

STATE OF NEW MEXICO
COMMISSION FOR DEAF AND HARD OF HEARING PERSONS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2010
(With Auditors' Report Thereon)



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INTRODUCTORY SECTION

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**STATE OF NEW MEXICO
COMMISSION FOR DEAF AND HARD OF HEARING**

OFFICIAL ROSTER
JUNE 30, 2010

<u>Name</u>	<u>Commission</u>	<u>Title</u>
Mark Apodaca		Chairperson
Raul Rodriguez		Vice Chair
David Romine		Secretary
Christine Buchholz		Member
Judy LeJeune		Member
Kimberly Silva		Member
Ronald Stern		Member
<u>Administrative Officials</u>		
Barbara J. Wood		Executive Director

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**STATE OF NEW MEXICO
COMMISSION FOR DEAF AND HARD OF HEARING**

FOR THE YEAR ENDED JUNE 30, 2010
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FINANCIAL SECTION

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Griego Professional Services, LLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

State of New Mexico
Commission for the Deaf and Hard of Hearing Persons
And
Mr. Hector H. Balderas
New Mexico State Auditor

We have audited the accompanying financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons for the general fund and major special revenue fund of the Commission for the Deaf and Hard of Hearing Persons, as of and for the year ended June 30, 2010, which collectively comprise the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Commission for the Deaf and Hard of Hearing Persons management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Commission for the Deaf and Hard of Hearing Persons are intended to present the financial position and changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State of New Mexico that is attributable to the transactions of the Commission for the Deaf and Hard of Hearing Persons. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2010 or the changes in its financial position for the year ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Commission for the Deaf and Hard of Hearing Persons, as of June 30, 2010, and the respective changes in financial position thereof and the respective budgetary comparisons for the general fund and major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2011 on our consideration of the Commission for the Deaf and Hard of Hearing Persons' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Commission for the Deaf and Hard of Hearing Persons' has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of the basic financial statements.

Drigo Professional Services, LLC

Albuquerque, New Mexico
June 30, 2011

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**BASIC
FINANCIAL STATEMENTS**

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STATE OF NEW MEXICO
COMMISSION FOR DEAF AND HARD OF HEARING PERSONS
STATEMENT OF NET ASSETS
JUNE 30, 2010

Exhibit A-1

	<u>Governmental Activities</u>
ASSETS	
Current Assets	
Investment account with New Mexico State Treasurer	\$ 1,948,619
Prepaid expenses	1,072
Due from other state agency	499,625
Total Current Assets	<u>2,449,316</u>
Noncurrent Assets	
Capital assets	88,915
Less: accumulated depreciation	<u>(88,915)</u>
Total capital assets	<u>-</u>
Total assets	<u><u>2,449,316</u></u>
LIABILITIES AND NET ASSETS	
Current Liabilities	
Investment accounts overdrafts	1,449,117
Accounts payable	73,284
Accrued payroll	49,435
Compensated absences	39,968
Total Current Liabilities:	<u>1,611,804</u>
Total liabilities	<u>1,611,804</u>
NET ASSETS	
Unrestricted (deficit)	(1,204,704)
Restricted for telecommunications access act	<u>2,042,216</u>
Total net assets	<u>837,512</u>
Total liabilities and net assets	<u><u>\$ 2,449,316</u></u>

The accompanying notes are an integral part of these financial statements

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STATE OF NEW MEXICO
COMMISSION FOR DEAF AND HARD OF HEARING PERSONS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

Exhibit A-2

	Government Activities
Expenses:	
General government:	
Personal services and employee benefits	\$ 906,322
Contractual services	1,543,486
Other costs	324,192
Total expenses	2,774,000
Net program loss	2,774,000
Revenues:	
General revenues:	
Telecommunications relay tax	3,478,208
Transfer to other state agencies	(626,800)
Other revenue	637
Total general revenues and transfers	2,852,045
Change in net assets	78,045
Net assets - beginning of year	762,268
Prior period adjustment (Note 14)	(2,801)
Net assets beginning as restated	759,467
Net assets - end of year	\$ 837,512

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
COMMISSION FOR DEAF AND HARD OF HEARING PERSONS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010

Exhibit B-1
(Page 1 of 2)

	General Fund	Telecommunications Access Special Revenue Fund	Total
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Investment account with New Mexico State Treasurer	\$ -	\$ 1,948,619	\$ 1,948,619
Due from other state agency	-	499,625	499,625
Prepays	1,072	-	1,072
Due from other fund	406,028	-	406,028
	<u>406,028</u>	<u>-</u>	<u>406,028</u>
<i>Total assets</i>	<u>\$ 407,100</u>	<u>\$ 2,448,244</u>	<u>\$ 2,855,344</u>
LIABILITIES AND FUND BALANCE			
<i>Liabilities</i>			
Investment accounts overdrafts	1,449,117	-	1,449,117
Accounts payable	73,284	-	73,284
Accrued payroll	49,435	-	49,435
Due to other fund	-	406,028	406,028
	<u>1,449,117</u>	<u>406,028</u>	<u>1,977,864</u>
<i>Total liabilities</i>	<u>1,571,836</u>	<u>406,028</u>	<u>1,977,864</u>
<i>Fund balance:</i>			
Unreserved (deficit)	(1,164,736)	-	(1,164,736)
Reserved for Telecommunications Access Act	-	2,042,216	2,042,216
	<u>(1,164,736)</u>	<u>2,042,216</u>	<u>877,480</u>
<i>Total fund balance</i>	<u>(1,164,736)</u>	<u>2,042,216</u>	<u>877,480</u>
 <i>Total liabilities and fund balance</i>	 <u>\$ 407,100</u>	 <u>\$ 2,448,244</u>	 <u>\$ 2,855,344</u>

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

STATE OF NEW MEXICO
COMMISSION FOR DEAF AND HARD OF HEARING PERSONS
GOVERNMENTAL FUND
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2010

Exhibit B-1
(Page 2 of 2)

Amounts reported for governmental activities in the statement of net assets are different because:

Fund balances - total governmental funds	\$ 877,480
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:	
Compensated absences	<u>(39,968)</u>
Total Net Assets	<u><u>\$ 837,512</u></u>

