-	13,613,401
Equipment and furniture	827,186	50,230	-	-	877,416
Computers	601,137	17,939	18,808	-	600,268
Automotive equipment	528,197	133,755	9,385	-	652,567
Infrastructure	30,571	5,096	-	-	35,667
Total accumulated depreciation	14,539,019	1,268,493	28,193	-	15,779,319
Total net capital assets	<u>\$ 32,836,608</u>	<u>\$ 4,947,478</u>	<u>\$ 3,363</u>	<u>\$ -</u>	<u>\$ 37,780,723</u>

State of New Mexico
New Mexico School for the Deaf

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012 and 2011

NOTE E – CAPITAL ASSETS – CONTINUED

Asset Description	2011				Balance at 6/30/2011
	Balance at 6/30/2010	Current Year Additions	Current Year Deletions	Reclass	
Non-depreciable					
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
Depreciable					
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
Capital assets	44,759,130	3,849,419	1,232,922	-	47,375,627
Accumulated depreciation					
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
Total accumulated depreciation	14,855,565	916,376	1,232,922	-	14,539,019
Total net capital assets	\$ 29,903,565	\$ 2,933,043	\$ -	\$ -	\$ 32,836,608

State of New Mexico
New Mexico School for the Deaf

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012 and 2011

NOTE F – LONG TERM LIABILITIES

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

	<u>2011</u>	<u>Increase</u>	<u>Decrease</u>	<u>2012</u>
Accrued sick leave	\$ 53,968	\$ 17,229	\$ 27,748	\$ 43,449
Accrued annual leave payable	<u>145,360</u>	<u>143,353</u>	<u>138,405</u>	<u>150,308</u>
Total accrued compensated absences	<u>\$ 199,328</u>	<u>\$ 160,582</u>	<u>\$ 166,153</u>	<u>\$ 193,757</u>

Amounts due within one year for the year ended June 30, 2012 is \$151,598. 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.

Funding policy: Plan members earning \$20,000 or less annually are required by statute to contribute 7.9% of their gross salary. Plan members earning more than \$20,000 annually were required to contribute 11.15% of their gross salary in fiscal year 2012 and will be required to contribute 9.4% of their gross salary in fiscal year 2013. The School has been and is required to contribute 12.4% of the gross covered salary for employees earning \$20,000 or less in fiscal years 2012 and 2013. In fiscal year 2012 the School contributed 9.15% of the gross covered salary of employees earning more than \$20,000 annually. In fiscal year 2013 the School will contribute 10.9% of the gross covered salary of employees earning more than \$20,000 annually.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012 and 2011

NOTE G – RETIREMENT AND BENEFIT PROGRAMS – CONTINUED

1. Educational Retirement Act – Continued

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, 2012, 2011, and 2010 were \$333,655, \$389,553, and \$366,308, 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.

Funding policy: Plan members are required to contribute 10.67% of their gross salary. The School is required to contribute 13.34% of gross covered salary. The contribution requirements of plan members and the School are established in State statute 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, 2012, 2011, and 2010 were \$591,454, \$640,476, and \$630,732, 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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012 and 2011

NOTE G – RETIREMENT AND BENEFIT PROGRAMS – CONTINUED

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.

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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012 and 2011

NOTE G – RETIREMENT AND BENEFIT PROGRAMS – CONTINUED

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

Funding Policy. The New Mexico Retiree Health Care Act (NMRHCA) (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.

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, 2012, the statute requires each participating employer to contribute 1.834% of each participating employee's annual salary; each participating employee is required to contribute .917% of their salary.

In the fiscal years ending 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>
FY2013	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, 2012, 2011, and 2010 were \$145,963, \$127,131, and \$93,388, respectively, which equal the required contributions for each year.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012 and 2011

NOTE H – COMMITMENTS

Construction Commitments and Financing:

During 2011, the School has entered into a contract with Star Construction for the School's primary high school/middle school building project. This project will be completed during fiscal year 2013. This project is funded by general obligation bonds issued pursuant to laws of 2008, Chapter 80, Section 10 and by Laws of 2009 Chapter 125 administered through the Public Schools Facility Association (PSFA). The amount of the project is approximately \$5,520,394.

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.

State of New Mexico
New Mexico School for the Deaf

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012 and 2011

NOTE J – JOINT POWERS AGREEMENTS – CONTINUED

The following is a list of participating school districts:

- Albuquerque Public Schools
- Las Cruces Public Schools
- Rio Rancho Public Schools
- Santa Fe Public Schools
- Las Vegas Public Schools
- Central Consolidated Schools
- Espanola Municipal Schools
- Aztec Municipal Schools
- Gadsden Independent 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.

