



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

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

June 30, 2014 and 2013

atkinson

PRECISE. PERSONAL. PROACTIVE.

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State of New Mexico
New Mexico School for the Deaf

BOARD OF REGENTS

June 30, 2014

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Mr. Roddy Cabbage	Director of Student Life
Ms. Cynthia Huff	Director of Educational Consultation and Training
Mr. Ron Ortiz Dinkel	Director of Human Resources



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

Report on Financial Statements

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, 2014 and 2013, and the related notes to the financial statements as listed in the table of contents. We also have audited the budgetary comparison statements, schedules 1, 2, 3, and 4 presented as supplementary information in the accompanying financial statements as of and for the year ended June 30, 2014, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

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, 2014 and 2013 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, 2014 in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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, 2014 and 2013, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 18 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.

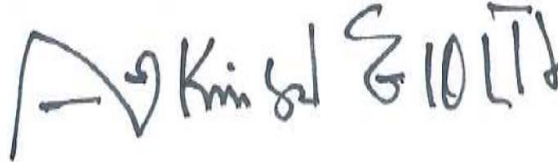
Other Supplemental Information

Our audit was conducted for the purpose of forming opinions on the financial statement schedules and the budgetary comparisons presented as supplementary information. 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2014 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* in considering the School's internal control over financial reporting and compliance.

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

Atkinson & Co., Ltd.

Albuquerque, New Mexico
November 14, 2014

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

June 30, 2014

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 Position and Statements of Revenues, Expenses and Changes in Net Position indicate the School's net position and how they have changed. The School's financial position is measured by its net position – the difference between assets and liabilities and the effects of deferred inflows and outflows, if any. Over time, the School's net position increases and decreases 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.

FINANCIAL HIGHLIGHTS

USING THE BASIC FINANCIAL STATEMENTS

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

Statements of Net Position

This statement presents NMSD's assets, liabilities, and net position for two fiscal years. On the assets side, for FY2014, total assets increased by 6.2% or \$3,137,109 over FY2013. Current assets, which include cash, cash equivalents, short-term investments, accounts receivable, bond proceeds receivable and inventories, increased by 6% or \$464,115 while noncurrent assets, which includes restricted cash and cash equivalents and capital assets (buildings, equipment, and property) increased by 6.2% or \$2,672,994 from the previous fiscal year.

For liabilities, total liabilities increased by 66.5% or \$380,372. This was mostly due to current liabilities (accounts payable, accrued compensated absences, and payroll taxes) increasing by 84.3% or \$357,773 from FY2013. Noncurrent liabilities, which includes accrued compensated absences and deposits from students, increased by only \$22,599 or 15.3% from FY2013.

Net position, the third part of the Statement of Net Position, 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, 2014, net position increased by 5.5% or \$2,756,738 from FY2013 mostly due to an increase in net investment in capital assets which increased by 12.2% or \$4,620,332 from FY2013.

State of New Mexico
New Mexico School for the Deaf

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

June 30, 2014

FINANCIAL HIGHLIGHTS – CONTINUED

Statements of Net Position – Continued

ASSETS

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current assets	\$ 8,201,179	\$ 7,737,064	\$ 9,089,964
Non-current assets	<u>45,647,795</u>	<u>42,974,800</u>	<u>40,590,318</u>
Total assets	<u>\$ 53,848,974</u>	<u>\$ 50,711,864</u>	<u>\$ 49,680,282</u>

LIABILITIES

Current liabilities	\$ 782,232	\$ 424,459	\$ 597,439
Non-current liabilities	<u>170,341</u>	<u>147,742</u>	<u>145,615</u>
Total liabilities	<u>\$ 952,573</u>	<u>\$ 572,201</u>	<u>\$ 743,054</u>

NET POSITION

Net investment in capital assets	\$ 42,395,462	\$ 37,775,130	\$ 37,780,723
Restricted	3,331,110	5,286,247	2,902,044
Unrestricted	<u>7,169,829</u>	<u>7,078,286</u>	<u>8,254,461</u>
Total net position	<u>52,896,401</u>	<u>50,139,663</u>	<u>48,937,228</u>
Total liabilities and net position	<u>\$ 53,848,974</u>	<u>\$ 50,711,864</u>	<u>\$ 49,680,282</u>

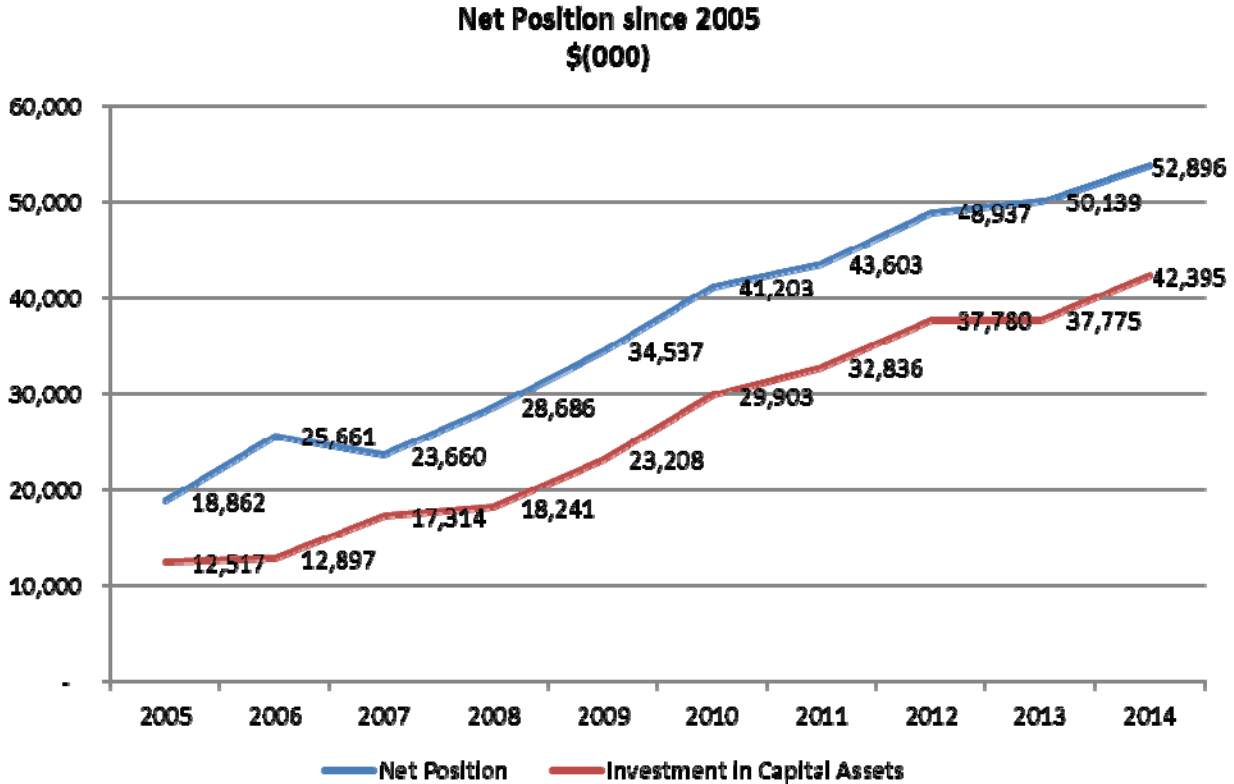
NMSD's net position has grown over the years due to the School's investment in capital assets. As stated in the chart on the next page, on June 30, 2005, total net position and investment in capital assets were \$18,862,831 and \$12,517,124, respectively. Since the end of that fiscal year (FY2005), the School's total net position and investment in capital assets had grown to \$52,896,401 and \$42,395,462, respectively. NMSD continues to have a strong total assets and total net position base.

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

June 30, 2014

FINANCIAL HIGHLIGHTS – CONTINUED

Statements of Net Position – Continued



Statements of Revenues, Expenses, and Changes in Net Position

This statement covers 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 as non-operating revenues such as land and permanent fund, state appropriations, investment income and gain on disposal of capital assets are reported after the operating expense. 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 position will increase. If there is a loss, then net position will decrease.