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

STATE OF NEW MEXICO
COMMISSION FOR DEAF AND HARD OF HEARING PERSONS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2010

Exhibit B-2
(Page 1 of 2)

	General Fund	Telecommunications Special Revenue Fund	Total
<i>Revenues:</i>			
Telecommunications relay tax	\$ -	\$ 3,478,208	\$ 3,478,208
Other	637	-	637
<i>Total revenues</i>	637	3,478,208	3,478,845
<i>Expenditures:</i>			
Current			
General government:			
Personnel services and benefits	908,684	-	908,684
Contractual services	1,543,486	-	1,543,486
Other	324,192	-	324,192
<i>Total expenditures</i>	2,776,362	-	2,776,362
<i>Excess (deficiency) of revenues over expenditures</i>	(2,775,725)	3,478,208	702,483
<i>Other financing sources (uses):</i>			
Operating transfer in	406,028	-	406,028
Operating transfer out	-	(406,028)	(406,028)
Transfer to other state agencies	(626,800)	-	(626,800)
Transfer to state general fund	-	-	-
<i>Total other financing sources (uses)</i>	(220,772)	(406,028)	(626,800)
<i>Net change in fund balances</i>	(2,996,497)	3,072,180	75,683
<i>Fund balances - beginning of year</i>	1,831,761	(1,029,964)	801,797
<i>Fund balances - end of year</i>	\$ (1,164,736)	\$ 2,042,216	\$ 877,480

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

STATE OF NEW MEXICO
COMMISSION FOR DEAF AND HARD OF HEARING PERSONS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL
FUND TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

Exhibit B-2
 (Page 2 of 2)

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$	75,683
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-

The issuance of long-term debt (e.g., bonds, notes, leases) provides current financial debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities:

Decrease in accrued compensated absences		<u>2,362</u>
Changes in Net Assets	\$	<u><u>78,045</u></u>

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

STATE OF NEW MEXICO
COMMISSION FOR DEAF & HARD OF HEARING PERSONS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET (GAAP BUDGETARY BASIS) AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2010

Exhibit C-1

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Variance Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
<i>Revenues:</i>				
Other	\$ -	\$ -	\$ 637	\$ 637
<i>Total revenues</i>	<u>-</u>	<u>-</u>	<u>637</u>	<u>637</u>
<i>Expenditures:</i>				
<i>Current:</i>				
<i>General government:</i>				
Personal Services & Benefits	1,036,100	1,036,100	908,684	127,416
Contractual services	2,104,000	1,934,100	1,470,202	463,898
Other costs	355,100	525,100	324,387	200,713
<i>Total expenditures</i>	<u>3,495,200</u>	<u>3,495,300</u>	<u>2,703,273</u>	<u>792,027</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(3,495,200)</u>	<u>(3,495,300)</u>	<u>(2,702,636)</u>	<u>(792,664)</u>
<i>Other Financing Sources (Uses):</i>				
Operating transfer in	-	-	-	-
Transfers to other state agencies	(626,800)	(626,800)	(626,800)	-
<i>Total other financing sources (uses)</i>	<u>(626,800)</u>	<u>(626,800)</u>	<u>(626,800)</u>	<u>-</u>
<i>Net changes in fund balances</i>	<u>\$ (4,122,000)</u>	<u>\$ (4,122,100)</u>	<u>\$ (3,329,436)</u>	<u>\$ (792,664)</u>
<i>Reconciliation to GAAP Basis:</i>				
Adjustments to revenue			406,028	
Adjustments to expenditures			<u>(73,089)</u>	
Excess (deficiency) of revenues and other sources (uses) over expenditures (GAAP Basis)			<u>\$ (2,996,497)</u>	

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

STATE OF NEW MEXICO

Exhibit C-2

COMMISSION FOR DEAF & HARD OF HEARING PERSONS
TELECOMMUNICATIONS ACCESS SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET (GAAP BUDGETARY BASIS) AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Variance Favorable (Unfavorable)
	Original	Final		
<i>Revenues:</i>				
Telecommunications relay tax appropriations	\$ 3,708,900	\$ 3,708,900	\$ 3,270,632	\$ (438,268)
<i>Total revenues</i>	<u>3,708,900</u>	<u>3,708,900</u>	<u>3,270,632</u>	<u>(438,268)</u>
<i>Expenditures:</i>				
<i>Current:</i>				
Other	-	-	-	-
<i>Total expenditures</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>3,708,900</u>	<u>3,708,900</u>	<u>3,270,632</u>	<u>438,268</u>
<i>Other Financing Sources (Uses):</i>				
Operating transfer out	-	-	-	-
Transfer to state general fund	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Net changes in fund balance</i>	<u>\$ 3,708,900</u>	<u>\$ 3,708,900</u>	<u>\$ 3,270,632</u>	<u>\$ 438,268</u>
<i>Reconciliation to GAAP Basis:</i>				
Adjustments to revenues			207,576	
Adjustments to expenditures			<u>(406,028)</u>	
Excess (deficiency) of revenues and other sources (uses) over expenditures (GAAP Basis)			<u>\$ 3,072,180</u>	

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

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STATE OF NEW MEXICO
COMMISSION FOR DEAF & HARD OF HEARING PERSONS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1. History and Organization

The Commission for Deaf and Hard-of-Hearing Persons (Commission) was created by Laws of 1991, Chapter 72 (Section 28-11B-1 to 28-11B-4). The Commission consists of seven members, a majority of whom are deaf or hard-of-hearing persons, including three ex-officio members and four members appointed by the governor.

The ex-officio members are the president of the New Mexico Association for the deaf or his designee; the superintendent of the New Mexico school for the deaf or his designee; and, the director of the vocational rehabilitation division of the state department of public education or his designee who shall be knowledgeable in areas of deafness. Appointed members are a parent of a deaf or hard-of-hearing child; a professional person who is deaf or hard-of-hearing; a deaf or hard-of-hearing person who resides in southern New Mexico; and, a deaf or hard-of-hearing person who resides in northern New Mexico.

The Commission's primary purpose is to identify the needs of the deaf and hard-of-hearing population of New Mexico, educate state agencies about deafness, coordinate services with other state agencies for the deaf, advocate equal access and opportunities, provide continuing education for deaf adults, assist in the development of state-wide interpreter referral services and coordinate the certification and evaluation process for interpreters.

