

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



ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2011

(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, 2011

<u>Name</u>	<u>Commission</u>	<u>Title</u>
Mark Apodaca		Chairperson
Raul Rodriguez		Vice Chair
David Romine		Secretary
Christine "CB" Buchholz		Member
Judy LeJeune		Member
Kimberly Silva		Member
Ronald Stern		Member
<u>Administrative Officials</u>		
Shannon Smith		Interim Executive Director
Deborah Romero		Manager

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

FOR THE YEAR ENDED JUNE 30, 2011
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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, 2011, 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 opinion.

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, 2011 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, 2011, and the respective changes in financial position thereof and the respective budgetary comparisons for the general fund and the special revenue fund and the capital outlay 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 December 15, 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.

Grigo Professional Services, LLC

Albuquerque, New Mexico
December 15, 2011

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**BASIC
FINANCIAL STATEMENTS**

STATE OF NEW MEXICO
COMMISSION FOR DEAF AND HARD OF HEARING PERSONS
STATEMENT OF NET ASSETS
JUNE 30, 2011

Exhibit A-1

	<u>Governmental Activities</u>
ASSETS	
Current Assets	
Investment account with New Mexico State Treasurer	\$ 2,630,403
Due from other state agency	326,584
Other receivables	520
Total Current Assets	<u>2,957,507</u>
Noncurrent Assets	
Capital assets	42,604
Less: accumulated depreciation	<u>(35,204)</u>
Total capital assets	<u>7,400</u>
Total assets	<u><u>2,964,907</u></u>
LIABILITIES AND NET ASSETS	
Current Liabilities	
Investment accounts overdrafts	1,381,623
Accounts payable	150,044
Accrued payroll	62,690
Due to other state agency	6,561
Compensated absences	44,205
Total Current Liabilities:	<u>1,645,123</u>
Total liabilities	<u>1,645,123</u>
NET ASSETS	
Invested in capital assets	7,400
Unrestricted (deficit)	(4,807,075)
Restricted for telecommunications access act	<u>6,119,459</u>
Total net assets	<u>1,319,784</u>
Total liabilities and net assets	<u><u>\$ 2,964,907</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 ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

Exhibit A-2

	Government Activities
Expenses:	
General government:	
Personal services and employee benefits	\$ 866,239
Contractual services	1,747,856
Other costs	288,984
Depreciation	6,701
	2,909,780
Total expenses	2,909,780
Net program loss	2,909,780
 Revenues:	
General revenues:	
Telecommunications relay tax	3,977,243
Transfer from other state agencies	100,000
Transfer to other state agencies	(576,800)
Other revenue	253
Total general revenues and transfers	3,500,696
Change in net assets	590,916
Net assets - beginning of year	837,512
Restatement (Note 14)	(108,644)
Net assets beginning as restated	728,868
Net assets - end of year	\$ 1,319,784

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, 2011

Exhibit B-1
(Page 1 of 2)

		Telecommunications		
	General	Access	Deaf Cultural	
	Fund	Special Revenue	Center Capital	
	Fund	Fund	Outlay Fund	Total
ASSETS				
Investment account with New Mexico State Treasurer	\$ -	\$ 2,530,403	\$ 100,000	\$ 2,630,403
Due from other state agency	-	326,584	-	326,584
Other Receivable	520	-	-	520
Due from other fund	-	3,162,472	-	3,162,472
	<u>-</u>	<u>3,162,472</u>	<u>-</u>	<u>3,162,472</u>
<i>Total assets</i>	<u>\$ 520</u>	<u>\$ 6,019,459</u>	<u>\$ 100,000</u>	<u>\$ 6,119,979</u>
 LIABILITIES AND FUND BALANCE				
<i>Liabilities</i>				
Investment accounts overdrafts	1,381,623	-	-	1,381,623
Accounts payable	150,044	-	-	150,044
Accrued payroll	62,690	-	-	62,690
Due to other fund	3,162,472	-	-	3,162,472
Due to other state agencies	6,561	-	-	6,561
	<u>6,561</u>	<u>-</u>	<u>-</u>	<u>6,561</u>
<i>Total liabilities</i>	<u>4,763,390</u>	<u>-</u>	<u>-</u>	<u>4,763,390</u>
 <i>Fund balance:</i>				
Nonspendable	-	-	-	-
Restricted for:	-	-	-	-
General Fund	-	-	-	-
Special revenue	-	6,019,459	-	6,019,459
Capital projects	-	-	100,000	100,000
Debt service	-	-	-	-
Assigned	-	-	-	-
Unassigned	(4,762,870)	-	-	(4,762,870)
	<u>(4,762,870)</u>	<u>-</u>	<u>-</u>	<u>(4,762,870)</u>
<i>Total fund balance</i>	<u>(4,762,870)</u>	<u>6,019,459</u>	<u>100,000</u>	<u>1,356,589</u>
<i>Total liabilities and fund balance</i>	<u>\$ 520</u>	<u>\$ 6,019,459</u>	<u>\$ 100,000</u>	<u>\$ 6,119,979</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, 2011