State of New Mexico
New Mexico School for the Deaf

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

June 30, 2014

FINANCIAL HIGHLIGHTS – CONTINUED

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

Operating Revenues

Operating revenues for FY2014 was \$976,892, up 11.6% from FY2013. While revenues from federal grants was more in FY2014 than FY2013, Joint Power Agreements and other operating revenues were 7.2% and 6.5% less, respectively. Other operating revenues include income from rentals, cafeteria, auditorium, interpreter week, sign language classes, and other miscellaneous income.

Federal grants and contracts cover funds from AmeriCorps, IDEA-B, and Medicaid. As for JPA, NMSD received 7.2% less in funds from public schools in FY2014 than in FY2013. Most of the funds came from the Albuquerque Public Schools (\$97,520) and Santa Fe Public Schools (\$67,500) followed by seven other public schools districts.

	2014	2013	Variance	Percent
OPERATING REVENUES				
Federal grants and contracts	\$ 615,782	\$ 487,527	\$ 128,255	26.3%
Joint power agreements	222,596	239,943	(17,347)	-7.2%
Other operating revenues	138,514	148,177	(9,663)	-6.5%
Total operating revenues	976,892	875,647	101,245	11.6%
 OPERATING EXPENSES				
Instruction	3,808,797	3,031,646	777,151	25.6%
Academic support	3,588,058	3,387,296	200,762	5.9%
Operation and maintenance of plant	3,028,118	2,781,308	246,810	8.9%
Student services	2,765,352	2,536,028	229,324	9.0%
Institutional support	2,254,928	2,265,426	(10,498)	-0.5%
Outside contracts and grants	1,564,119	1,491,044	73,075	4.9%
Depreciation	1,441,216	1,463,333	(22,117)	-1.5%
Total operating expenses	18,450,588	16,956,081	1,494,507	8.8%
Net operating loss	(17,473,696)	(16,080,434)	(1,393,262)	8.7%

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

June 30, 2014

FINANCIAL HIGHLIGHTS – CONTINUED

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

	<u>2014</u>	<u>2013</u>	<u>Variance</u>	<u>Percent</u>
NON-OPERATING REVENUES (EXPENSES)				
Land and permanent fund income	11,041,337	11,377,700	(336,363)	-3.0%
State appropriations	4,112,000	3,767,800	344,200	9.1%
Gain on disposal of capital assets	21,650	17,271	4,379	25.4%
Investment income	<u>(4,556)</u>	<u>738,229</u>	<u>(742,785)</u>	-100.6%
 Total non-operating revenues	 <u>15,170,431</u>	 <u>15,901,000</u>	 <u>(730,569)</u>	 -4.6%
 Change in net position before capital items	 (2,303,265)	 (179,434)	 (2,123,831)	 1183.6%
CAPITAL ITEMS				
Bond proceeds appropriations	<u>5,060,003</u>	<u>1,381,869</u>	<u>3,678,134</u>	266.2%
 Changes in net position	 <u>\$ 2,756,738</u>	 <u>\$ 1,202,435</u>	 <u>\$ 1,554,303</u>	 129.3%
NET POSITION				
Beginning of year	<u>\$ 50,139,663</u>	<u>\$ 48,937,228</u>	<u>\$ 1,202,435</u>	2.5%
 Ending net position	 <u>\$ 52,896,401</u>	 <u>\$ 50,139,663</u>	 <u>\$ 2,756,738</u>	 5.5%

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 FY2014, the School's operating expenses were \$18,450,588 and about 8.8% more than FY2013. Instruction and General covers academic support, instruction, student services, institutional support and operation and maintenance of plant. During FY2014, \$10,162,207 covered costs associated to students (instruction, academic support, and student support) which were 13.5% more than FY2013. However, of the total Instruction and General costs for FY2014, 55% covered instruction, academic support and student support. The rest (45%) covered institutional support and operation and maintenance of plant.

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

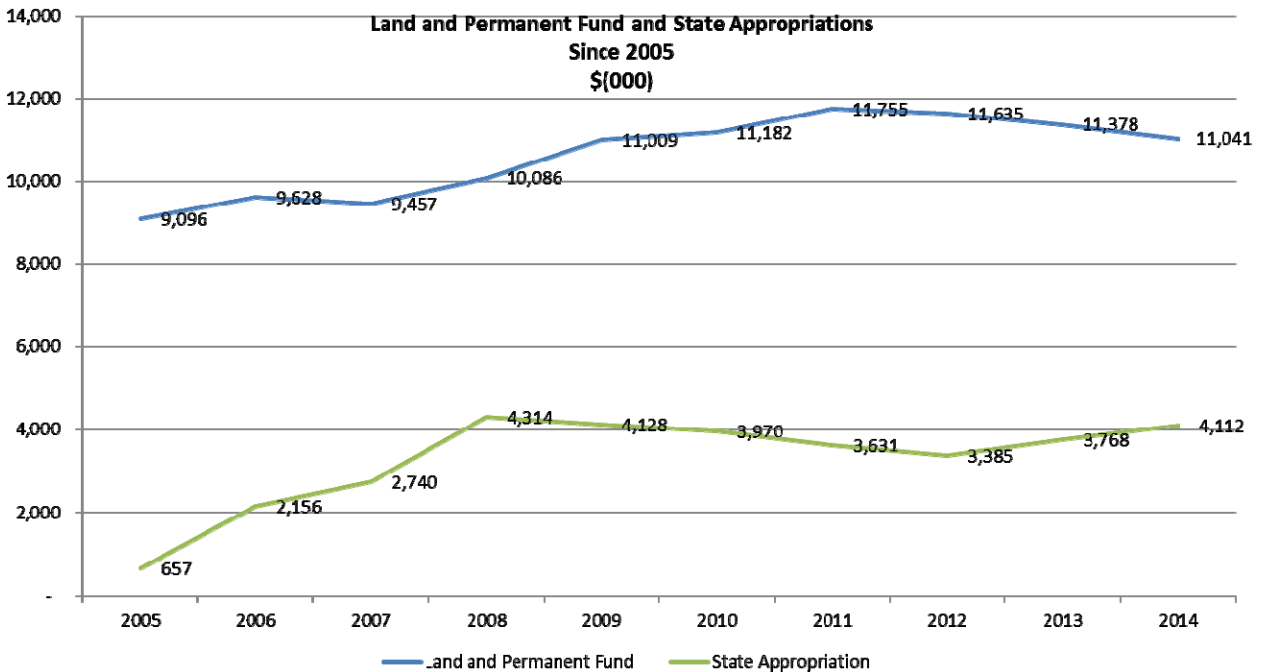
June 30, 2014

FINANCIAL HIGHLIGHTS – CONTINUED

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

Non-operating Revenues

Revenues from land and permanent fund and state appropriations cover nearly 90% of NMSD's total revenues (operating and non-operating). During FY2014, NMSD received \$11,041,337 from the state's Land and Permanent funds and \$4,112,000 from state appropriation. Revenues from land and permanent fund were 3% lower than FY2013 while appropriations for FY2014 were higher than FY2013 by 9.1%. Below is a historical chart of the School's revenue from the land and permanent fund and state appropriation since June 30, 2005.



Interest income was earned from the School's 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, 2014 for NMSD's CD and LGIP accounts was \$335,912 and \$6,032,674, respectively.

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

June 30, 2014

FINANCIAL HIGHLIGHTS – CONTINUED

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

Capital Items

During FY2014, NMSD was involved with a major capital project having to do with the completion of renovation of Dillon Hall basement, annex, infrastructure in front of Delgado, Dining, and the completion of building a new library. The Dillon Hall basement will house Transportation, Health Center, Educational Consultation and Training, and Early Intervention and Involvement Departments. The total expenditures for the year, based on the annual audit were \$4,534,653. The funding sources were a severance tax bond from the state and from the Public Schools Facility Authority (PSFA).

For the year ended June 30, 2014, net position increased by \$2,756,738 or 5.5% from June 30, 2013. This brought the School's net position to \$52,896,401 for the end of the fiscal year.

