

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

**FINANCIAL STATEMENTS**

**JUNE 30, 2014**

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

TABLE OF CONTENTS

Official Roster	1
Independent Auditor's Report	2
Management's Discussion and Analysis	5
<b>Basic Financial Statements</b>	
Government-Wide Financial Statements:	
Statement of Net Position	10
Statement of Activities	11
Fund Financial Statements:	
Balance Sheet - Governmental Funds	12
Reconciliation of the Balance Sheet to the Statement of Net Position	13
Statement of Revenues, Expenditures and Changes in Fund Balances -- Governmental Funds	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Statement of Revenues, Expenditures and Changes in Fund Balances -- Budget and Actual:	
General Fund	16
Special Revenue Fund	17
Notes to Financial Statements	18
<b>Supplemental Information</b>	
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget (Non- GAAP Budgetary Basis) and Actual: Capital Fund	37
<b>Compliance Section</b>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	38
Schedule of Findings and Responses	40
Exit Conference	43

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

*Official Roster  
June 30, 2014*

**Commission**

<b><u>Name</u></b>	<b><u>Position</u></b>
Mark Apodaca	Chairman
Debbie Hambel	Vice Chair
Dr. Ron Stern	Secretary
Luis Quinonez	Member
Austin Welborn	Member
Rafael Gonzalez	Member
John A Johnson	Member

**Administrative Officials**

<b><u>Name</u></b>	<b><u>Position</u></b>
Nathan Gomme	Executive Director
Deborah Romero	Director of Administrative Services
Lisa Dignan	Director of Communication Access and Development
Sam Martinez III	Director of Telecommunications and Technical Assistance/Relay Administrator
Cornia Gutierrez	Director or Public Policy and Advocacy

Mr. Hector Balderas, New Mexico State Auditor  
and the Commission for the Deaf and Hard of Hearing  
Albuquerque, New Mexico

### **Report on Financial Statements**

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 (the Commission), as of and for the year ended June 30, 2014, and the related notes to the financial statements which collectively comprise the Commission's basic financial statements as listed in the table of contents. We also have audited the financial statements of the Commission's nonmajor governmental fund and the budgetary comparison for the nonmajor fund presented as supplementary information, as defined by the Government Accounting Standards Board, as of and for the year ended June 30, 2014, as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Mr. Hector Balderas, New Mexico State Auditor  
and the Commission for the Deaf and Hard of Hearing  
Albuquerque, New Mexico

## **Opinions**

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 remaining fund information of the Commission, as of June 30, 2014, and the respective changes in financial position 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. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the nonmajor governmental fund of the Commission as of June 30, 2014, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the nonmajor fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the Commission's financial statements and budgetary comparisons. Other schedules required by 2.2.2 NMAC are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other schedules required by 2.2.2 NMAC are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other schedules required by 2.2.2 NMAC are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Mr. Hector Balderas, New Mexico State Auditor  
and the Commission for the Deaf and Hard of Hearing  
Albuquerque, New Mexico

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2014 on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

*Ricci & Company LLC*

Albuquerque, New Mexico  
November 13, 2014



## Management's Discussion and Analysis

The New Mexico Commission for Deaf and Hard of Hearing (NMCDHH) was established by the New Mexico Legislature (NMSA 1978 § 28-11B-2) to promote services for Deaf, Hard of Hearing, and Deaf-Blind throughout New Mexico.

### Mission Statement

The State of New Mexico Commission for Deaf and Hard of Hearing provides effective leadership, education, advocacy, and programs to reduce barriers to the social, economic, educational, cultural, and intellectual well-being of Deaf and Hard of Hearing New Mexicans and their families, friends, and colleagues.

### Vision Statement – “Impact and Empower”

The State of New Mexico Commission for Deaf and Hard of Hearing is a dynamic resource that will enhance the quality of life for Deaf and Hard of Hearing citizens of New Mexico by being:

- The recognized advocate in important issues impacting the Deaf and Hard of Hearing Community
- The proactive provider of innovative programs and services
- The statewide umbrella and information clearinghouse for interested individuals, organizations, agencies and institutions

The Commission is an independent state commission with seven board members. The Commission's Executive Director reports directly to the Board and is responsible for all operations of the Commission. The commission has four departments, with a manager that leads each department. The department staff report directly to the manager. The department managers report directly to the Executive Director.

### Administrative Services

The Administrative Services Department is responsible for the Budget and Finance of the agency, which includes the following duties: accounting, budgeting, financial reporting, accounts payable, accounts receivable, travel reimbursement, fund management, budget development and monitoring, financial analysis, financial reporting, audit coordination, and ensuring compliance with state and federal requirements. The department provides services in support to the commission departments. Support services provided include payroll and timekeeping, contract monitoring, mailroom services, information technology, and other general support services that are required for the daily operation of the commission.