In addition, until June 30, 2005, the Commission, along with the General Services Department (GSD), also had administrative oversight of the State's Telecommunications Relay, including full administration of the Equipment Distribution Program under Laws of 1993, Chapter 54.

Effective July 1, 2005, Laws of 2004, Chapter 106, transferred the administration of the Telecommunications Access Act from the General Services Department to the Commission for Deaf and Hard-of-Hearing Persons and provided that the Telecommunications Access Fund is appropriated to the Commission for the purposes of carrying out the provisions of the Telecommunications Access Act. All records, equipment, supplies and other property of the General Services Department relating to the Department's duties pursuant to the Telecommunications Access Act were transferred to the Commission. All General Services Department contracts relating to the Department's duties pursuant to the Telecommunications Access Act are binding on the Commission. Sections 63-9F-5 and 63-9F-7 NMSA 1978 (being Laws 1993, Chapter 54, Sections 5 and 7, as amended) were repealed.

NOTE 2. Summary of Significant Accounting Policies

The financial statements for the Commission have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement #34 "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments." This Statement provided for the most significant change in financial reporting in over twenty years.

The Commission implemented the provisions of GASB #34 effective July 1, 2001. As a part of this Statement, there is a new reporting requirement regarding the government's infrastructure (road, bridges, etc.) The Commission does not own any infrastructure assets and therefore is unaffected by this requirement. The Commission also implemented the provisions of the later related GASB statements #37 and #38 which affect GASB #34 and its implementation.

STATE OF NEW MEXICO
COMMISSION FOR DEAF & HARD OF HEARING PERSONS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 2. Summary of Significant Accounting Policies (Continued)

A. Financial Reporting Entity

The Commission is a governmental entity in accordance with Governmental Accounting Standards Board (GASB) Statement No. 39, which amended GASB 14 effective for fiscal years beginning after June 30, 2003. The financial reporting entity as defined by GASB No. 39 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 the 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 Commission, therefore, is part of the primary government of the State of New Mexico, and its financial data should be included with the financial data of the State. However, New Mexico does not at present issue an audited Comprehensive Annual Financial Report inclusive of all agencies of the primary government.

The Audit Act, Sections 12-6-1 through 12-6-14, NMSA 1978, requires the financial affairs of every agency to be thoroughly examined and audited each year, and a complete written report to be made. Moreover, the New Mexico State Auditor requires that each agency shall prepare financial statements in accordance with accounting principles generally accepted in the United States of America. As a result, the Commission has prepared and issued its own audited, agency Annual Financial Report.

Included within the Commission for this purpose are the following: All of the programs that are administered and/or controlled by the Commission have been included.

No entities were noted that should be considered component units of the Commission. No entities were specifically excluded from the Commission because no entities were noted as meeting any of the criteria for potential inclusion.

The Commission does not have any fiduciary funds or any component units that are fiduciary in nature. If the Commission did have any such funds, they would not be included in the government-wide financial statements.

B. Basic Financial Statements - GASB Statement #34

The basic financial statements include both government-wide (based on the Commission as a whole) and fund financial statements. The new reporting model focus is on either the Commission as a whole or major individual funds (within the fund financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type activities. In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are presented on a consolidated basis by column, and are reflected on a full accrual, economic resources basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. The Commission did not have any business-type activities during the year ended June 30, 2010, and the Commission has decided not to apply any FASB pronouncements issued after November 30, 1989.

The government-wide Statement of Activities reflects both the gross and net cost per functional category, which are otherwise being supported by general government revenues. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function or a business-type activity. The Commission had no program revenues during the year ended June 30, 2010. The Commission includes only one function (general government).

However, the Commission did receive telecommunications access relay taxes during the year ended June 30, 2010. Revenue is recognized when taxes are collected by the State of New Mexico Taxation and Revenue Department.

STATE OF NEW MEXICO
COMMISSION FOR DEAF & HARD OF HEARING PERSONS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 2. Summary of Significant Accounting Policies (Continued)

The net cost (by function or business-type activity) is normally covered by general revenues (intergovernmental revenues or other revenue, etc.). Historically, the previous mode did not summarize or present net cost by function or activity. The Commission does not currently employ indirect cost allocation systems. The Commission's policy for when an expense is incurred for purposes for which both restricted and unrestricted assets are available is to utilize the restricted assets first.

This government-wide focus is more on the sustainability of the Commission as an entity and the change in aggregate financial position resulting from the activities of the current fiscal period.

The fund financial statements are similar to the financial statements presented in the previous accounting model. Emphasis here is on the major funds in either the governmental or business-type categories. Non-major funds (by category) or fund type are summarized into a single column. The General Fund is required to be a major program, and the Special Revenue Fund also is required to be a major fund. Therefore, there are no nonmajor funds. The Commission has no fiduciary funds, but if the Commission did, they would not be included in the government-wide financial statements.

The governmental fund statements are presented on current financial resources and modified accrual basis of accounting. This presentation is deemed appropriate to (a) demonstrate legal compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the Commission's actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental activities column, a reconciliation is presented on the page following each statement, which briefly explains the adjustments necessary to transform the fund based financial statements into the governmental activities column on the government-wide presentation. Interfund accounts which are on the fund financial statements have been eliminated in the government-wide financial statements.

C. Basis of Presentation

The financial transactions of the Commission are maintained on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, expenditures or expenses and other financing sources or uses. Government resources are allocated to, and accounted for, in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The various funds are summarized by type in the accompanying financial statements. The various funds are reported by generic classification within the financial statements.

The new reporting model, GASB Statement 34, sets forth minimum criteria for the determination of major funds based on a percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or governmental and enterprise combined. All these governmental funds have been classified as major funds by the Authority after considering the criteria for major funds. Only individual governmental or individual enterprise funds can be considered for major fund status.

1. Governmental Fund Types

The focus of Governmental Fund measurement (in the Fund Financial Statements) is based upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the Governmental Funds of the Commission.

The Commission reports the following major governmental funds.