Statements of Cash Flows

NMSD ended FY2014 with a cash and restricted cash equivalent balance of \$3,586,711. The cash flow statements are reported 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:

	2014	2013	Net Increase (Decrease)	Percent
CASH FLOWS FROM OPERATING ACTIVITIES				
Grants and contracts received	\$ 840,323	\$ 724,189	\$ 116,134	16.0%
Payments to suppliers	(2,923,181)	(3,942,775)	1,019,594	-25.9%
Payments to employees and for employee benefits	(13,709,385)	(11,711,104)	(1,998,281)	17.1%
Other revenues	17,061	164,217	(147,156)	-89.6%
Net cash used in operating activities	<u>\$ (15,775,182)</u>	<u>\$ (14,765,473)</u>	<u>\$ (1,009,709)</u>	6.8%

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New Mexico School for the Deaf

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

June 30, 2014

FINANCIAL HIGHLIGHTS – CONTINUED

Statements of Cash Flows – Continued

During FY2014, cash received from operating activities totaled \$857,384 which was 3.5% less compared to FY2013. Cash utilized during the same period was \$16,632,566 which was 6.3% more than in FY2013. 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 \$15,775,182 which was 6.8% more than in FY2013.

The next category covers non-capital financing activities. This basically covers state appropriations and the land and permanent funds. Cash inflow decreased in FY2014 by \$36,150 or .2% than FY2013. State appropriations increased by 9.1% while land and permanent fund was about 3.3% less.

	2014	2013	Net Increase (Decrease)	Percent
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State appropriations	\$ 4,112,000	\$ 3,767,800	\$ 344,200	9.1%
Land and permanent fund income	11,054,851	11,435,201	(380,350)	-3.3%
Net cash provided by noncapital financing activities	<u>\$ 15,166,851</u>	<u>\$ 15,203,001</u>	<u>\$ (36,150)</u>	-0.2%

Cash flows from capital related financing activities cover capital outlays which includes capital projects, vehicles, and technology. During FY2014, cash inflows were \$191,555. Most of the inflows were from bond proceeds. The outflows for FY2014 stood at \$1,531,453. Net cash decreased by \$1,339,896 for the fiscal year.

	2014	2013	Net Increase (Decrease)	Percent
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Bond and award proceeds	\$ 191,555	\$ 1,521,828	\$ (1,330,273)	-87.4%
Purchases, construction, and/or renovation of capital assets	(1,531,451)	(414,225)	(1,117,226)	269.7%
Proceeds on sale of capital assets	-	812,897	(812,897)	-100.0%
Net cash (used in) provided by financing activities	<u>\$ (1,339,896)</u>	<u>\$ 1,920,500</u>	<u>\$ (3,260,396)</u>	-169.8%

The last category covers cash flows from investing activities. During FY2014, cash inflows were \$9,564 from interest from LGIP and CDs, up by 21% from FY2013.

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

June 30, 2014

FINANCIAL HIGHLIGHTS – CONTINUED

Statements of Cash Flows – Continued

	2014	2013	Net Increase (Decrease)	Percent
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on investments	\$ 21,650	\$ 17,271	\$ 4,379	25.4%
Purchase of investments	(12,086)	(9,369)	(2,717)	29.0%
Net cash provided by investing activities	<u>\$ 9,564</u>	<u>\$ 7,902</u>	<u>\$ 1,662</u>	21.0%

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 fiscal year 2014.

BUDGET COMPARISONS

Within this CPA financial audit report, four 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 FY2014. 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). The capital outlays included construction of the library, Dillon Hall basement, and infrastructure in front of Delgado Hall, Cartwright Hall, and Dining Hall. Capital outlays also included technology and vehicle purchases. Most of the funding for construction came from PSFA.

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New Mexico School for the Deaf

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

June 30, 2014

BUDGET COMPARISONS – CONTINUED

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

	Final Budget	Actual	Over/(Under) Budget	Percent
Beginning fund balance	\$ 11,952,032	\$ 11,797,748		
REVENUES				
Bond proceeds	7,000,000	5,060,003	\$ (1,939,997)	-28%
Interest income	-	825	825	-
Government grants and contracts	-	-	-	-
Sales and services	20,250	76,215	55,965	276%
Other sources	-	6,526	6,526	-
Total revenues	7,020,250	5,143,569	(1,876,681)	-27%
EXPENDITURES				
Instruction and general:				
Public service	949,365	899,996	49,369	-5%
Capital outlay	7,880,000	6,620,033	1,259,967	-16%
Total instruction and general expenditures	8,829,365	7,520,029	1,309,336	-15%
TRANSFERS				
Transfers in	700,000	700,000	-	0%
Transfers out	-	-	-	0%
Total transfers	700,000	700,000	-	-
Ending fund balance	<u>\$ 10,842,917</u>	<u>\$ 10,121,288</u>	<u>\$ (567,345)</u>	-7%

During FY2014, \$700,000 was transferred from Unrestricted Instruction and General to cover Educational Consultation Training salaries, benefits, and expenses. The total expenditures for ECT were \$899,996 and the difference was covered by the division's fund balance.

State of New Mexico
New Mexico School for the Deaf

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

June 30, 2014

BUDGET COMPARISONS – CONTINUED

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 \$15,558,719 but actuals were only \$15,306,515. The budget for land and permanent fund was \$11,418,619 but actuals stood at \$11,041,337 which was unfavorable at \$377,282 or (3)%. However, actuals from state appropriates exceed the budget by 2% or \$95,400. Actuals from other sources ended at \$153,178 which was \$29,678 or 24% more than what was budgeted for. On the expenditure side, the final budget was \$14,858,719 and actuals were only \$7,201 over the total budget.

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

	Final Budget	Actual	Over/(Under) Budget	Percent
Beginning fund balance	\$ 3,698,038	\$ 3,633,485		
REVENUES				
State appropriations	4,016,600	4,112,000	\$ 95,400	2%
Endowments and land permanent funds	11,418,619	11,041,337	(377,282)	-3%
Other sources	123,500	153,178	29,678	24%
Total revenues	15,558,719	15,306,515	(252,204)	-2%
EXPENDITURES				
Instruction and general:				
Academic support	3,580,600	3,588,058	(7,458)	0%
Instruction	3,842,163	3,800,997	41,166	-1%
Institutional support	2,257,765	2,254,928	2,837	0%
Operation and maintenance of plant	2,485,360	2,474,189	11,171	0%
Student services	2,692,831	2,747,748	(54,917)	2%
Total instruction and general expenditures	14,858,719	14,865,920	(7,201)	0%
TRANSFERS				
Transfers in	-	-	-	0%
Transfers out	(700,000)	(700,000)	-	0%
Total transfers	(700,000)	(700,000)	-	0%
Ending fund balance	\$ 3,698,038	\$ 3,374,080	\$ (259,405)	-9%

State of New Mexico
New Mexico School for the Deaf

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

June 30, 2014

BUDGET COMPARISONS – CONTINUED

Under the transfers section, \$700,000 was transferred to Capital Outlays and Public Service (Educational Consultant Training). This brought the ending fund balance to \$3,374,080, a 7.1% 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 \$534,646 which was over the budget by \$158,326. Revenues from Joint Partnership Agreements with public schools earned the school \$222,595 which was more than the final budget by \$16,510. Total actual revenues were over the final budget by \$174,836.