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	\$ 1,356,589
Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.	7,400
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>(44,205)</u>
Total Net Assets	<u>\$ 1,319,784</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, 2011

Exhibit B-2
(Page 1 of 2)

	General Fund	Telecommunications Special Revenue Fund	Deaf Cultural Center Capital Outlay Fund	Total
<i>Revenues:</i>				
Telecommunications relay tax	\$ -	\$ 3,977,243	\$ -	\$ 3,977,243
Other	253	-	100,000	100,253
<i>Total revenues</i>	<u>253</u>	<u>3,977,243</u>	<u>100,000</u>	<u>4,077,496</u>
<i>Expenditures:</i>				
Current				
General government:				
Personnel services and benefits	862,002	-	-	862,002
Contractual services	1,747,856	-	-	1,747,856
Other	288,984	-	-	288,984
<i>Total expenditures</i>	<u>2,898,842</u>	<u>-</u>	<u>-</u>	<u>2,898,842</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(2,898,589)</u>	<u>3,977,243</u>	<u>100,000</u>	<u>1,178,654</u>
<i>Other financing sources (uses):</i>				
Operating transfer in	-	-	-	-
Operating transfer out	-	-	-	-
Transfer to other state agencies	(576,800)	-	-	(576,800)
<i>Total other financing sources (uses)</i>	<u>(576,800)</u>	<u>-</u>	<u>-</u>	<u>(576,800)</u>
<i>Net change in fund balances</i>	(3,475,389)	3,977,243	100,000	601,854
<i>Fund balances - beginning of year</i>	(1,164,736)	2,042,216	-	877,480
<i>Restatement</i>	(122,745)	-	-	(122,745)
<i>Fund balances - beginning of year as restated</i>	<u>(1,287,481)</u>	<u>2,042,216</u>	<u>-</u>	<u>754,735</u>
<i>Fund balances - end of year</i>	<u>\$ (4,762,870)</u>	<u>\$ 6,019,459</u>	<u>\$ 100,000</u>	<u>\$ 1,356,589</u>

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, 2011

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	\$	601,854
<p>Capital Outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which depreciation exceeds capital outlays for the period.</p>		
Depreciation expense		(6,701)
<p>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:</p>		
Decrease in accrued compensated absences		<u>(4,237)</u>
Changes in Net Assets	\$	<u><u>590,916</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, 2011

Exhibit C-1

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable)
<i>Revenues:</i>				
Other	\$ -	\$ -	\$ 253	\$ 253
<i>Total revenues</i>	<u>-</u>	<u>-</u>	<u>253</u>	<u>253</u>
<i>Expenditures:</i>				
<i>Current:</i>				
<i>General government:</i>				
Personal Services & Benefits	971,100	971,100	862,002	109,098
Contractual services	1,847,300	1,847,300	1,747,856	99,444
Other costs	292,800	292,800	288,984	3,816
<i>Total expenditures</i>	<u>3,111,200</u>	<u>3,111,200</u>	<u>2,898,842</u>	<u>212,358</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(3,111,200)</u>	<u>(3,111,200)</u>	<u>(2,898,589)</u>	<u>(212,611)</u>
<i>Other Financing Sources (Uses):</i>				
Operating transfer in	-	-	-	-
Transfers to other state agencies	(576,800)	(576,800)	(576,800)	-
<i>Total other financing sources (uses)</i>	<u>(576,800)</u>	<u>(576,800)</u>	<u>(576,800)</u>	<u>-</u>
<i>Net changes in fund balances</i>	<u>\$ (3,688,000)</u>	<u>\$ (3,688,000)</u>	<u>\$ (3,475,389)</u>	<u>\$ (212,611)</u>
<i>Reconciliation to GAAP Basis:</i>				
Adjustments to revenue			-	
Adjustments to expenditures			-	
Excess (deficiency) of revenues and other sources (uses) over expenditures (GAAP Basis)			<u>\$ (3,475,389)</u>	