NOTE K – BOND ACCOUNTING

The School has periodically received severance tax and general obligation bond 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 2011, Chapter 179, Section 4 \$ 3,385,300

Bond Proceed Appropriations –
Approved draws, Laws of 2008,
Chapter 92, and Laws of 2008,
Chapter 80 and Laws of 2008,
Chapter 125 as detailed in Schedule 7 \$ 5,932,150

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, 2012

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
Beginning fund balance	\$ 14,343,894	\$ 14,120,315	\$ 14,120,315	\$ -
REVENUES				
State general fund appropriations	3,385,300	3,385,300	3,385,300	-
Land and permanent funds	11,432,577	11,347,583	11,635,496	287,913
Federal revenue sources	195,187	310,180	394,744	84,564
Joint powers agreements	200,000	226,526	253,113	26,587
Bond proceeds	3,420,000	3,258,000	5,932,150	2,674,150
Other sources	330,320	367,481	361,964	(5,517)
Total revenues	18,963,384	18,895,070	21,962,767	3,067,697
Revenues per GAAP basis			<u>21,962,767</u>	
EXPENDITURES				
Instruction and general:				
Instruction	3,717,828	3,612,158	3,412,582	199,576
Academic support	3,795,293	3,845,293	3,479,678	365,615
Institutional support	2,240,330	2,240,330	2,230,919	9,411
Operation and maintenance of plant	2,175,923	2,375,923	2,367,258	8,665
Student services	2,488,913	2,588,913	2,531,016	57,897
Public service	988,659	950,159	863,196	86,963
Capital outlay	3,888,500	4,252,587	6,691,866	(2,439,279)
Renewals and replacements	-	-	-	-
Total instruction and general expenditures	19,295,446	19,865,363	21,576,515	(1,711,152)
TRANSFERS				
Transfers in	1,066,097	2,566,097	2,566,097	-
Transfers out	(1,066,097)	(2,566,097)	(2,566,097)	-
Total transfers	-	-	-	-
Changes in net assets	(332,062)	(970,293)	386,252	1,356,545
Ending fund balance	\$ 14,011,832	\$ 13,150,022	\$ 14,506,567	\$ 1,356,545
Changes in net assets (budgetary basis)			\$ 386,252	
Capital outlay - construction in progress			6,031,361	
Capital outlay - equipment, vehicles, etc.			184,610	
Depreciation			<u>(1,268,493)</u>	
Change in net assets - GAAP basis			<u>\$ 5,333,730</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, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Favorable/ (Unfavorable)
Beginning fund balance	\$ 10,303,623	\$ 9,797,749	\$ 9,797,749	\$ -
REVENUES				
Bond proceeds	3,420,000	3,258,000	5,932,150	2,674,150
Interest income	-	-	1,703	1,703
Government grants and contracts	68,230	-	-	-
Sales and services	55,000	55,000	59,802	4,802
Other sources	4,000	4,000	6,378	2,378
	<u>3,547,230</u>	<u>3,317,000</u>	<u>6,000,033</u>	<u>2,683,033</u>
Total revenues	<u>3,547,230</u>	<u>3,317,000</u>	<u>6,000,033</u>	<u>2,683,033</u>
Total unrestricted revenues	<u>13,850,853</u>	<u>13,114,749</u>	<u>15,797,782</u>	<u>2,683,033</u>
EXPENDITURES				
Instruction and general:				
Public service	988,659	802,970	751,560	51,410
Capital outlay	3,888,500	4,252,587	6,691,866	(2,439,279)
Renewals and replacements	-	-	-	-
	<u>4,877,159</u>	<u>5,055,557</u>	<u>7,443,426</u>	<u>(2,387,869)</u>
Total instruction and general expenditures	<u>4,877,159</u>	<u>5,055,557</u>	<u>7,443,426</u>	<u>(2,387,869)</u>
TRANSFERS				
Transfers in	1,066,097	2,566,097	2,566,097	-
Transfers out	-	-	-	-
	<u>1,066,097</u>	<u>2,566,097</u>	<u>2,566,097</u>	<u>-</u>
Total transfers	<u>1,066,097</u>	<u>2,566,097</u>	<u>2,566,097</u>	<u>-</u>
Changes in net assets (budgetary basis)	<u>(263,832)</u>	<u>827,540</u>	<u>1,122,704</u>	<u>295,164</u>
Ending fund balance	<u>\$ 10,039,791</u>	<u>\$ 10,625,289</u>	<u>\$ 10,920,453</u>	<u>\$ 295,164</u>
Changes in net assets (budgetary basis)			\$ 1,122,704	
Capital outlay - construction in progress			6,031,361	
Capital outlay - equipment, vehicles, etc.			184,610	
Depreciation			<u>(1,268,493)</u>	
Changes in net assets - GAAP basis			<u>\$ 6,070,182</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, 2012