### Communication Access & Development

The Communication Access and Development Department at NMCDHH strives to improve the quality of communication access for deaf and hard of hearing citizens of New Mexico. The department provides professional development opportunities for signed language interpreters, refers interpreters to other professional development opportunities, assists organizations with finding qualified interpreters, and works with other agencies and the community to develop additional resources for high-quality communication access. Services include:

- New Mexico Mentoring
- Signed Language Interpreter Licensure

- Interpreter Referral Information
- Captioning Referral Information
- Professional Development Opportunities for Signed Language Interpreters

### **Telecommunications & Technical Assistance**

The Telecommunications and Technical Assistance Department (TTAD) acts as the initial information resource for the public related to issues of Deafness and hearing loss. TTAD also manages the NMCDHH website and creates all promotional materials. Services include:

- Telecommunications Equipment Distribution
- Telecommunications Relay Service
- Training and Development
- Outreach

### **Public Policy & Advocacy**

The Public Policy and Advocacy Department (PPAD) provides individual advocacy, system advocacy, transition services, and public policy development. NMCDHH partners with state agencies to collaborate on services for all people with disabilities, and participates in special projects such as providing outreach to Deaf American Indians/Native Americans and ensuring conference accessibility. Services include:

- Individual and Systems Advocacy
- Transition Services
- Public Policy Development

### **GOVERNMENT-WIDE FINANCIAL STATEMENTS.**

The *government-wide financial statements* are designed to provide readers with a broad overview of NMCDHH's finances, in a manner similar to a private-sector business.

#### **Basic Financial Statements – Statement of Net Position and Statement of Activities**

The statement of net position includes all of the government assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of NMCDHH is improving or deteriorating. The statement of activities presents information showing how NMCDHH's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

### **FUND FINANCIAL STATEMENTS.**

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The NMCDHH, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the NMCDHH are considered governmental funds.

### **GOVERNMENTAL FUNDS**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in determining what financial resources are available in the near future to finance the NMCDHH's programs.



Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the agency's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

**Fund Financial Statements – Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance**

The fund financial statements provide more detailed information about NMCDHH's significant funds. NMCDHH operates on a small amount of State General Fund appropriations for a specific contract for Deaf/Blind service and Telecommunication Access Fund. The Telecommunication Access Fund's revenue is received from the New Mexico Taxation and Revenue department which collects a 0.33% surcharge from landline and wireless phone bills. This revenue is generally accounted for in the Telecommunication's Access Fund but was budgeted in the General Fund in FY14.

**Analysis of Financial Position-Statement of Net Position and Results of Operations- Statement of Activities**

	<u>Current Year June 30, 2014</u>	<u>Prior Year June 30, 2013</u>	<u>Increase or (Decrease)</u>
<b>Assets:</b>			
Investments in the State Treasurer General Fund Investments Pool	1,465,530	5,841,001	(4,375,471)
Due from other state agency	438,613	239,991	198,622
Prepaid asset	95,487	-	95,487
Capital assets, net	-	-	-
<b>Total Assets</b>	<b>1,999,630</b>	<b>6,080,992</b>	<b>(4,081,362)</b>
<b>Liabilities:</b>			
Current liabilities			
Investment account overdrafts	-	4,232,963	(4,232,963)
Account payable	109,914	282,958	(173,044)
Accrued payable	19,586	19,114	472
Due to other state agency	-	11,921	(11,921)
Compensated absences	31,939	44,848	(12,909)
<b>Total Liabilities</b>	<b>161,439</b>	<b>4,591,804</b>	<b>(4,430,365)</b>
<b>Net Position</b>			
Restricted for:			
Telecommunications access act special revenue project	1,836,527	12,468,894	(10,632,367)
Deaf cultural capital project	1,664	100,000	(98,336)
Unrestricted (deficit)	-	(11,079,706)	11,079,706
<b>Total Net Position</b>	<b>1,838,191</b>	<b>1,489,188</b>	<b>349,003</b>
<b>Total liabilities and net position</b>	<b>1,999,630</b>	<b>6,080,992</b>	<b>(4,081,362)</b>

	Current Year June 30, 2014	Prior Year June 30, 2013	Increase or (Decrease)
<b>Expenses</b>			
Personal services and employee benefits	819,503	818,427	1,076
Contractual services	1,599,996	1,774,121	(174,125)
Other costs	254,036	288,019	(33,983)
Depreciation	-	2,476	(2,476)
	<u>2,673,535</u>	<u>2,883,043</u>	<u>(209,508)</u>
<b>Revenues and Transfers</b>			
Other Revenues	12,546	-	12,546
Transfers:			
In from State general fund appropriation	300,000	300,000	-
Telecommunications relay tax	2,796,829	2,959,800	(162,971)
Out to other state agencies	(491,000)	(491,000)	-
	<u>2,618,375</u>	<u>2,768,800</u>	<u>(150,425)</u>
Change in net position	(55,160)	(114,243)	59,083
Net position, beginning	1,489,188	1,603,431	(114,243)
Restatement	404,163	-	404,163
Net position, beginning, as restated	<u>1,893,351</u>	<u>1,603,431</u>	<u>289,920</u>
Net position, ending	<u>1,838,191</u>	<u>1,489,188</u>	<u>349,003</u>

In compliance with state, law, NM Commission for Deaf and Hard of hearing adopts an annual appropriated budget and the NM Commission for Deaf and Hard of Hearing's original, final, and expended budget is shown in the budgetary statement.