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

	Final Budget	Actual	Over/(Under) Budget	Percent
Beginning fund balance	\$ 4,967	\$ 69,520		
REVENUES				
Federal revenue sources	376,320	534,646	\$ 158,326	42%
Joint powers agreements	206,086	222,596	16,510	8%
Total revenues	582,406	757,242	174,836	30%
EXPENDITURES				
Instruction and general:				
Instruction	488,887	593,508	(104,621)	21%
Public service	98,486	96,019	2,467	-3%
Total instruction and general expenditures	587,373	689,527	(102,154)	17%
TRANSFERS				
Transfers in	-	-	-	0%
Transfers out	-	-	-	0%
Total transfers	-	-	-	0%
Changes net position	(4,967)	67,715	72,682	-1463%
Ending fund balance	\$ -	\$ 137,235	\$ 137,235	0%

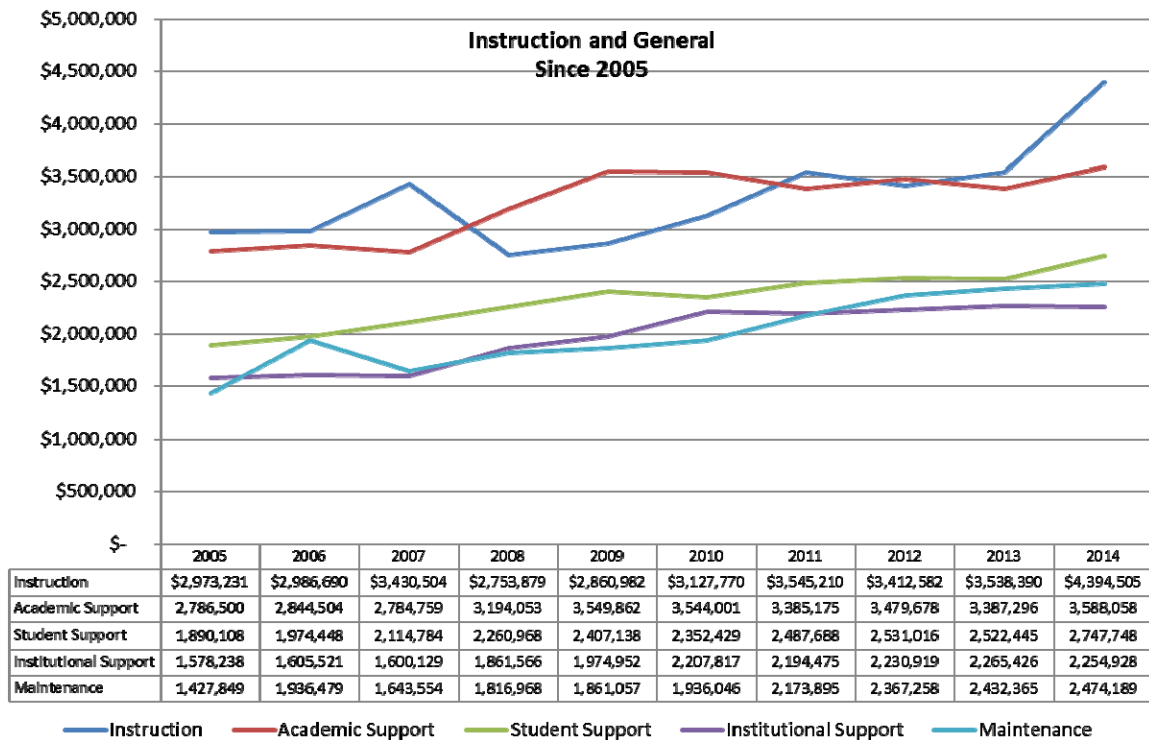
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED
REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2014

BUDGET COMPARISONS – CONTINUED

All the revenues received during FY2014 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.

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, 2014, the School's capital assets stood at \$60,420,247 and accumulated depreciation was \$18,024,786. Net capital assets were \$42,395,462 which was a \$4,620,332 or 12.2% increase from FY2013.

State of New Mexico
New Mexico School for the Deaf

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

June 30, 2014

CAPITAL ASSETS – CONTINUED

	2014	2013	Net Increase (Decrease)	Percent
Buildings	\$ 30,797,810	\$ 31,991,824	\$ (1,194,014)	-3.7%
Construction in progress	9,140,731	3,290,504	5,850,227	177.8%
Vehicles	319,391	328,725	(9,334)	-2.8%
Land and improvements	1,623,400	1,623,400	-	-
Infrastructure	81,524	86,619	(5,095)	-5.9%
Equipment and furniture	222,038	240,137	(18,099)	-7.5%
Artwork	209,550	209,550	-	-
Computer equipment	1,018	4,371	(3,353)	-76.7%
	<u>\$ 42,395,462</u>	<u>\$ 37,775,130</u>	<u>\$ 4,620,332</u>	12.2%
Total capital assets, net				

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. The School was fortunate to maintain its level of revenues from the land and permanent fund and other sources. However, it may be possible that NMSD will face further revenue reductions from appropriations during FY2015. The NMSD's business office will continue to monitor the economic activity on an ongoing basis.

CONTACT INFORMATION

If you have questions about this report or need additional financial information, contact:

New Mexico School for the Deaf
1060 Cerrillos Road
Santa Fe, New Mexico 87505

State of New Mexico
New Mexico School for the Deaf

STATEMENTS OF NET POSITION

June 30,

ASSETS

	2014	2013
CURRENT ASSETS		
Cash and cash equivalents	\$ 334,378	\$ 325,704
Certificates of deposit and short-term investments with LGIP	6,368,586	6,356,500
Accounts receivable, net of allowance for uncollectible amounts of \$11,074 for 2014 and 2013	1,079,557	971,618
Bond proceeds receivable - due from DFA - Board of Finance (85300)	368,164	34,369
Inventories	50,494	48,873
Total current assets	8,201,179	7,737,064
NONCURRENT ASSETS		
Restricted cash and cash equivalents	3,252,333	5,199,670
Capital assets, net	42,395,462	37,775,130
Total noncurrent assets	45,647,795	42,974,800
Total assets	\$ 53,848,974	\$ 50,711,864

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

LIABILITIES AND NET POSITION

	2014	2013
CURRENT LIABILITIES		
Accounts payable	\$ 464,544	\$ 109,220
Program advances	68,953	67,008
Accrued compensated absences - current portion	174,892	178,458
Payroll taxes and fringe benefits - accrued and withheld	73,843	69,773
Total current liabilities	782,232	424,459
NONCURRENT LIABILITIES		
Accrued compensated absences, less current portion	41,468	32,535
Deposits from students	128,873	115,207
Total noncurrent liabilities	170,341	147,742
Total liabilities	952,573	572,201
NET POSITION		
Net investment in capital assets	42,395,462	37,775,130
Restricted - expendable for:		
Other programs	3,252,333	5,199,670
Scholarships	56,753	64,553
Special events	22,024	22,024
Unrestricted	7,169,829	7,078,286
Total net position	52,896,401	50,139,663
Total liabilities and net position	\$ 53,848,974	\$ 50,711,864

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 POSITION

Years ended June 30,

	2014	2013
OPERATING REVENUES		
Federal grants and contracts	\$ 615,782	\$ 487,527
Joint power agreements	222,596	239,943
Other operating revenues	138,514	148,177
	976,892	875,647
OPERATING EXPENSES		
Instruction	3,808,797	3,031,646
Academic support	3,588,058	3,387,296
Operation and maintenance of plant	3,028,118	2,781,308
Student services	2,765,352	2,536,028
Institutional support	2,254,928	2,265,426
Outside contracts and grants	1,564,119	1,491,044
Depreciation	1,441,216	1,463,333
	18,450,588	16,956,081
Net operating loss	(17,473,696)	(16,080,434)
NON-OPERATING REVENUES (EXPENSES)		
Land and permanent fund income	11,041,337	11,377,700
State appropriations	4,112,000	3,767,800
Investment income	21,650	17,271
(Loss) gain on disposal of capital assets	(4,556)	738,229
	15,170,431	15,901,000
Change in net position before capital items	(2,303,265)	(179,434)
CAPITAL ITEMS		
Bond proceeds appropriations	525,350	263,686
Awards proceeds PSFA	4,534,653	1,118,183
	2,756,738	1,202,435
NET POSITION		
Beginning of year	50,139,663	48,937,228
Ending net position	\$ 52,896,401	\$ 50,139,663

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,

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Grants and contracts received	\$ 840,323	\$ 724,189
Payments to suppliers	(2,923,181)	(3,942,775)
Payments to employees and for employee benefits	(13,709,385)	(11,711,104)
Other revenues	17,061	164,217
	(15,775,182)	(14,765,473)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	4,112,000	3,767,800
Land and permanent fund income	11,054,851	11,435,201
	15,166,851	15,203,001
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Bond and award proceeds	191,555	1,521,828
Purchases, construction, and/or renovation of capital assets	(1,531,451)	(414,225)
Proceeds on sale of capital assets	-	812,897
	(1,339,896)	1,920,500
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	21,650	17,271
Purchase of investments	(12,086)	(9,369)
	9,564	7,902
NET (DECREASE) INCREASE IN CASH AND RESTRICTED CASH AND CASH EQUIVALENTS	(1,938,663)	2,365,930
Cash and restricted cash and cash equivalents - beginning of year	5,525,374	3,159,444
Cash and restricted cash and cash equivalents - end of year	\$ 3,586,711	\$ 5,525,374