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

STATE OF NEW MEXICO
COMMISSION FOR DEAF & HARD OF HEARING PERSONS
TELECOMMUNICATIONS SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET (GAAP BUDGETARY BASIS) AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011

Exhibit C-2

	Budgeted Amounts		Actual Amounts	Variance with Variance Favorable (Unfavorable)
	Original	Final		
<i>Revenues:</i>				
Telecommunications relay tax appropriations	\$ -	\$ -	\$ 3,977,243	\$ 3,977,243
<i>Total revenues</i>	-	-	3,977,243	3,977,243
<i>Expenditures:</i>				
<i>Current:</i>				
Other	-	-	-	-
<i>Total expenditures</i>	-	-	-	-
<i>Excess (deficiency) of revenues over expenditures</i>	-	-	3,977,243	(3,977,243)
<i>Other Financing Sources (Uses):</i>				
Operating transfer out	-	-	-	-
Transfer to state general fund	-	-	-	-
<i>Total other financing sources (uses)</i>	-	-	-	-
<i>Net changes in fund balance</i>	\$ -	\$ -	\$ 3,977,243	\$ (3,977,243)
<i>Reconciliation to GAAP Basis:</i>				
Adjustments to revenues			-	
Adjustments to expenditures			-	
Excess (deficiency) of revenues and other sources (uses) over expenditures (GAAP Basis)			\$ 3,977,243	

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

STATE OF NEW MEXICO
COMMISSION FOR DEAF & HARD OF HEARING PERSONS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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, 2011

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, 2011, 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, 2011. The Commission includes only one function (general government).

However, the Commission did receive telecommunications access relay taxes during the year ended June 30, 2011. 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, 2011

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. The Capital Project Fund is also considered a major fund, as determined by management. Therefore, there are no non-major 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, 2011

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).

Capital Outlay Fund – The Capital Outlay Fund (SHARE FUND # 93100-reverting 6/30/2013) is the Deaf Cultural Center Fund, established pursuant to the 50th Legislature, 1st Session 2011. This funding is to be used for the construction of a Deaf Cultural Multipurpose Center. The Fund is funded primarily by an appropriation from the State General Fund and any unused funds at the end of the fiscal year revert back to the State General Fund.

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.

STATE OF NEW MEXICO
COMMISSION FOR DEAF & HARD OF HEARING PERSONS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 2. Summary of Significant Accounting Policies (Continued)

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.
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.

STATE OF NEW MEXICO
COMMISSION FOR DEAF & HARD OF HEARING PERSONS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 2. Summary of Significant Accounting Policies (continued)

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

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)	3 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.

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:

<u>Years of Service</u>	<u>Hours Earned Per Pay Period</u>
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

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, 2011 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, 2011.

STATE OF NEW MEXICO
COMMISSION FOR DEAF & HARD OF HEARING PERSONS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 2. Summary of Significant Accounting Policies (continued)

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

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

Unrestricted Net Assets - represent the net assets of the Commission at June 30, 2011 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.

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, 2011 which represents 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	\$ (1,381,623)
Telecommunications Access Special Revenue Fund	60400-08000	2,530,403
Deaf Cultural Center Capital Outlay Fund	60400-93100	100,000
Total		\$ 1,248,780

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, 2011. 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 and Other Receivable

The Telecommunications Access Special Revenue Fund (Agency #60400, Fund #08000) was owed \$326,584 by the State of New Mexico, Taxation and Revenue Department (Agency #82600) at June 30, 2011 for taxes collected for this Fund but not yet remitted at June 30, 2011.

The General Fund (Agency #60400, Fund #04600) was owed a miscellaneous receivable in the amount of \$520.