General Fund – The General Fund (SHARE FUND # 04600- nonreverting as of July 1, 2005) is the general operating fund of the Commission for Deaf and Hard-of-Hearing Persons. It is used to account for all financial resources except those required to be accounted for in another fund. This fund is nonreverting per Laws of 2006, Chapter 109, Section 10 (c).

STATE OF NEW MEXICO
COMMISSION FOR DEAF & HARD OF HEARING PERSONS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 2. Summary of Significant Accounting Policies (Continued)

Special Revenue Fund- The Special Revenue Fund (SHARE FUND # 08000-nonreverting) is the Telecommunications Access Fund, established pursuant to 63-9F-12 and is funded through telecommunications relay service surcharges, related penalties and gifts, grants, fees or bequests. This fund is nonreverting per Laws of 2006, Chapter 109, Section 10 (c).

2. Non-Current Governmental Assets/Liabilities

GASB Statement #34 eliminated the presentation of Account Groups, but provides for these records to be maintained and incorporates the information into the Governmental Activities column in the government-wide Statement of Net Assets.

D. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditure/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied.

The Government-wide Financial Statements are presented on an accrual basis of accounting. The Governmental Funds in the Fund Financial Statements are presented on a modified accrual basis.

Modified Accrual - All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period which is considered within sixty days of year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general long-term debt, if any, is recognized when due.

In applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to GASB Statement #33, which was also adopted as of July 1, 2001 by the Commission, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenues when the applicable eligibility requirements including time requirements, are met. Resources transmitted before the eligibility requirements are met, under most circumstances, should be reported as advances by the provider and deferred revenue by the recipient.

E. Budgetary Accounting

The Commission follows these procedures in establishing the budgetary data reflected in the financial statements:

1. No later than September 1st, the Commission prepares a budget appropriation request by category to be presented to the next Legislature.
2. The appropriation request is submitted to the New Mexico Department of Finance and Administration's Budget Division (DFA) and to the Legislative Finance Committee (LFC).
3. DFA makes recommendations and adjustments to the appropriation request which then becomes the Governor's proposal to the Legislature.
4. The LFC holds hearings on the appropriation request, also submitting recommendations and adjustments before presentation to the Legislature.
5. Both the DFA's and LFC's recommended appropriation proposals are presented to the Legislature for approval of the final budget plan.
6. Budget hearings are scheduled before the New Mexico House Appropriations and Senate Finance Committees. The final outcome of these hearings are incorporated into the General Appropriations Act.

STATE OF NEW MEXICO
COMMISSION FOR DEAF & HARD OF HEARING PERSONS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 2. Summary of Significant Accounting Policies (Continued)

7. The Act is signed into law by the Governor of the State of New Mexico within the legally prescribed time limit.
8. The Commission submits, no later than May 1, to DFA an annual operating budget by category and line item based upon the appropriations made by the Legislature. The DFA - Budget Division reviews and approves the operating budget which becomes effective on July 1.
9. All subsequent budget adjustments must be approved by the Commission and the Director of the DFA - Budget Division. The budget for the current year was properly amended.
10. Legal budget control for expenditures and encumbrances is by category of line item.
11. Formal budgetary integration is employed as a management control device during the fiscal year for the General Fund and the Special Revenue Fund.
12. The budget is adopted on a modified accrual basis of accounting that is consistent with accounting principles generally accepted in the United States of America. This change was implemented with the laws of 2004, Chapter 114, Section 3, paragraph N and paragraph O. It is effective for fiscal years beginning July 1, 2004. However, there is a statutory exception per the General Appropriation Act, Laws of 2006, Chapter 109, Section 3, Subsections N and O. The budget is adopted on the modified accrual basis of accounting except for accounts payable accrued at the end of the fiscal year that do not get paid by the statutory deadline per Section 6-10-4 NMSA 1978. Those accounts payable must be paid out of the next year's budget. There were \$18,405 of these accounts payable at June 30, 2010.
13. The Commission's General Fund and Special Revenue Fund are not reverting funds per the Laws of 2006, Chapter 109, Section 10 (c).

F. Assets, Liabilities and Net Assets or Equity

Receivables and Payables: All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Capital Assets: Property, plant and equipment including software, purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at the fair market values as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The State's capitalization policy, i.e., the dollar value above which asset acquisitions including software, are added to the capital accounts, is \$5,000 which is a change in policy effective July 1, 2005. However, all capital outlay purchases may not necessarily be capitalized. The Commission does not capitalize any interest in regards to its capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives with no salvage value. The Commission utilizes Internal Revenue Service guidelines to estimate the useful lives on fixed assets as follows:

Machinery and Equipment	5 years
Computer equipment (including software)	4 to 8 years
Furniture and fixtures	10 years

GASB Statement #34 requires the recording and depreciation of infrastructure assets. Infrastructure assets include roads, bridges, traffic signals, etc. The Commission does not own any infrastructure assets.

STATE OF NEW MEXICO
COMMISSION FOR DEAF & HARD OF HEARING PERSONS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 2. Summary of Significant Accounting Policies (continued)

F.Assets, Liabilities and Net Assets or Equity (continued)

Compensated Absences: Vacation and sick leave earned and not taken is cumulative; however, upon termination of employment, sick pay for such leave hours accumulated up to 600 hours is forfeited, and vacation pay is limited to payment for 240 hours. Vacation leave up to the maximum of 240 hours is payable upon separation from service at the employee’s current hourly rate. Sick leave is payable semiannually to qualified employees for hours accumulated above 600 hours at a rate equal to 50 percent of their hourly rate, not to exceed 120 hours each semiannual period. Upon retirement, payment for sick leave is limited to 400 hours accumulated in excess of 600 hours at the 50 percent hourly rate. The compensated absences payable is included in the government-wide financial statements.

Qualified classified employees, per the schedule approved by the Commission, accumulate annual leave to a maximum of 240 hours as follows:

Years of Service	Hours Earned Per Pay Period
Less than 3 years	3.08
Between 3 and 7 years	3.69
Between 7 and 11 years	4.61
Between 11 and 15 years	5.54
Over 15 years	6.15

Due to State of New Mexico General Fund (Reversions): The Commission does not have any reverting funds.