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**

	2014	2013
Operating loss	\$ (17,473,696)	\$ (16,080,434)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	1,441,216	1,463,333
Changes in assets and liabilities:		
Operating accounts receivable	(121,453)	16,040
Inventory	(1,621)	6,441
Accounts payable	355,324	(191,331)
Accrued liabilities and compensated absences and deposits	23,103	23,759
Program advances	1,945	(3,281)
	<u>\$ (15,775,182)</u>	<u>\$ (14,765,473)</u>

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

	2014	2013
Capital assets acquired through payments made by Public Schools Facility Administration	<u>\$ 4,534,653</u>	<u>\$ 1,118,183</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

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) 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. Deferred inflows and deferred outflows of resources are now included in the elements that make up a statement of financial position and GASB Statement No. 63 introduces the term "net position" for reporting the residual of all elements in a statement of financial position. See Note B18 for more information on the implementation of GASB 63 and GASB 65. For the years ended June 30, 2014 and 2013, there were no deferred inflows or deferred outflows to report.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014 and 2013

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 School also received Medicaid Part C fees recorded under federal grants and contracts.

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 financial statement presentation required by GASB provides a comprehensive, entity-wide perspective of the School’s assets, liabilities, deferred inflows and deferred outflows as applicable, net position, revenues, expenses, changes in net position, 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.

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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014 and 2013

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

6. Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair 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 Position

The School's net positions 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 2014 and 2013.

Restricted net position – expendable: Restricted expendable net position 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 position restricted by enabling legislation and the amount of restricted net position from State sources are both \$0 at June 30, 2014 and 2013.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014 and 2013

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

8. Net Position – Continued

Restricted net position – nonexpendable: Nonexpendable restricted net position 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 is no nonexpendable restricted net position at June 30, 2014 and 2013.

Unrestricted net position: Unrestricted net position 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.

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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014 and 2013

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

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 restricted expenditures for certain functional instruction categories for 2014. The School did submit a budget adjustment request to increase projected expenditures for restricted accounts, however the actual increase was not expected to cause final expenditures to exceed budget. The budget overages should not be reoccurring. The applicable functional categories will be closely monitored in the coming year.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014 and 2013

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 \$4,112,000 for fiscal year 2014, Laws 2013, Chapter 227, Section 4. The appropriation was fully spent during the year. There is no remaining balance to bring forward to fiscal year 2015. The 2013 appropriation of \$3,767,800 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. 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.

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 14, 2014, 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, 2014. Management believes no material subsequent events have arisen that would require adjustment or disclosure.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014 and 2013

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

18. New Accounting Standards

GASB 63

Governmental Accounting Standards Board Statement No. 63 (GASB 63) introduces the term “net position” for reporting the residual of all elements in a statement of financial position. Deferred inflows and deferred outflows of resources are now included in the elements that make up a statement of financial position. The School implemented this standard for the year ended June 30, 2013.

GASB 65

Governmental Accounting Standards Board Statement No. 65 “Items Previously Reported as Assets and Liabilities” (GASB 65) changes the classification of various financial statement balances including several more common type transactions to deferred outflows and inflows of resources. GASB 65 is applicable for years beginning after December 15, 2012. The School implemented this standard during fiscal year 2014. There were no deferred inflows or deferred outflows to report for the year ended June 30, 2014.

GASB 68

Governmental Accounting Standards Board Statement No. 68 “Accounting and Financial Reporting for Pensions” (GASB 68) revises existing guidance for governments that provide their employees with pension benefits. A principal change is the requirement to record a government’s pro rata share of unfunded actuarial accrued liability (UAAL) on its financial statements for multiemployer cost sharing plan. NMSD is a participating member of the Education Retirement Board (ERB) and the Public Employees Retirement Association (PERA), multiemployer cost sharing plans. Information to implement this standard will be developed by ERB and PERA and the State of New Mexico. The implementation date for GASB 68 is for fiscal year 2015. The current status of the unfunded liability for ERB and PERA is 6.28 and 4.62 Billion, respectively, based on the most recently issued audited financials statement at June 30, 2013. Legislation was passed in 2013 changing ERB’s and PERA’s plan benefits design and contribution requirements to fully fund UAAL within 30 years. The financial statements for the School for the year ending June 30, 2015 will contain a material liability for pension participations.

EXPOSURE DRAFT No. 34-1NTP

The Governmental Accounting Standards Board has proposed a statement entitled “Accounting and Financial Reporting for Pensions and Financial Reporting for Pension Plans That Are Not Administered through Trusts That Meet Specified Criteria, and Amendments to Certain Provisions of GASB Statements 67 and 68.” The comment period ended August 29, 2014 and public hearings were held during September 2014. This proposed statement would amend the requirements of GASB 68. This proposed statement would be effective for fiscal years beginning after June 15, 2015. Earlier application would be encouraged.

State of New Mexico
New Mexico School for the Deaf

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014 and 2013

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, 2014, (book balances) were \$3,586,711 and bank balances were \$4,955,735 of which \$3,362,275 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, 2014, bank deposits not insured or collateralized were \$1,593,459. See also Schedules 5 and 6.

Depository Account	Bank Balance
Insured	\$ 250,000
Collateralized	
Collateral held by pledging bank's trust department in the School's name - par value	3,112,275
Uninsured and uncollateralized	-
Total deposits	\$ 3,362,275

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, 2014, \$1,593,459 of the School's bank balance of \$4,955,735 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 1,593,459
Total	\$ 1,593,459

The remaining balance of \$6,032,677 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*.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014 and 2013

NOTE C – CASH AND INVESTMENTS – CONTINUED

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, 2014

New MexiGROW LGIP AAAM rated \$6,032,677 [48.6] day WAM(R) and [116.2] day WAM(F)

Uncertainty

At June 30, 2014 and 2013, 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. Due to pending legal matters for the reserve contingency fund, these funds may not be received by the School.

State of New Mexico
New Mexico School for the Deaf

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014 and 2013

NOTE D – 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, 2014 and 2013 were as follows:

Asset Description	2014				Balance at 6/30/2014
	Balance at 6/30/2013	Current Year Additions	Current Year Deletions	Reclass	
Non-depreciable					
Construction in progress	\$ 3,290,504	\$ 5,927,369	\$ -	\$ (77,142)	\$ 9,140,731
Land and improvements	1,623,400	-	-	-	1,623,400
Artworks	209,550	-	-	-	209,550
Depreciable					
Buildings	46,837,466	-	-	77,142	46,914,608
Equipment and furniture	1,173,099	30,046	250,890	-	952,255
Computers	560,159	-	334,683	-	225,476
Automotive equipment	1,143,351	108,689	25,197	-	1,226,843
Infrastructure	127,382	-	-	-	127,382
Capital assets	54,964,911	6,066,104	610,770	-	60,420,245
Accumulated depreciation					
Buildings	14,845,642	1,271,156	-	-	16,116,798
Equipment and furniture	932,962	43,589	246,334	-	730,217
Computers	555,788	3,353	334,683	-	224,458
Automotive equipment	814,626	118,023	25,197	-	907,452
Infrastructure	40,763	5,095	-	-	45,858
Total accumulated depreciation	17,189,781	1,441,216	606,214	-	18,024,783
Total net capital assets	\$ 37,775,130	\$ 4,624,888	\$ 4,556	\$ -	\$ 42,395,462