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
Beginning fund balance	\$ 3,953,303	\$ 4,322,566	\$ 4,345,679	\$ 23,113
REVENUES				
State appropriations	3,385,300	3,385,300	3,385,300	-
Endowments and land permanent funds	11,432,577	11,347,583	11,635,496	287,913
Other sources	271,320	308,481	294,081	(14,400)
Total revenues	15,089,197	15,041,364	15,314,877	273,513
Total unrestricted revenues	19,042,500	19,363,930	19,660,556	296,626
EXPENDITURES				
Instruction and general:				
Academic support	3,795,293	3,845,293	3,479,678	365,615
Instruction	3,322,641	3,222,641	2,876,361	346,280
Institutional support	2,240,330	2,240,330	2,230,919	9,411
Operation and maintenance of plant	2,175,923	2,375,923	2,367,258	8,665
Student services	2,488,913	2,588,913	2,531,016	57,897
Total instruction and general expenditures	14,023,100	14,273,100	13,485,232	787,868
TRANSFERS				
Transfers in	-	-	-	-
Transfers out	(1,066,097)	(2,566,097)	(2,566,097)	-
Total transfers	(1,066,097)	(2,566,097)	(2,566,097)	-
Changes in net assets (budgetary basis)	-	(1,797,833)	(736,452)	1,061,381
Ending fund balance	\$ 3,953,303	\$ 2,524,733	\$ 3,609,227	\$ 1,084,494

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, 2012

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
Beginning fund balance	\$ 86,968	\$ -	\$ 66,092	\$ 66,092
REVENUES				
Federal revenue sources	195,187	310,180	394,744	84,564
Joint powers agreements	200,000	226,526	253,113	26,587
Total revenues	<u>395,187</u>	<u>536,706</u>	<u>647,857</u>	<u>111,151</u>
Total restricted revenues	<u>482,155</u>	<u>536,706</u>	<u>713,949</u>	<u>177,243</u>
EXPENDITURES				
Instruction and general:				
Instruction	395,187	389,517	536,221	(146,704)
Public service	-	147,189	111,636	35,553
Total instruction and general expenditures	<u>395,187</u>	<u>536,706</u>	<u>647,857</u>	<u>(111,151)</u>
TRANSFERS				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Changes in net assets (budgetary basis)	-	-	-	-
Changes in endowment net assets	-	-	9,300	9,300
Ending fund balance	<u>\$ 86,968</u>	<u>\$ -</u>	<u>\$ 75,392</u>	<u>\$ 75,392</u>

State of New Mexico
New Mexico School for the Deaf

SCHEDULE OF CASH AND INVESTMENTS

June 30, 2012

	US Bank	First National Bank of Santa Fe	State Treasurer's Office	Total
CASH				
Operational checking	\$ 1,977	\$ 4,535,271	\$ -	\$ 4,537,248
Less outstanding checks	-	(1,380,724)	-	(1,380,724)
Plus petty cash	-	2,920	-	2,920
Total cash	\$ 1,977	\$ 3,157,467	\$ -	\$ 3,159,444
INVESTMENTS				
Certificate of deposits	\$ -	\$ 330,171	\$ -	\$ 330,171
Local gov. inv. pool	-	-	6,016,960	6,016,960
Total investments	\$ -	\$ 330,171	\$ 6,016,960	\$ 6,347,131