STATE OF NEW MEXICO
COMMISSION FOR DEAF & HARD OF HEARING PERSONS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 5. Capital Assets

A summary of changes in the capital assets for the year ended June 30, 2011 as follows:

Capital Assets	Balance			Prior Period	Balance
	June 30, 2010	Additions	Deletions	Adj.	June 30, 2011
Machinery & Equipment	\$ 15,510	\$ -	\$ -	\$ (15,510)	\$ -
Computer Equipment	73,405	-	-	(30,801)	42,604
Total	88,915	-	-	(46,311)	42,604

Accumulated Depreciation	Balance			Prior Period	Balance
	June 30, 2009	Additions	Deletions	Adj.	June 30, 2011
Machinery & Equipment	\$ 15,510	\$ -	\$ -	\$ (15,510)	\$ -
Computer Equipment	73,405	6,701	-	(44,902)	35,204
Total	88,915	6,701	-	(60,412)	35,204

Total Capital Assets					
Net of Accumulated					
Depreciation	\$ -	\$ (6,701)	\$ -	\$ 14,101	\$ 7,400

Depreciation expense for the year ended June 30, 2011 was \$6,701. All of the depreciation expense of \$6,701 was allocated to the Commission's general government function.

NOTE 6. Compensated Absences

A summary of changes in the compensated absences payable for the year ended June 30, 2011 is as follows:

	Balance			Balance	Due
	June 30,	Increases	Decreases	June 30,	Within
	2010			2011	One Year
Compensated Absences Payable	\$ 39,968	\$ 27,396	\$ 23,159	\$ 44,205	\$ 44,205

\$44,205 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, 2011

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, 2011, 2010 and 2009 was \$90,966, \$92,085 and \$113,074, 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. During the fiscal year ended June 30, 2011, the statute required each participating employer to contribute 1.666% of each participating employee’s annual salary; each participating employee was required to contribute .8333% of their salary. “In the fiscal years ending June 30, 2012 and June 30, 2013 the contribution rates for employees and employers will rise as follows:

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

Also, 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, 2011

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, 2011, 2010 and 2009 were \$9,988, \$7,909 and \$8,861 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, 2010, through June 30, 2011.

NOTE 10. Operating Leases

During the fiscal year ended June 30, 2011, the Commission had operating leases for a copy 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 for Fiscal year 2011 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, 2011 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

STATE OF NEW MEXICO
COMMISSION FOR DEAF & HARD OF HEARING PERSONS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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)	\$ 3,977,243	
Commission's Telecommunication Access Special Revenue Fund (Agency #60400, Fund #08000)		\$ 3,977,243
To transfer tax funds		
Commission's General Fund (Agency #60400, Fund #04600) State of New Mexico, Division of Vocational Rehabilitation (DVR) (Agency #50000)	416,000	416,000
To transfer funds to match federal funds used to provide deaf and hard-of-hearing services.		
Commission's General Fund (Agency #60400, Fund #04600) State of New Mexico Regulation and Licensing Department Signed Language Interpreting Practices Fund (Agency #42000, Fund #02011)	160,800	160,800
To transfer funds as required by state statute.		

NOTE 12. Interfund Receivables and Payables

The Commission recorded a temporary interfund receivable and payable from the Special Revenue Fund (SHARE# 08000) to the General Fund (SHARE #04600) to cover operating costs. For fiscal year 2011, the amount of the interfund was \$3,162,472.

STATE OF NEW MEXICO
COMMISSION FOR DEAF & HARD OF HEARING PERSONS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 13. Deficit in General Fund

The General Fund had a deficit fund balance of \$4,762,870 at June 30, 2011. 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 schedule has not been properly maintained. An adjustment was needed in the amount of \$14,101 to restate prior year net assets. Adjustments were made for items the Commission was capitalizing that should not have been. The amount of beginning accumulated depreciation in the prior year's audit report was overstated, so an adjustment was made to correct the balances.

The Commission's vouchers payable was not properly disclosed in the prior year. An adjustment was needed in the amount of \$122,745 to correct vouchers payable.

The total net restatement for the Commission was \$108,644. This is reflected on the Government-Wide Financial Statements.

NOTE 15. Subsequent Accounting Standard Pronouncements

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*, which is effective for financial statement periods beginning after June 15, 2012. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. This Statement modifies certain requirements for inclusion of component units in the financial reporting entity and amends the criteria for reporting component units as if they were part of the primary government in certain circumstances.

In December of 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is effective for financial statements for periods beginning after December 15, 2011. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

The requirements in this Statement will improve financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source.