State of New Mexico
New Mexico School for the Deaf

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014 and 2013

NOTE D – CAPITAL ASSETS – CONTINUED

Asset Description	2013				Balance at 6/30/2013
	Balance at 6/30/2012	Current Year Additions	Current Year Deletions	Reclass	
Non-depreciable					
Construction in progress	\$ 3,125,812	\$ 1,381,869	\$ -	\$ (1,217,177)	\$ 3,290,504
Land and improvements	1,698,068	-	74,668	-	1,623,400
Artworks	209,550	-	-	-	209,550
Depreciable					
Buildings	45,578,569	41,720	-	1,217,177	46,837,466
Equipment and furniture	1,158,190	19,428	4,519	-	1,173,099
Computers	608,511	-	48,352	-	560,159
Automotive equipment	1,053,960	89,391	-	-	1,143,351
Infrastructure	127,382	-	-	-	127,382
Capital assets	53,560,042	1,532,408	127,539	-	54,964,911
Accumulated depreciation					
Buildings	13,613,401	1,232,241	-	-	14,845,642
Equipment and furniture	877,416	60,065	4,519	-	932,962
Computers	600,268	3,872	48,352	-	555,788
Automotive equipment	652,567	162,059	-	-	814,626
Infrastructure	35,667	5,096	-	-	40,763
Total accumulated depreciation	15,779,319	1,463,333	52,871	-	17,189,781
Total net capital assets	\$ 37,780,723	\$ 69,075	\$ 74,668	\$ -	\$ 37,775,130

Depreciation expense is \$1,441,216 and \$1,463,333 for the years ending June 30, 2014 and 2013, respectively.

State of New Mexico
New Mexico School for the Deaf

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014 and 2013

NOTE E – ACCOUNTS RECEIVABLE

Accounts receivable consists of the following at June 30, 2014 and 2013:

	2014	2013
Land and permanent fund	\$ 885,222	\$ 898,736
Federal funding sources	195,545	73,571
Other receivables	9,865	10,386
Total receivables	1,090,632	982,693
Allowance for doubtful accounts	(11,075)	(11,075)
Net receivables	\$ 1,079,557	\$ 971,618

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

NOTE F – LONG-TERM LIABILITIES

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

	2013	Increase	Decrease	2014
Accrued sick leave	\$ 58,663	\$ 23,487	\$ 16,508	\$ 65,642
Accrued annual leave payable	152,330	140,762	142,374	150,718
Total accrued compensated absences	\$ 210,993	\$ 164,249	\$ 158,882	\$ 216,360

Amounts due within one year for the year ended June 30, 2014 is \$174,892. 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-

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014 and 2013

NOTE G – RETIREMENT AND BENEFIT PROGRAMS – CONTINUED

1. Educational Retirement Act – Continued

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:

Member Contributions

Plan members whose annual salary is \$20,000 or less are required by statute to contribute 7.9% of their gross salary. Plan members whose annual salary is more than \$20,000 were required to contribute 10.10% of their gross salary in fiscal year 2014; 10.7% of their gross salary in fiscal year 2015 and thereafter.

Employer Contributions

The School contributed 13.15% of the gross covered salary in fiscal year 2014. In fiscal year 2015, the School will contribute 13.9% of the gross covered salary.

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, 2014, 2013, and 2012 were \$553,037, \$406,151, and \$333,655, 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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014 and 2013

NOTE G – RETIREMENT AND BENEFIT PROGRAMS – CONTINUED

2. PERA Retirement Plan – Continued

Funding policy: Plan members are required to contribute 8.92% of their gross salary. The School is required to contribute 16.59% 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, 2014, 2013, and 2012 were \$767,834, \$676,608, and \$591,454, respectively, which equal the amount of the required contributions for each fiscal year.

3. IRC 125 – Cafeteria Plan

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

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

The School is the plan administrator.

4. Tax Sheltered Annuity

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

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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014 and 2013

NOTE G – RETIREMENT AND BENEFIT PROGRAMS – CONTINUED

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

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.

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 employer, employee, and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that choose to become participating employers after January 1, 1998, are required to make contributions to the RHCA fund in the amount determined to be appropriate by the board.

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, 2014, the statute requires each participating employer to contribute 2.0% of each participating employee's annual salary and each participating employee is required to contribute 1.0% of their salary.

The School's contributions to the RHCA for the year ended June 30, 2014, 2013, and 2012 were \$176,670, \$162,499, and \$145,963, respectively, which equal the required contributions for each year.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014 and 2013

NOTE H – COMMITMENTS

Construction Commitments and Financing

During 2013, the School has entered into a contract with Bradbury Stamm for the School's Dillon Hall phase 2 (Project C10-001B) and the Health Center (Project 13-017) projects. These projects will be completed during fiscal year 2015. These projects are funded by general obligation and/or severance tax bonds and administered through the Public Schools Facility Authority (PSFA). The amount of the projects are approximately \$5,521,000.

NOTE I – RISK MANAGEMENT ACTIVITIES

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.

NOTE J – CONTINGENCY

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 K – JOINT POWERS AGREEMENTS

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

The following is a list of participating school districts:

Albuquerque Public Schools
Las Cruces Public Schools
Rio Rancho Public Schools
Santa Fe Public Schools
Española Municipal Schools
Farmington Public Schools
Moriarty Public Schools
Taos Public Schools
Los Lunas Public Schools

State of New Mexico
New Mexico School for the Deaf

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014 and 2013

NOTE K – JOINT POWERS AGREEMENTS – CONTINUED

The School has entered into a school district master joint powers agreement with the Public School Facility Authority (PSFA) whereby both parties will work together in completing capital outlay projects. The Public School Capital Outlay Act, Chapter 22, Article 24 NMSA 1978 is to ensure that the physical condition of public school facilities in New Mexico meets an adequate level to promote safe, functional and durable learning environments for student success. The PSFA is created pursuant to 22-24-9 NMSA 1978 and is empowered to work with school districts to validate requests for grants assistance, oversee contracts and provide oversight and management of planning construction and maintenance of school facilities.

NOTE L – BOND ACCOUNTING

Board of Finance

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 fund is submitted and approved by the Board of Finance. See Schedule 7.

Public Schools Finance Authority (PSFA)

The 2014 legislature appropriated \$7,038,365 under HB 55 Section 46 for New Mexico School for the Deaf Cartwright Hall project. The project is administered by the PSFA. The appropriation is from the unexpended proceeds of severance tax bonds issued for other projects. Other open projects from prior years funding administered by the PSFA, includes campus wide deficiency corrections, Dillon Hall phase 2, NMSD Santa Fe, NMSD Pre-School, and NMSD Health Services Center. PSFA participates in the proposal and procurement process and pays approved invoices directly to the vendor. The New Mexico School for the Deaf records capital projects income based on approved amounts as reported on the PSFA website. The amount recorded as awards proceeds is \$4,534,653 and \$1,118,183 for 2014 and 2013, respectively.

NOTE M – INTERAGENCY TRANSFERS

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

	<u>2014</u>	<u>2013</u>
General Fund Appropriations	\$ <u>4,112,000</u>	\$ <u>3,385,350</u>
Bond Proceed Appropriations – Approved draws, Laws of 2008, Chapter 92 as detailed in Schedule 7	\$ <u>525,350</u>	\$ <u>67,141</u>

SUPPLEMENTARY INFORMATION

State of New Mexico
New Mexico School for the Deaf

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

For the year ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
Beginning fund balance	\$ 12,456,523	\$ 15,655,037	\$ 15,500,753	\$ (154,284)
REVENUES				
State general fund appropriations	4,016,600	4,016,600	4,112,000	95,400
Land and permanent funds	11,418,619	11,418,619	11,041,337	(377,282)
Federal revenue sources	342,000	376,320	534,646	158,326
Joint powers agreements	206,086	206,086	222,596	16,510
Bond proceeds	7,100,000	7,000,000	5,060,003	(1,939,997)
Other sources	171,500	143,750	236,744	92,994
Total revenues	23,254,805	23,161,375	21,207,326	(1,954,049)
Revenues per GAAP basis			<u>21,207,326</u>	
EXPENDITURES				
Instruction and general:				
Instruction	4,104,813	4,331,050	4,394,505	(63,455)
Academic support	3,624,819	3,580,600	3,588,058	(7,458)
Institutional support	2,359,991	2,257,765	2,254,928	2,837
Operation and maintenance of plant	2,517,722	2,485,360	2,474,189	11,171
Student services	2,460,671	2,692,831	2,747,748	(54,917)
Public service	879,450	1,047,851	996,015	51,836
Capital outlay	7,420,000	7,880,000	6,620,033	1,259,967
Total instruction and general expenditures	23,367,466	24,275,457	23,075,476	1,199,981
TRANSFERS				
Transfers in	986,789	700,000	700,000	-
Transfers out	(986,789)	(700,000)	(700,000)	-
Total transfers	-	-	-	-
Changes in net position	(112,661)	(1,114,082)	(1,868,150)	(754,068)
Ending fund balance	<u>\$ 12,343,862</u>	<u>\$ 14,540,955</u>	<u>\$ 13,632,603</u>	<u>\$ (908,352)</u>
Changes in net position (budgetary basis)			\$ (1,868,150)	
Capital outlay - construction in progress			5,927,369	
Capital outlay - equipment, vehicles, etc.			138,735	
Depreciation			<u>(1,441,216)</u>	
Change in net position - GAAP basis			<u>\$ 2,756,738</u>	