State of New Mexico
New Mexico School for the Deaf

SCHEDULE OF PLEDGED COLLATERAL REQUIREMENTS

June 30, 2012

	US Bank	First National Bank of Santa Fe	Total
Total bank balance - demand deposits	\$ 1,977	\$ 4,535,271	\$ 4,537,248
Less FDIC coverage	(1,977)	(250,000)	(251,977)
Uninsured balance of demand deposits	-	4,285,271	4,285,271
Total bank balance - time and savings deposits	-	332,606	332,606
Less FDIC coverage	-	-	-
Uninsured balance of time and savings deposits	-	332,606	332,606
Total uninsured bank balance	-	4,617,877	4,617,877
Collateralization requirement (50%)	-	2,308,939	2,308,939
Pledged securities:			
FHLMC CUSIP# 3134G3JU5 (par value which approximates market value)	-	2,000,000	2,000,000
FNMA CUSIP# 3135G0HQ9 (par value which approximates market value)	-	1,000,000	1,000,000
Amount over (under) collateralized	\$ -	\$ 691,061	\$ 691,061

State of New Mexico
New Mexico School for the Deaf

SCHEDULE OF BONDS

June 30, 2012

<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>
92	2008	2014	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>\$ 8,525,000</u>	<u>\$ 8,525,000</u>	<u>\$ -</u>

* Monies were never drawn (received) since they were never spent. Amounts are not properly 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>
\$ 2,600,000	\$ 27,000	\$ 228,551	\$ 1,550,164	\$ 1,778,715	\$ 794,285	\$ -
425,000	-	236,328	-	236,328	188,672	188,672
3,000,000	30,000	755,001	2,211,843	2,966,844	3,156	3,156
2,500,000	-	326,311	2,170,143	2,496,454	3,546	-
<u>\$ 8,525,000</u>	<u>\$ 57,000</u>	<u>\$ 1,546,191</u>	<u>\$ 5,932,150</u>	<u>\$ 7,478,341</u>	<u>\$ 989,659</u>	<u>\$ 191,828</u>

State of New Mexico
New Mexico School for the Deaf

SCHEDULE OF APPROPRIATIONS

June 30, 2012

<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 179 Sec 4, Laws 2011	2012	\$ 3,385,300	\$ -	\$ 3,385,300	\$ -	\$ -	\$ -
	Total appropriations		<u>\$ 3,385,300</u>	<u>\$ -</u>	<u>\$ 3,385,300</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

State of New Mexico
New Mexico School for the Deaf

SCHEDULE OF JOINT POWERS AGREEMENTS

June 30, 2012

- 1) Participant: Albuquerque Public Schools (APS)
Party responsible for operations: NMSFD
Purpose: Educational services
Dates of Agreement: 7/1/11-6/30/12
Total estimated amount of project: Dependent upon number of students
Amount agency contributed in the fiscal year: \$66,360
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: 7/1/11-6/30/12
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

- 3) Participant: Rio Rancho Public Schools (RRPS)
Party responsible for operations: NMSFD
Purpose: Educational services
Dates of Agreement: 7/1/11-6/30/12
Total estimated amount of project: Dependent upon number of students
Amount agency contributed in the fiscal year: \$22,500
Audit responsibility: NMSFD
Fiscal agent: NMSFD
Agency where revenues/expenditures are reported: RRPS & NMSFD

- 4) Participant: Santa Fe Public Schools (SFPS)
Party responsible for operations: NMSFD
Purpose: Educational services
Dates of Agreement: 7/1/11-6/30/12
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

State of New Mexico
New Mexico School for the Deaf

SCHEDULE OF JOINT POWERS AGREEMENTS – CONTINUED

June 30, 2012

- 5) Participant: Las Vegas Public Schools (LVPS)
 Party responsible for operations: NMSFD
 Purpose: Educational services
 Dates of Agreement: 7/1/11-6/30/12
 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: LVPS & NMSFD

- 6) Participant: Central Consolidated Public Schools (CCPS)
 Party responsible for operations: NMSFD
 Purpose: Educational services
 Dates of Agreement: 7/1/11-6/30/12
 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: CCPS & NMSFD

- 7) Participant: Espanola Municipal Schools (EMS)
 Party responsible for operations: NMSFD
 Purpose: Educational services
 Dates of Agreement: 7/1/11-6/30/12
 Total estimated amount of project: Dependent upon number of students
 Amount agency contributed in the fiscal year: \$33,753
 Audit responsibility: NMSFD
 Fiscal agent: NMSFD
 Agency where revenues/expenditures are reported: EMS & NMSFD

- 8) Participant: Aztec Municipal Schools (AMS)
 Party responsible for operations: NMSFD
 Purpose: Educational services
 Dates of Agreement: 7/1/11-6/30/12
 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

State of New Mexico
New Mexico School for the Deaf

SCHEDULE OF JOINT POWERS AGREEMENTS – CONTINUED

June 30, 2012

- 9) Participant: Gadsden Independent Public Schools (GIPS)
Party responsible for operations: NMSFD
Purpose: Educational services
Dates of Agreement: 7/1/11-6/30/12
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: GIPS & 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, 2012, as listed in the table of contents and have issued our report thereon dated November 6, 2012. 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, 2012, 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*, 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.