Reservations of Fund Balances: Reservations of fund balances on the Governmental funds are created to either (1) satisfy legal covenants that require that a portion of the fund balance be segregated or (2) identify the portion of the fund balance that cannot be appropriated for future expenditures. The only reservation of fund balance accounts at June 30, 2010 was:

Reserved for Telecommunications Access Act (deficit) – Represents funds held in accordance with the Telecommunications Access Act.

Net Assets: The government-wide financial statements utilize a net asset presentation. Net Assets are categorized as invested in capital assets, restricted and unrestricted.

Invested in capital assets, net of related debt – is intended to reflect the portion of net assets which are associated with non-liquid, capital assets less outstanding capital asset related debt. The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost. The Commission did not have any related debt during the year ended June 30, 2010.

Restricted for Telecommunications Access Act (deficit) – represent the net assets reserved due to the Telecommunications Access Act.

Unrestricted Net Assets - represent the net assets of the Commission at June 30, 2010 that are not invested in capital assets and that are not restricted.

Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

STATE OF NEW MEXICO
COMMISSION FOR DEAF & HARD OF HEARING PERSONS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 2. Summary of Significant Accounting Policies (continued)

G. Encumbrances Accounting

Encumbrances accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation and is employed as an extension of formal budgetary control in the General Fund and the Special Revenue Fund. Encumbrances not recorded as vouchers payable at year end lapse.

NOTE 3. Investment (Overdraft) Accounts and Investment Policy

Investment (Overdraft) Accounts with State Treasurer

The following is a summary of the investment (overdraft) accounts of the Authority with the New Mexico State Treasurer at June 30, 2010 which represent the Commission's interest in the State of New Mexico General Fund Investment Pool as reported by the New Mexico Department of Finance and Administration (DFA):

	SHARE FUND Number	Financial Statement Balances
General Fund	60400-04600	\$ (1,449,117)
Telecommunications Access Special Revenue Fund	60400-08000	<u>1,948,619</u>
Total		<u>\$ 499,502</u>

The New Mexico State Treasurer monitors the collateral for deposits held by it for other state entities, which would include the investment accounts of the Commission which represent the Commission's interest in the General Fund Investment Pool. The Office of the State Treasurer has its own separate annual independent audit in which the collateral pledged to secure these accounts is disclosed. That report may be obtained by writing to the State of New Mexico State Treasurer's Office, P.O. Box 608, Santa Fe, New Mexico 87504-0608. The Commission is not permitted to have any other investments, and the Commission did not have any other investments during the year ended June 30, 2010. There is no custodial risk in relations to the accounts at the Commission's level. The custodial risk would belong to the New Mexico State Treasurer.

NOTE 4. Due From Other State Agency

The Telecommunications Access Special Revenue Fund (Agency #60400, Fund #08000) was owed \$499,625 by the State of New Mexico, Taxation and Revenue Department (Agency #82600) at June 30, 2010 for taxes collected for this Fund but not yet remitted at June 30, 2010.

STATE OF NEW MEXICO
COMMISSION FOR DEAF & HARD OF HEARING PERSONS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 5. Capital Assets

A summary of changes in the capital assets for the year ended June 30, 2010 as follows:

Capital Assets	Balance			Prior Period	Balance
	June 30, 2009	Additions	Deletions	Adj.	June 30, 2010
Machinery & Equipment	\$ 18,594	\$ -	\$ -	\$ (3,084)	\$ 15,510
Computer Equipment	63,394	-	-	10,011	73,405
Furniture & Fixtures	2,900	-	-	(2,900)	-
Total	84,888	-	-	4,027	88,915

Accumulated Depreciation	Balance			Prior Period	Balance
	June 30, 2009	Additions	Deletions	Adj.	June 30, 2010
Machinery & Equipment	(18,078)	-	-	2,568	(15,510)
Computer Equipment	(61,109)	-	-	(12,296)	(73,405)
Furniture & Fixtures	(2,900)	-	-	2,900	-
Total	(82,087)	-	-	(6,828)	(88,915)

Total Capital Assets					
Net of Accumulated					
Depreciation	\$ 2,801	\$ -	\$ -	\$ (2,801)	\$ -

There was no depreciation expense for the year ended June 30, 2010. All capitalized assets were fully depreciated during the year ended June 30, 2010.

NOTE 6. Compensated Absences

A summary of changes in the compensated absences payable for the year ended June 30, 2010 is as follows:

	Balance			Balance	Due
	June 30,	Increases	Decreases	June 30,	Within
	2009			2010	One Year
Compensated Absences Payable	\$ 42,330	\$ 34,033	\$ (36,395)	\$ 39,968	\$ 39,968

\$39,968 has been classified as a current liability in the Statement of Net Assets. In prior years, the General Fund has been used to liquidate compensated absences. The General Fund is expected to continue to do so in the future.

NOTE 7. Retirement Plan

Plan Description. Substantially all of the full-time employees of the Commission 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, 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. 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.

STATE OF NEW MEXICO
COMMISSION FOR DEAF & HARD OF HEARING PERSONS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 7. Retirement Plan (continued)

Funding Policy. Plan members are required to contribute 7.42% of their gross salary. The Commission is required to contribute 16.59% of the gross covered salary. The contribution requirements of plan members and the Commission are established under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the Legislature. The Commission’s contribution to PERA for the years ended June 30, 2010, 2009 and 2008 was \$92,085, \$113,074 and \$103,943, respectively, which was equal to the amount of the required contribution for each year.

NOTE 8. Post-Employment Benefits

Plan Description. The Commission contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit post-employment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

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

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

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

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. The statute requires each participating employer to contribute 1.3% of each participating employee’s annual salary; each participating employee is required to contribute .65% of their salary. “In the fiscal years ending June 30, 2011 through June 30, 2013 the contribution rates for employees and employers will rise as follows:

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
FY 2011	1.666%	.833%
FY 2012	1.834%	.917%
FY 2013	2.000%	1.000%

Employers joining the program after 1/1/98 are also required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

STATE OF NEW MEXICO
COMMISSION FOR DEAF & HARD OF HEARING PERSONS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 8. Post-Employment Benefits (continued)

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

The Commission's contributions to the RHCA for the years ended June 30, 2010, 2009 and 2008 were \$7,909, \$8,861 and \$7,594 respectively, which equal the required contributions for each year.