The beginning fund balance – actual was adjusted so that it agrees to the beginning of the year net position total less amount invested in capital assets (\$50,711,864 - \$37,775,130). This agrees the beginning total to the financial statements for non-capital assets.

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, 2014

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
Beginning fund balance	\$ 8,507,081	\$ 11,952,032	\$ 11,797,748	\$ (154,284)
REVENUES				
Bond proceeds	7,100,000	7,000,000	5,060,003	(1,939,997)
Interest income	-	-	825	825
Government grants and contracts	-	-	-	-
Sales and services	-	20,250	76,215	55,965
Other sources	-	-	6,526	6,526
	7,100,000	7,020,250	5,143,569	(1,876,681)
EXPENDITURES				
Instruction and general:				
Public service	879,450	949,365	899,996	49,369
Capital outlay	7,420,000	7,880,000	6,620,033	1,259,967
	8,299,450	8,829,365	7,520,029	1,309,336
TRANSFERS				
Transfers in	986,789	700,000	700,000	-
Transfers out	-	-	-	-
	986,789	700,000	700,000	-
Changes in net position (budgetary basis)	(212,661)	(1,109,115)	(1,676,460)	(567,345)
Ending fund balance	\$ 8,294,420	\$ 10,842,917	\$ 10,121,288	\$ (721,629)
Changes in net position (budgetary basis)			\$ (1,676,460)	
Capital outlay - construction in progress			5,927,369	
Capital outlay - equipment, vehicles, etc.			138,735	
Depreciation			(1,441,216)	
Changes in net position - GAAP basis			\$ 2,948,428	

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

For the year ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
Beginning fund balance	\$ 3,944,475	\$ 3,698,038	\$ 3,633,485	\$ (64,553)
REVENUES				
State appropriations	4,016,600	4,016,600	4,112,000	95,400
Endowments and land permanent funds	11,418,619	11,418,619	11,041,337	(377,282)
Other sources	171,500	123,500	153,178	29,678
Total revenues	<u>15,606,719</u>	<u>15,558,719</u>	<u>15,306,515</u>	<u>(252,204)</u>
EXPENDITURES				
Instruction and general:				
Academic support	3,624,819	3,580,600	3,588,058	(7,458)
Instruction	3,656,727	3,842,163	3,800,997	41,166
Institutional support	2,359,991	2,257,765	2,254,928	2,837
Operation and maintenance of plant	2,517,722	2,485,360	2,474,189	11,171
Student services	2,460,671	2,692,831	2,747,748	(54,917)
Total instruction and general expenditures	<u>14,619,930</u>	<u>14,858,719</u>	<u>14,865,920</u>	<u>(7,201)</u>
TRANSFERS				
Transfers in	-	-	-	-
Transfers out	(986,789)	(700,000)	(700,000)	-
Total transfers	<u>(986,789)</u>	<u>(700,000)</u>	<u>(700,000)</u>	<u>-</u>
Changes in net position (budgetary basis)	<u>-</u>	<u>-</u>	<u>(259,405)</u>	<u>(259,405)</u>
Ending fund balance	<u>\$ 3,944,475</u>	<u>\$ 3,698,038</u>	<u>\$ 3,374,080</u>	<u>\$ (323,958)</u>

State of New Mexico
New Mexico School for the Deaf

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

For the year ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
Beginning fund balance	\$ 4,967	\$ 4,967	\$ 69,520	\$ 64,553
REVENUES				
Federal revenue sources	342,000	376,320	534,646	158,326
Joint powers agreements	206,086	206,086	222,596	16,510
Total revenues	<u>548,086</u>	<u>582,406</u>	<u>757,242</u>	<u>174,836</u>
EXPENDITURES				
Instruction and general:				
Instruction	448,086	488,887	593,508	(104,621)
Public service	100,000	98,486	96,019	2,467
Total instruction and general expenditures	<u>548,086</u>	<u>587,373</u>	<u>689,527</u>	<u>(102,154)</u>
TRANSFERS				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Changes in net position (budgetary basis)	<u>-</u>	<u>(4,967)</u>	<u>67,715</u>	<u>72,682</u>
Ending fund balance	<u>\$ 4,967</u>	<u>\$ -</u>	<u>\$ 137,235</u>	<u>\$ 137,235</u>

State of New Mexico
New Mexico School for the Deaf

SCHEDULE OF CASH AND INVESTMENTS

June 30, 2014

	<u>First National Bank of Santa Fe</u>	<u>State Treasurer's Office</u>	<u>Total</u>
CASH			
Operational checking	\$ 4,619,826	\$ -	\$ 4,619,826
Less outstanding checks	(1,036,065)	-	(1,036,065)
Plus petty cash	2,950	-	2,950
	<u> </u>	<u> </u>	<u> </u>
Total cash	<u>\$ 3,586,711</u>	<u>\$ -</u>	<u>\$ 3,586,711</u>
INVESTMENTS			
Certificate of deposits	\$ 335,909	\$ -	\$ 335,909
Local government investment pool	-	6,032,677	6,032,677
	<u> </u>	<u> </u>	<u> </u>
Total investments	<u>\$ 335,909</u>	<u>\$ 6,032,677</u>	<u>\$ 6,368,586</u>

State of New Mexico
New Mexico School for the Deaf

SCHEDULE OF PLEDGED COLLATERAL REQUIREMENTS

June 30, 2014

	<u>First National Bank of Santa Fe</u>
Total bank balance - demand deposits	\$ 4,619,826
Less FDIC coverage	(250,000)
	<hr/>
Uninsured balance of demand deposits	4,369,826
Total bank balance - time and savings deposits	335,908
Less FDIC coverage	-
	<hr/>
Uninsured balance of time and savings deposits	335,908
	<hr/>
Total uninsured bank balance	4,705,734
	<hr/>
Collateralization requirement (50%)	2,352,867
Pledged securities:	
FHLMC ARM-Pool #847380 CUSIP# 3128JRFV3 (par value which approximates market value)	2,554,527
Tomball Tex Independent School District CUSIP# 889855VA7 (par value which approximates market value)	557,748
	<hr/>
Amount over collateralized	<u>\$ 759,408</u>

State of New Mexico
New Mexico School for the Deaf

SCHEDULE OF BONDS

June 30, 2014

<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	\$ -
				<u>\$ 2,600,000</u>	<u>\$ 2,600,000</u>	<u>\$ -</u>

<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>
<u>\$ 2,600,000</u>	<u>\$ 27,000</u>	<u>\$ 2,047,650</u>	<u>\$ 525,350</u>	<u>\$ 2,573,000</u>	<u>\$ -</u>	<u>\$ -</u>
<u><u>\$ 2,600,000</u></u>	<u><u>\$ 27,000</u></u>	<u><u>\$ 2,047,650</u></u>	<u><u>\$ 525,350</u></u>	<u><u>\$ 2,573,000</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

State of New Mexico
New Mexico School for the Deaf

SCHEDULE OF APPROPRIATIONS

June 30, 2014

<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	Laws 2013 House Bill 2 Chapter 227 Section 4	2014	<u>\$ 4,112,000</u>	<u>\$ -</u>	<u>\$ 4,112,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
	Total appropriations		<u>\$ 4,112,000</u>	<u>\$ -</u>	<u>\$ 4,112,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