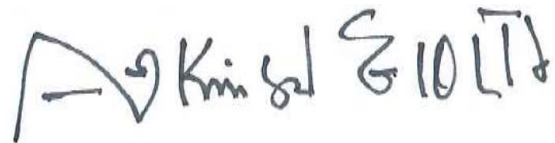
Compliance and Other Matters

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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 12-01.

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 10-01 and 12-02.

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 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 black ink, appearing to read "Atkinson & Co., Ltd.", with a stylized logo to the left consisting of a large 'A' and a checkmark-like shape.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
November 6, 2012

State of New Mexico
New Mexico School for the Deaf

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2012 and 2011

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

- 10-01 Budget violations – modified and repeated
- 12-01 Procurement violations (noncompliance)
- 12-02 Payroll violations

PRIOR YEAR FINDINGS

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

State of New Mexico
New Mexico School for the Deaf

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2012 and 2011

CURRENT YEAR FINDINGS

FINDINGS IN ACCORDANCE WITH 2.2.2. NMAC

10-01 – BUDGET VIOLATIONS

Statement of Condition:

The level of budgetary control is at the functional category level. The School exceeded budgeted items as follows:

Restricted funds

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
EXPENDITURES				
Instruction and general:				
Instruction	\$ 395,187	\$ 389,517	\$ 536,221	\$ (146,704)
Public service	-	147,189	111,636	35,553
Total instruction and general expenditures	\$ 395,187	\$ 536,706	\$ 647,857	\$ (111,151)

Capital outlay

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
EXPENDITURES				
Instruction and general:				
Public service	\$ 988,659	\$ 802,970	\$ 751,560	\$ 51,410
Capital outlay	3,888,500	4,252,587	6,691,866	(2,439,279)
Renewals and replacements	-	-	-	-
Total instruction and general expenditures	\$ 4,877,159	\$ 5,055,557	\$ 7,443,426	\$ (2,387,869)

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 did submit a Budget Adjustment Request (BAR) to increase the projected expenditures for restricted accounts; however, the actual increase was not expected to cause final expenditures to exceed the BAR amount. The School did not budget for capital outlay expenditures that were paid through the Public School Facility Authority (PSFA) as there was no cash flowing from the school for these expenditures.

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2012 and 2011

CURRENT YEAR FINDINGS – CONTINUED

FINDINGS IN ACCORDANCE WITH 2.2.2. NMAC – CONTINUED

10-01 – BUDGET VIOLATIONS – CONTINUED

Effect:

The School over expended their approved budget by approximately \$2,585,983.

Recommendation:

We recommend that management establish procedures that will establish approved legal budget for restricted funds at expected contract amounts. We also recommend that management establish procedures to estimate the amount of capital outlay expenditures even if the cash does not flow through the School. We also recommend that management increase their communication with PSFA throughout the year in order to obtain current expenditure amounts for the purpose of submitting a BAR, if needed.

Management's Response:

Restricted Funds

Under Schedule 4 of this CPA financial audit report, the Final Budget showed revenues totaling \$536,706 and expenditures also totaling the same amount. However, the school actually received \$647,757 from federal revenue sources and joint powers agreements. The exact amount was used for instruction and public services. The federal revenue sources came from IDEA-B, Medicare, and AmeriCorps. Finance had trouble obtaining updated information from the Public Schools Department and Medicare and was not able to update its information on a timelier manner. While the auditor mentioned that NMSD over exceeded the budget on the expenditure part, NMSD also under budgeted the revenue part. NMSD Finance personnel will need to meet with both departments to see how NMSD can obtain financial information more promptly.

Capital Outlay

This has to do with PSFA where their accounting department is totally responsible for paying all invoices directly to the vendors involved with construction and do not transact reimbursements. Under GAAP, revenues are recognized when they were earned. NMSD did not receive any revenues or pay any invoices to enable Finance to record any transactions in its accounting system. That is why revenues were under-budgeted by \$2,647,150 and expenditures were also under budgeted by \$2,439,279. NMSD Finance will have to do further research to determine how to handle this type of transactions where the School has no control.