NOTE 9. Insurance Coverage

The Commission obtains coverage through the Risk Management Division of the State of New Mexico General Services Department. This coverage includes liability and civil rights, property, vehicle, employer bond, workers' compensation, group insurance and state unemployment. These coverages are designed to satisfy the requirements of the State Tort Claims Act. All employees of the Commission are covered by blanket fidelity bond and money securities coverage by the State of New Mexico for the period July 1, 2009, through June 30, 2010.

NOTE 10. Operating Leases

During the fiscal year ended June 30, 2010, the Commission had operating leases for a copy machine, a telephone system, a postage machine and three office building spaces. Effective September 13, 2004 and January 1, 2005, the Commission leased office spaces in Santa Fe and Albuquerque, respectively. Effective May 1, 2008, the Commission leased office space in Las Cruces. The Santa Fe Office space was renewed in September 2009 and has a yearly rent expense of \$3,600.

The ten-year Albuquerque lease terminates December 31, 2014 and has an annual rental cost of \$76,081. The lease includes an option to renew for two five-year renewals subject to the same terms and conditions.

The five-year Las Cruces lease terminates April 30, 2013 and its annual rental cost varies each year. The lease includes an option to renew for two five-year renewals subject to the same terms and conditions except for the amount of the rental cost which will vary.

For the year ended June 30, 2010 operating lease expenses consisted of the following amounts:

<u>Xerox Copier</u>	<u>Santa Fe</u>	<u>Albuquerque</u>	<u>Las Cruces</u>	<u>Total</u>
\$ 5,384	\$ 3,600	\$ 76,081	\$ 27,791	\$ 112,856

Effective with the Albuquerque office building lease mentioned above, the Commission leased a telephone system for sixty (60) months at \$365 per month.

The Commission also rents a postage meter at \$62 per month.

STATE OF NEW MEXICO
COMMISSION FOR DEAF & HARD OF HEARING PERSONS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 11. Transfers to Other State Agencies

The Commission receives and makes operating transfers for various reasons. Transfers in are done to receive from the State of New Mexico, Taxation Revenue Department taxes due to the Telecommunications Access Special Revenue Fund. Transfers out to DVR are done to provide a match for federal funds used to provide deaf and hard of hearing services. Other transfers out were made for purposes listed.

	From	To
State of New Mexico, Taxation and Revenue Department (Agency #82600)	\$ 3,478,208	
Commission's Telecommunication Access Special Revenue Fund (Agency #60400, Fund #08000)		\$ 3,478,208
To transfer tax funds		
Commission's General Fund (Agency #60400, Fund #04600)	466,000	
State of New Mexico, Division of Vocational Rehabilitation (DVR) (Agency #50000)		466,000
To transfer funds to match federal funds used to provide deaf and hard-of-hearing services.		
Commission's General Fund (Agency #60400, Fund #04600)	160,800	
State of New Mexico Regulation and Licensing Department Signed Language Interpreting Practices Fund (Agency #42000, Fund #02011)		160,800
To transfer funds as required by state statute.		

NOTE 12. Operating Transfers Within the Agency

Each year the Commission transfers funds from the Special Revenue Fund (SHARE# 08000) to the General Fund (SHARE #04600) to cover operating costs. The transfer is based on the legislatively approved budget. For fiscal year 2010, the amount of the transfer was \$406,028.

NOTE 13. Reconciliation of Governmental Statement to Budget Statement

There is no need for a reconciliation for the Telecommunication Access Special Revenue Fund or for revenues of the General Fund. However, a reconciliation is needed for expenditures and other financing sources (uses) of the General Fund:

	General Fund
Expenditures per budget statement	\$ 2,703,273
Accounts payable- expenditures charged to 2011 budget but which were Governmental accounts payable at 6/30/10	73,284
Accounts payable- expenditures charged to 2010 budget but which were Governmental accounts payable at 6/30/09	(195)
Expenditures per Governmental Statement	\$ 2,776,362

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STATE OF NEW MEXICO
COMMISSION FOR DEAF & HARD OF HEARING PERSONS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 13. Deficit in General Fund

The General Fund had a deficit fund balance of \$1,164,736 at June 30, 2010. This resulted because the investment overdraft accounts were high and the legislative budgeted transfer was not enough to cover the balance.

NOTE 14. Net Assets Restatement

The Commission's capital assets and depreciation was not properly recorded in the prior year so adjustments were needed in the amount of \$2,801 to restate prior year net assets. Adjustments were made for capital assets that were understated and misclassified as a result of an incorrect asset listing in the prior year. The amount of beginning accumulated depreciation in the prior year's audit report was also understated and misclassified so an adjustment was made to increase and correct the balances.

NOTE 15. Related Party Transaction

The Commission contracted with an individual for mentoring services for \$1,897. This individual is a partner with the Executive Director for another company that they own together.

NOTE 16. Subsequent Accounting Standard Pronouncements

In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which is effective for financial statement periods beginning after June 15, 2010. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

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COMPLIANCE SECTION

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Griego Professional Services, LLC

Certified Public Accountants

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*

State of New Mexico
Commission for the Deaf and Hard of Hearing Persons
And
Mr. Hector H. Balderas
New Mexico State Auditor

We have audited the financial statements of the governmental activities, each major fund, the aggregate remaining fund information, the budgetary comparisons of the general fund and major special revenue fund, and the supplemental information of the Commission for the Deaf and Hard of Hearing Persons as of and for the year ended June 30, 2010, and have issued our report thereon dated June 30, 2011. We conducted our audit 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.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies in internal control over financial reporting as items 2007-4, 2009-1, 2010-01, 2010-06, 2010-07, and 2010-08. A significant deficiency is a deficiency, or 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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission for the Deaf and Hard of Hearing Persons' 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that are required to be reported under *Government Auditing Standards January 2007 Revision* paragraphs 5.14 and 5.16, and Section 12-6-5, NMSA 1978, which are described in the accompanying schedule of findings and responses as finding 2010-02, 2010-03, 2010-04, and 2010-05.

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

This report is intended solely for the information and use of the audit committee, management, others within the organization, the Office of the State Auditor, and the Department of Finance and Administration and the legislature and is not intended to be and should not be used by anyone other than these specified parties.