State of New Mexico
New Mexico School for the Deaf

SCHEDULE OF JOINT POWERS AGREEMENTS

June 30, 2014

- 1) Participant: Albuquerque Public Schools (APS)
Party responsible for operations: NMSD
Purpose: Educational services
Dates of Agreement: 7/1/13-6/30/14
Total estimated amount of project: Dependent upon number of students
Amount agency contributed in the fiscal year: \$97,520
Audit responsibility: NMSD
Fiscal agent: NMSD
Agency where revenues/expenditures are reported: APS & NMSD
- 2) Participant: Las Cruces Public Schools (LCPS)
Party responsible for operations: NMSD
Purpose: Educational services
Dates of Agreement: 7/1/13-6/30/14
Total estimated amount of project: Dependent upon number of students
Amount agency contributed in the fiscal year: \$10,500
Audit responsibility: NMSD
Fiscal agent: NMSD
Agency where revenues/expenditures are reported: LCPS & NMSD
- 3) Participant: Rio Rancho Public Schools (RRPS)
Party responsible for operations: NMSD
Purpose: Educational services
Dates of Agreement: 7/1/13-6/30/14
Total estimated amount of project: Dependent upon number of students
Amount agency contributed in the fiscal year: \$7,500
Audit responsibility: NMSD
Fiscal agent: NMSD
Agency where revenues/expenditures are reported: RRPS & NMSD
- 4) Participant: Santa Fe Public Schools (SFPS)
Party responsible for operations: NMSD
Purpose: Educational services
Dates of Agreement: 7/1/13-6/30/14
Total estimated amount of project: Dependent upon number of students
Amount agency contributed in the fiscal year: \$67,500
Audit responsibility: NMSD
Fiscal agent: NMSD
Agency where revenues/expenditures are reported: SFPS & NMSD

State of New Mexico
New Mexico School for the Deaf

SCHEDULE OF JOINT POWERS AGREEMENTS – CONTINUED

June 30, 2014

- 5) Participant: Espanola Municipal Schools (EMS)
Party responsible for operations: NMSD
Purpose: Educational services
Dates of Agreement: 7/1/13-6/30/14
Total estimated amount of project: Dependent upon number of students
Amount agency contributed in the fiscal year: \$18,326
Audit responsibility: NMSD
Fiscal agent: NMSD
Agency where revenues/expenditures are reported: EMS & NMSD
- 6) Participant: Farmington Public Schools (FPS)
Party responsible for operations: NMSD
Purpose: Educational services
Dates of Agreement: 7/1/13-6/30/14
Total estimated amount of project: Dependent upon number of students
Amount agency contributed in the fiscal year: \$3,500
Audit responsibility: NMSD
Fiscal agent: NMSD
Agency where revenues/expenditures are reported: FPS & NMSD
- 7) Participant: Moriarty Public Schools (MPS)
Party responsible for operations: NMSD
Purpose: Educational services
Dates of Agreement: 7/1/13-6/30/14
Total estimated amount of project: Dependent upon number of students
Amount agency contributed in the fiscal year: \$6,500
Audit responsibility: NMSD
Fiscal agent: NMSD
Agency where revenues/expenditures are reported: MPS & NMSD
- 8) Participant: Taos Public Schools (TPS)
Party responsible for operations: NMSD
Purpose: Educational services
Dates of Agreement: 7/1/13-6/30/14
Total estimated amount of project: Dependent upon number of students
Amount agency contributed in the fiscal year: \$3,750
Audit responsibility: NMSD
Fiscal agent: NMSD
Agency where revenues/expenditures are reported: TPS & NMSD

State of New Mexico
New Mexico School for the Deaf

SCHEDULE OF JOINT POWERS AGREEMENTS – CONTINUED

June 30, 2014

- 9) Participant: Los Lunas Public Schools (LLPS)
Party responsible for operations: NMSD
Purpose: Educational services
Dates of Agreement: 7/1/13-6/30/14
Total estimated amount of project: Dependent upon number of students
Amount agency contributed in the fiscal year: \$7,500
Audit responsibility: NMSD
Fiscal agent: NMSD
Agency where revenues/expenditures are reported: LLPS & NMSD



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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, in accordance with the 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, 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, 2014, and the related notes to the financial statements as listed in the table of contents and have issued our report thereon dated November 14, 2014. 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, 2014, as listed in the table of contents.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weakness. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

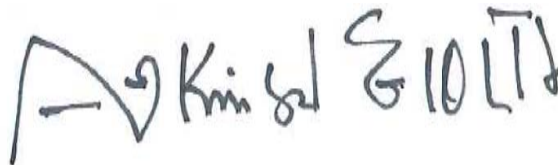
As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 items 10-01.

The School's Responses to Findings

The School's responses to the finding identified in our audit are described in the accompanying schedule of findings and responses. The School's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of the audit performed in accordance with *Government Auditing Standards* in considering the Schools internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Atkinson & Co., Ltd.

Albuquerque, New Mexico
November 14, 2014

State of New Mexico
New Mexico School for the Deaf

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2014 and 2013

FINANCIAL STATEMENTS

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness identified? No

Significant deficiencies identified not considered to be material weaknesses? No

Noncompliance material to financial statements: No

FINANCIAL STATEMENT FINDINGS

FINDINGS IN ACCORDANCE WITH 2.2.2. NMAC – OTHER

10-01 Budget Violations – modified and repeated

PRIOR YEAR FINDINGS

10-01 Budget Violations – Other – Modified and Repeated

13-01 Accounting System Access Rights - Resolved

13-02 Payroll Approvals - Resolved

13-03 Capital Asset Disposals – Other – Resolved

State of New Mexico
New Mexico School for the Deaf

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2014 and 2013

CURRENT YEAR FINDINGS

FINDINGS IN ACCORDANCE WITH 2.2.2. NMAC – OTHER

10-01 BUDGET VIOLATIONS – OTHER – MODIFIED AND REPEATED

CONDITION

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

Restricted Funds – Instructional and General

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
EXPENDITURES				
Instruction and general:				
Instruction	\$ 448,086	\$ 488,887	\$ 593,508	\$ (104,621)
Public service	100,000	98,486	96,019	2,467
Total instruction and general expenditures	\$ 548,086	\$ 587,373	\$ 689,527	\$ (102,154)

Unrestricted Funds – Instructional and General

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
EXPENDITURES				
Instruction and general:				
Academic support	\$ 3,624,819	\$ 3,580,600	\$ 3,588,058	\$ (7,458)
Instruction	3,656,727	3,842,163	3,800,997	41,166
Institutional support	2,359,991	2,257,765	2,254,928	2,837
Operation and maintenance of plant	2,517,722	2,485,360	2,474,189	11,171
Student services	2,460,671	2,692,831	2,747,748	(54,917)
Total instruction and general expenditures	\$ 14,619,930	\$ 14,858,719	\$ 14,865,920	\$ (7,201)

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.

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2014 and 2013

CURRENT YEAR FINDINGS – CONTINUED

FINDINGS IN ACCORDANCE WITH 2.2.2. NMAC – OTHER – CONTINUED

10-01 BUDGET VIOLATIONS – OTHER – MODIFIED AND REPEATED – CONTINUED

EFFECT

The School over expended their approved budget by approximately \$166,996 for those specific budgeted items; however, the overall budget was not over expended.

RECOMMENDATION

We recommend that management establish procedures that will establish approved legal budget for restricted and unrestricted funds at expected amounts.

MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

The budget overruns were due to paying supplemental retirement to one 15-year employee who retired near year-end and overtime for transportation employees resulting from not being able to sufficiently hire qualified drivers for the entire year. The applicable functional categories will be closely monitored in the coming year.

State of New Mexico
New Mexico School for the Deaf

EXIT CONFERENCE

For the year ended June 30, 2014

An exit conference was held at the New Mexico School for the Deaf campus on November 12, 2014, 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

Lisa Harrison

Audit Director

Audit Manager

Audit Staff

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

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