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2012 and 2011

CURRENT YEAR FINDINGS – CONTINUED

FINDINGS IN ACCORDANCE WITH 2.2.2. NMAC – CONTINUED

12-01 – PROCUREMENT VIOLATIONS (SIGNIFICANT DEFICIENCY)

Statement of Condition:

There were 2 out of 26 instances where the School did not perform a competitive bid process for purchases of tangible real property greater than \$20,000. Out of the 2 instances, the School did obtain three bids as required by statute, but did not utilize competitive sealed bids.

Criteria:

Competitive sealed bids are required under 13-1-102 NMSA 1978 unless the purchase meets other criteria. One of the criteria is small purchases under 13-1-125 NMSA 1978.

Cause:

The School had a misunderstanding of the procurement coded by artificially dividing purchases to constitute a small purchase which is a violation under 13-1-125 (D) NMSA 1978.

Effect:

The School may have been able to obtain a better price through a competitive bid process.

Recommendation:

We recommend that management establish procedures that will require a competitive bid process for any one purchase order of construction or items of tangible personal property that is \$20,000 or greater.

Management's Response:

NMSD Finance will email the NMSD community reminding staff about following procurement policies both under NMSD policy and NM state policy. Finance will also monitor transactions to ensure that purchases are not divided to constitute small purchases.

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2012 and 2011

CURRENT YEAR FINDINGS – CONTINUED

FINDINGS IN ACCORDANCE WITH 2.2.2. NMAC – CONTINUED

12-02 – PAYROLL VIOLATIONS

Statement of Condition:

The following conditions were noted:

- The School failed to withhold and contribute the employer's portion of New Mexico Retiree Health Care Authority contributions for 1 out of 25 employees tested.
- The School failed to obtain approval of timesheets for 1 out of 25 employees tested.
- The School does not have a policy as what constitutes complete sign-offs of timesheets for approval.

Criteria:

Under 22-11-25.1 (G), a retired member who returns to employment and the local administrative unit that employs the retired member shall make contributions to the retiree health care fund in the amount specified in subsections A and B of Section 10-7C-15 NMSA 1978. According to 1.7.1.12 NMAC, New Mexico State agencies are required to maintain records of each employee's employment history in accordance with applicable state and federal requirements.

Cause:

The School was unaware of the changes in the law for return to work retirees. The unapproved timesheets was due to the employee's supervisor being on leave at the time the timesheets were required to be turned in. Additionally, there is difficulty in receiving approved timesheets at times.

Effect:

The School did not withhold and contribute to New Mexico Retiree Health Care Authority for fiscal year 2012 covered payroll. Also, employee employment records were not complete and in full compliance with state requirements.

Recommendation:

We recommend that management establish procedures that will be made aware of recent law changes. We also recommend that management establish procedures that will identify return to work retirees in the payroll system in order to ensure that amounts are being withheld from employee's checks and so that the School will be able to make the required employer contributions. We also recommend the School establish procedures that will require approved timesheets before payroll is processed and that all timesheets contain documented approval.

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2012 and 2011

CURRENT YEAR FINDINGS – CONTINUED

FINDINGS IN ACCORDANCE WITH 2.2.2. NMAC – CONTINUED

12-02 – PAYROLL VIOLATIONS – CONTINUED

Management's Response:

The Payroll/Benefits Coordinator will review established procedures for receiving approved timesheets in a timely manner before payroll is processed. Additional procedures will be developed as necessary.

The current Payroll/Benefits Coordinator maintains a file of recent law changes that effect payroll and benefits, including, but not limited to FLSA, U.S. Department of Labor, IRS, and State of New Mexico legislative changes that affect PERA, ERB, and RHCA contributions.

For the one NMSD employee/retiree who returned to work prior to the change in law requiring contributions be made to the New Mexico Retiree Health Care Authority, the Payroll/Benefits Coordinator will calculate the amount of contributions that should have been paid and arrange with the RHCA to make the required contributions.

State of New Mexico
New Mexico School for the Deaf

EXIT CONFERENCE

For the year ended June 30, 2012

An exit conference was held at the New Mexico School for the Deaf campus on November 6, 2012, with the following individuals in attendance:

New Mexico School for the Deaf

Ms. Lynann Barbero

Mr. Mark Apodaca

Ms. Angela Lucero

Dr. Ronald Stern

Board President

Director of Business and Finance

Accounting Supervisor

Superintendent

Atkinson & Co., Ltd.

Martin Mathisen, CPA, CGFM

David Thomas, 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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