Grigo Professional Services, LLC

Albuquerque, New Mexico
June 30, 2011

STATE OF NEW MEXICO
COMMISSION FOR DEAF AND HARD OF HEARING
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2010

Section I – Summary of Audit Results

Financial Statements:

- | | |
|---------------------------------------------------------------------------------|-------------|
| 1. Type of auditors' report issued | Unqualified |
| 2. Internal control over financial reporting: | |
| a. Material weakness identified? | No |
| b. Significant deficiency identified not considered to be a material weakness? | Yes |
| c. Control deficiency identified not considered to be a significant deficiency? | Yes |
| d. Noncompliance material to financial statements noted? | No |

Section II – Financial Statement Findings

FS 2007-4 Negative Investment Account

Condition: The Commission's general fund investment accounts were negative (\$1,449,117) at June 30, 2010.

Criteria: Negative accounts should not be maintained without written approval from DFA in advance, per CFRAS Chapter 6, 3.2, D-2, as authorized by Section 6-5-2, NMSA 1978.

Effect: Cash management does not appear to be effective as possible.

Cause: There was not a budgeted transfer between the two funds to ensure that there were no negative investment accounts.

Auditors' Recommendation: Negative investment accounts should not be allowed to occur.

Management's Response: The Agency generates its funding on a monthly basis. The Agency will get an approval from DFA to carry a negative balance until the revenue is available to transfer the funds.

FS 2009-1 Deficit Fund Balance

Condition: The Commission had a deficit fund balance of \$1,330,351 in its general fund at June 30, 2010.

Criteria: Deficit fund balances are not permitted.

Effect: The Commission will have to eliminate the deficit.

Cause: The investment overdraft accounts which are the negative investment accounts cause the fund balance to be negative.

Auditors' Recommendation: The Commission should make plans to eliminate the deficit.

Management's Response: The Agency will get the proper approval to carry a negative balance until the revenue is transferred.

STATE OF NEW MEXICO
COMMISSION FOR DEAF AND HARD OF HEARING
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2010

FS 2010-01 Capital Assets

Condition: During our capital asset testwork, we noted that management did not compare their inventory with the prior year financial statements and ensure that there were no discrepancies and correct them if there were.

Criteria: State Auditor Rule 2.2.2.10, Subsection Y states that each agency shall conduct an annual physical inventory count of all equipment listed on the agency's capital asset inventory listing as of year-end. The agency must then certify the correctness of the physical inventory count and compare it with prior year financial statement amounts and make any corrections to those prior year amounts if necessary.

Effect: Not in compliance with the State Auditor Rule 2.2.2.10 requirements pertaining to the correctness of property listed on the financial statements.

Cause: Current staff did not have the capital assets inventory that the prior staff gave to the prior auditors to use for the prior year financial statements and so did not have the information needed.

Auditors' Recommendation: Management should ensure a reconciliation between the physical inventory results and the prior financial statements' amounts be performed to identify any necessary adjustments.

Management's Response: Procedures for capital assets inventory will be done and updated.

FS 2010-02 - Disbursements

Condition: It is sound accounting practice to obtain approved purchase orders before the purchase of goods or services are made and all purchase orders must be approved by authorized personnel. We observed the following:

- Cash Disbursements - one instance out of the twenty-five disbursements tested had the purchase order issued after the invoice date.
- Individually Significant – one instance out of sixteen individually significant disbursements tested had the purchase order issued after the invoice date.

Criteria: According to NMSA 1978 Section 6-6-3, the State Commission is expected to conform to the rules and regulations that they have adopted relating to internal controls.

Effect: The lack of enforcing the Commission's policies and procedures may result in the unauthorized purchase of goods and/or services.

Cause: Sound accounting practices for cash disbursement transactions are not always being enforced for purchases and/or services rendered.

Auditor Recommendation: The Commission must adopt and enforce policies and procedures that are set in place for the purchase of goods and/or services.

Management Response: Management will enforce policies and procedures that are in place for the purchase of goods and/or services.

STATE OF NEW MEXICO
COMMISSION FOR DEAF AND HARD OF HEARING
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2010

FS 2010-03 – Travel & Per Diem

Condition: It is sound accounting practice to following firm policies and procedures. The Commission has a policy that 80% of employee shall be reimbursed up front, and the remaining 20% will be reimbursed once the employee returns. We observed the following:

- Travel & Per Diem - one instance out of the five travel & per diem tested was in excess of the 80% policy (95.4%).
- Cash Disbursements – one instance out of twenty-five cash disbursements was in excess of the 80% policy (93.1%).

Criteria: According to NMSA 1978 Section 6-6-3, the State Agency is expected to conform to the rules and regulations that they have adopted relating to internal controls.

Effect: The lack of enforcing the Commission’s policies and procedures may result in employees being over reimbursed.

Cause: Sound accounting practices for travel & per diem and cash disbursement transactions are not always being enforced for employee reimbursement.

Auditor Recommendation: The Commission must adopt and enforce policies and procedures that are set in place for the reimbursement of employees for travel expenses.

Management Response: The Commission will adopt and enforce policies and procedures that are set in place for the reimbursement of employees for travel expenses.

FS 2010-04 – Payroll Personnel Files

Condition: During our test work of personnel files, GPS noted the following:

- one of thirteen instances where an employee’s personnel file did not have an insurance authorization or exemption form.

Criteria: Per NMSA 6-5-2 all State agencies shall comply with the model accounting practices established by the financial control division, and the administrative head of each state agency shall ensure that the model accounting practices are followed. Additionally, State agencies shall implement internal accounting controls designed to prevent accounting errors and violations of state and federal law.

Effect: Inconsistency in retaining insurance authorization and exemption forms may cause the Commission to not be in compliance with the financial control division.

Cause: The prior Human Resources Manager failed to maintain all insurance authorization and exemption forms. The employee at question decided to be insured under her spouse’s insurance. An insurance form was never filled out or maintained in the personnel file.

Auditors’ Recommendation: We recommend that the Commission implement and enforce policies relating to insurance authorization or exemption form documentation retention. We also recommend that the Commission periodically review employee files to make sure that insurance authorization or exemption forms are filled out correctly, even if the employee opts out of the insurance offered by the Commission.