NOTE 16. Capital Outlay Appropriation

Pursuant to "Severance Tax Bonds, Laws of 2009, Chapter 125, Section 12", the Commission was appropriated \$100,000 to begin the planning stages of constructing a Deaf Cultural Center. The appropriation period is July 2011 through June 2013. During the year ended June 30, 2011, the Commission did not expend any money from this fund leaving an unexpended and unencumbered balance of \$100,000.

STATE OF NEW MEXICO
COMMISSION FOR DEAF & HARD OF HEARING PERSONS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 17. Governmental Fund Balance

Fund Balance: In the fund financial statements, governmental funds are reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Some governments may not have policies or procedures that are comparable to those policies that underlie the classifications and therefore would not report amounts in all possible fund balance classifications.

In the governmental financial statements, fund balance is classified and is displayed in five components:

Nonspendable: Consists of amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted: Consists of amounts that are restricted to specific purposes as a result of a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation.

Committed: Consist of amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action (for example, legislation, resolution, ordinance) it employed to previously commit those amounts.

Assigned: Consist of amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. Intent should be expressed by (a) the governing body itself or (b) a body (a budget or finance committee, for example) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes.

Unassigned: Represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

Detail relating to the fund balance classifications is displayed below:

STATE OF NEW MEXICO
COMMISSION FOR DEAF & HARD OF HEARING PERSONS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 17. Fund Balance (continued)

	<u>General Fund</u>	<u>Telecommunications Special Revenue Fund</u>	<u>Deaf Cultural Center Capital Outlay Fund</u>	<u>Total Funds</u>
Fund Balances:				
Nonspendable:				
Inventory	\$ -	\$ -	\$ -	\$ -
Restricted for:				
General fund	-	-	-	-
Special Revenue	-	6,019,459	-	6,019,459
Capital projects	-	-	100,000	100,000
Assigned to:				
Other capital projects	-	-	-	-
Other purposes	-	-	-	-
Unassigned:				
	<u>(4,762,870)</u>	<u>-</u>	<u>-</u>	<u>(4,762,870)</u>
Total fund balances	<u>\$ (4,762,870)</u>	<u>\$ 6,019,459</u>	<u>\$ 100,000</u>	<u>\$ 1,356,589</u>

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CAPITAL PROJECT FUND

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STATE OF NEW MEXICO
COMMISSION FOR DEAF & HARD OF HEARING PERSONS
DEAF CULTURAL CENTER CAPITAL OUTLAY FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET (GAAP BUDGETARY BASIS) AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011

Exhibit D-1

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Variance Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
<i>Revenues:</i>				
Telecommunications relay tax appropriations	\$ -	\$ -	\$ -	\$ -
<i>Total revenues</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</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>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Other Financing Sources (Uses):</i>				
Operating transfer out	-	-	-	-
Transfer to state general fund	-	-	-	-
Other financing sources	-	-	100,000	100,000
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>-</u>	<u>100,000</u>	<u>100,000</u>
<i>Net changes in fund balance</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 100,000</u>	<u>\$ 100,000</u>
<i>Reconciliation to GAAP Basis:</i>				
Adjustments to revenues			-	
Adjustments to expenditures			-	
Excess (deficiency) of revenues and other sources (uses) over expenditures (GAAP Basis)			<u>\$ 100,000</u>	

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

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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, 2011, and have issued our report thereon dated December 15, 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 2007-04, 2009-01, 2010-01, 2010-06, and 2010-07. 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 findings 2010-02, 2010-05 and 2011-01.

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
December 15, 2011

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STATE OF NEW MEXICO
COMMISSION FOR DEAF AND HARD OF HEARING
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2011

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 2007-04 Negative Investment Account – Repeated – Significant Deficiency

Condition: The Commission's general fund investment accounts were negative (\$1,381,624) at June 30, 2011.

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: NMCDHH will request the proper approval from DFA in advance for negative amounts, due to the NMCDHH Revenue being deposited on a monthly basis. The system is set up so that there is a constant outflow of cash in one account and the inflows in the other. That is always going to result in a negative cash (investment) balance

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FS 2009-01 Deficit Fund Balance – Repeated – Significant Deficiency

Condition: The Commission had a deficit fund balance of \$4,762,870 in its general fund at June 30, 2011.