Management’s Response: Once the HR manager was aware the form was missing, it was immediately taken care of. The employee filled out the required form and it was placed in the HR file. The Agency will periodically review employee files to make sure that insurance authorization or exemption forms are filled out correctly.

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FS 2010-05 — Timeliness of Deposits & Lack of Supporting Documentation

Condition: During our testwork of receipts, we noted the following:

- One out of fifteen in which a receipt was not deposited timely. The deposit made in the amount of \$75.00 was not made in a timely manner.
- Five out of fifteen did not have verification of date received.

Criteria: Effective internal controls over cash receipts should require the deposit of all cash receipts daily and payments received should be time stamped to verify date received.

Effect: Non-adherence to strong internal controls may subject the Commission to a possible occurrence of fraud.

Cause: The staff of the Commission did not deposit the funds within 24 hours after receipt. Certain payments received were not being time stamped once delivered. Proper procedures relating to cash receipts were not followed.

Auditors' Recommendations: We recommend that the Commission emphasize the importance of timely deposits of receipts, and monitor receipts more closely. This appears to have been an isolated instance as the City does maintain procedures over cash receipts.

Management's Response: The agency will training a second person to do deposits, this will ensure the deposit is done in a 24hour period. Each check deposited will be date stamped.

FS 2010-06 – Internal Control Deficiencies Cash Receipts

Condition: An employee (Management Analyst) is in a position to enter cash receipts into the Share system, prepare the deposit slip, and make the deposit. The Executive Director will review deposit, but will not sign off.

Criteria: SAS No. 112, Communicating Internal Control Related Matters Identified in an Audit, requires the auditor to evaluate control deficiencies to determine whether, individually or in combination, they are significant deficiencies or material weaknesses.

Effect: This inadequacy is a deficiency in internal control over cash receipts. Not maintaining up to date policies and procedures could cause errors, inconsistencies and omissions in the determination in cash receipts and accounts receivable.

Cause: The Management Analyst is in a position to enter cash receipts into the Share system, prepare the deposit slip, and make the deposit. The Executive Director will review deposit, but will not sign off. In FY 2009, the Commission received a finding from their prior auditor for overpaying invoices. To correct they sent notices to vendors that were overpaid. The vendors then sent checks for the amount of the overpayment. Overpayment checks are a temporary revenue source to the Commission and are expected to be isolated to FY 2009. However, an internal control policy was not put into place to handle the depositing of the overpayment checks, leading to the internal control deficiency.

Auditors' Recommendation: Even though these transactions represent an isolated event, Management should assess the adequacy of the design of its policies and procedures related to cash receipts and handling cash. When developing control policies and procedures for a process, management should consider where errors or fraud could occur that would cause a material misstatement in the financial statements or misappropriation of assets, and which policies or procedures, if operating properly would prevent or detect the error or fraud on a timely basis.

Management's Response: The Agency will design policies and procedures to follow for cash receipts. An additional person will be trained to assist in the Cash Receipts Control.

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FS 10-07 Lack of Supporting Documentation

Condition: During our test of Credit Cards the client was unable to furnish any fuel receipts relating to two of five expenditures to allow for proper testing of controls in this area. The items to be tested had a total value of \$231.83.

Criteria: NMAC 6.20 2.14: Protection of records requires that the administrator and every other custodian of public records shall carefully protect and preserve such records from deterioration, mutilation, loss or destruction and, whenever advisable, shall cause them to be properly repaired and renovated. All paper, ink and other materials used in public offices for the purposes of permanent records shall be of durable quality.

Effect: The Agency is in violation of NMAC 6 20 2.14.

Cause: Records were not properly maintained. Proper internal controls were not implemented at the time to prevent the loss of supporting documentation for these invoices. The Agency's Albuquerque branch did not start saving receipts until October 2009. It is now a policy that the Albuquerque and Las Cruces branches maintain copies of their original fuel receipts to verify against the fuel credit card bill.

Auditor's Recommendation: We recommend that personnel in charge of documents review the proper procedures for maintaining documents, and seek to establish better controls over the handling of these documents. We do not believe this will occur again because of the client making it a policy to maintain fuel receipt copies.

Management's Response: Policy and Procedures will be developed to insure that proper documentation is maintained for the Fuel Credit Cards.

FS-10-08 — Late Audit Report

Condition: The Commission's audit report for the year ended June 30, 2010 was not submitted to the State Auditor by the required due date, December 15, 2010.

Criteria: Audit reports that are not submitted by their due date are considered to be late submissions under 2.2.2.9.E of the State Audit Rule.

Effect: The result was the late submission of the Commission's audit report for the year ended June 30, 2010.

Cause: The Commission's prior auditor became very ill and eventually past and as a result the audit was not done. The Commission had to go out and get another auditor to complete the audit for them and they were contracted after the submission deadline.

Auditors' Recommendations: The future audits should have no problems being on time now that the Commission is caught up and will schedule the current year's audit on time.

Management's Response: Commission is caught up with audits and is on schedule with the NM State Auditor deadline for next audit. FY11 audit will be on time.

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Section III – Prior Year Audit Findings

- FS 2007-3: Potential Overpayments to Vendors - Resolved**
- FS 2007-4: Negative Investment Account and Budgeted Transfer – Revised and Repeated**
- FS 2007-5: Use of Contracts - Resolved**
- FS 2007-7: Payment of Current Year AP in Next Budget Year - Resolved**
- FS 2008-3: Joint Powers Agreement-Budgeting - Resolved**
- FS 2008-4: Joint Powers Agreement-Approval - Resolved**
- FS 2008-5: Bidding of Contracts - Resolved**
- FS 2008-6: Comp Time - Resolved**
- FS 2008-7: Membership Dues - Resolved**
- FS 2009-1: Deficit Fund Balance - Repeated**

Section IV – Other Disclosures

Auditor Prepared Financials

The financial statements presented in this report were prepared by the auditors, Griego Professional Services, LLC, but are the responsibility of Management.

Exit Conference

The contents of this report were discussed on June 27, 2011. The following individuals were in attendance.

New Mexico State Personnel Board
Barbara Wood, Executive Director
Deborah Romero, Management Analyst
Mark Apodaca, Board President

Griego Professional Services, LLC
J.J. Griego, CPA
Rufino Rodriguez, Senior Staff