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 deficit in the fund balance of the \$4,682,995 will be eliminated. The problem is that the two funds the agency has are not set up to automatically transfer from the revenue fund into the operating fund. We will meet with State Budget Division and CAFR to resolve the issue. The system is set up so that there is a constant outflow of cash in one account and the inflows in the other. That is always going to result in a negative cash (investment) balance.

FS 2010-01 Capital Assets – Revised and Repeated – Significant Deficiency

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. We also noted that management is still capitalizing assets with a purchase value of less than \$5,000 and has not properly maintained a depreciation schedule.

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. Additionally the State Auditor Rule 2.2.2.10, Subsection Y states that the Audit Act requires agencies to capitalize only chattels and equipment that cost over \$5,000.

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: Lack of effective procedures for reviewing capital assets to ensure that all assets being depreciated properly qualify for capitalization in accordance with the State Audit Rule.

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.

STATE OF NEW MEXICO
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SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2011

FS 2010-02 – Disbursements – Repeated – Control Deficiency

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 - five instances out of the twenty-five 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: The Commission is currently working on policies and procedures for purchase of goods and/or services and will enforce.

FS 2010-05 — Timeliness of Deposits & Lack of Supporting Documentation – Revised and Repeated – Control Deficiency

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

- Three out of seventeen in which a receipt was not deposited timely, totaling \$5,413.75.

Criteria: Effective internal controls over cash receipts should require the deposit of all cash receipts daily.

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. 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.

Management's Response: Commission has changed procedures for deposits and receipts. Two of the deposits totalizing \$5300.40 were held until it was confirmed that it belonged to the agency.

STATE OF NEW MEXICO
COMMISSION FOR DEAF AND HARD OF HEARING
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2011

FS 2010-06 – Internal Control Deficiencies Cash Receipts – Revised and Repeated – Significant Deficiency

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.

Auditors' Recommendation: 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 Commission has changed procedures for deposits and handling money. Lori will take deposits to the bank when we have a deposit.

FS 2010-07 Lack of Supporting Documentation – Repeated – Significant Deficiency

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 \$149.76.

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 followed at the time to prevent the loss of supporting documentation for these invoices.

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.

Management's Response: The Commission is going to train our staff on getting receipts every time they put gas or have a vehicle washed.

STATE OF NEW MEXICO
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SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2011

FS-2011-01 — Audit Report Not Submitted Timely

Condition: The Agency's audit report for the year ended June 30, 2011 was not submitted to the State Auditor by the required due date, December 15, 2011.

Criteria: Section 12-6-3 NMSA 1978 states that state agency reports are due no later than sixty days after the Financial Control Division of DFA provides the State Auditor with the notice that the Agency's books and records are ready and available for audit. This deadline cannot extend beyond December 15th.

Effect: The result was the late submission of the Agency's audit report for the year ended June 30, 2011.

Cause: The Agency's 2010 audit report was not submitted until July 2011, this caused the delay of the submission for the 2011 report.

Auditors' Recommendations: The Agency and their auditor should ensure through thorough review and communication that items are prepared timely for on time submission to the state auditor.

Management's Response: The Commission ensures a timely submission of next year's audit.

Section III – Prior Year Audit Findings

FS 2007-04: Negative Investment Account - Repeated

FS 2009-01: Deficit Fund Balance - Repeated

FS 2010-01: Capital Assets – Repeated and Revised

FS 2010-02: Disbursements – Repeated

FS 2010-03: Travel & Per Diem – Resolved

FS 2010-04: Payroll Personnel Files – Resolved

FS 2010-05: Timeliness of Deposits & Lack of Supporting Documentation – Revised and Repeated

FS 2010-06: Internal Control Deficiencies Cash Receipts – Revised and Repeated

FS 2010-07: Lack of Supporting Documentation – Repeated

FS-2010-08: Late Audit Report – Resolved

Section IV – Other Disclosures

Auditor Prepared Financials

Griego Professional Services, LLC assisted in the preparation of the financial statements presented in this report. The Commission's management has reviewed and approved the financial statements and related notes and they believe that their records adequately support the financial statements.

Exit Conference

The contents of this report were discussed on December 15, 2011. The following individuals were in attendance.

New Mexico State Personnel Board
Deborah Romero, Management Analyst
Mark Apodaca, Board President

Griego Professional Services, LLC
J.J. Griego, CPA