### **Analysis of NM Commission for Deaf and Hard of Hearing Overall Financial Position and Result of Operations**

The changes in NM Commission for Deaf and Hard of Hearing's Financial Position (Statement of Net Position) and Operations (Statement of Activities) is primarily due to the Telecommunication Access Revenue which continues to decrease year to year. The collection of the revenue is not the responsibility of the NM Commission for Deaf and Hard of Hearing, but is the responsibility of NM Taxation and Revenue. Expenses decreased in the current period due to the four vacant positions the Commission had during most of the current fiscal year.

The Commission for Deaf and Hard of Hearing's capital assets consist of computer equipment and are fully depreciated as of June 30, 2014. There were no capital asset additions or disposals in the current fiscal year.

The Commission for Deaf and Hard of hearing did not acquire any debt during the current fiscal year; as such there is no related debt liability with in the accompanying financial statements as of June 30, 2014. The only long term liability is the amount of compensated absences expected to be paid after one year.

The Commission for Deaf and Hard of Hearing has requested an increase in funds for two additional FTE's, and a decrease in the transfer of funds to DVR in the FY16 Budget Request. The increase of FTE's is needed to fully meet the Agency's Performance Measures. The NMCDHH has not requested an increase in FTE since 2008 FY09. The Commission has been required to maintain a flat budget, until now.

The only liabilities the Commission has are vouchers payable, accrued payroll and compensated absences in the amount of \$161,439.

The Commission for Deaf and Hard of Hearing is a non-reverting agency to the State General Fund. The Commission for Deaf and Hard of Hearing was budget \$3,752,600 for FY14. There were no budget adjustments. The budget was under expended by \$531,537.

The Commission for Deaf and Hard of Hearing has enforced strict expenditure restrictions that have resulted in responsible monitoring of the budget overall evidenced by the under-expended amount of the approved budget noted above.

### **Request for Information**

The financial report is designed to provide a general overview of the State of New Mexico Commission for Deaf and Hard of Hearing's finances for all those interested in the Commission for Deaf and Hard of Hearing's fiscal health. Questions about this report or request for additional information can be directed to:

Nathan Gomme, Executive Director  
NM Commission for Deaf and Hard of Hearing  
2500 Louisiana Blvd. NE, Suite 400  
Albuquerque, New Mexico 87110

**STATE OF NEW MEXICO  
 COMMISSION FOR THE DEAF AND HARD OF HEARING  
 STATEMENT OF NET POSITION  
 June 30, 2014**

Governmental  
 Activities

**ASSETS**

Current Assets

Investment account with New Mexico State Treasurer	\$ 1,465,530
Due from other state agency	438,613
Prepaid asset	95,487

Capital Assets, net

-

**Total assets**

1,999,630

**LIABILITIES**

Current Liabilities

Accounts payable	109,914
Accrued payable	19,586
Compensated absences	31,939

**Total liabilities**

161,439

**NET POSITION**

Net investment in capital assets	-
Restricted for:	
General purposes	-
Telecommunications access act special revenue project	1,836,527
Deaf cultural capital project	1,664
Unrestricted	-

**Total net position**

\$ 1,838,191

*The Notes to the Financial Statements are an integral part of this statement.*

STATE OF NEW MEXICO  
 COMMISSION FOR THE DEAF AND HARD OF HEARING  
 STATEMENT OF ACTIVITIES  
 Year Ended June 30, 2014

	Governmental Activities
<b>Function/Program</b>	
<i>Primary Government Expenses:</i>	
General government:	
Personal services and employee benefits	\$ 819,503
Contractual services	1,599,996
Other costs	<u>254,036</u>
<b>Total expenses</b>	<u>2,673,535</u>
 <i>General Revenues and Transfers:</i>	
Other revenues	12,546
Transfers:	
State general fund appropriation	300,000
Telecommunications relay tax	2,796,829
Out to other state agencies	<u>(491,000)</u>
<b>Total general revenues and transfers</b>	<u>2,618,375</u>
 <b>Change in net position</b>	 (55,160)
Net position, beginning	1,489,188
Restatement	404,163
Net position, beginning, as restated	<u>1,893,351</u>
 <b>Net position, ending</b>	 <u>\$ 1,838,191</u>

*The Notes to the Financial Statements are an integral part of this statement.*

STATE OF NEW MEXICO  
 COMMISSION FOR THE DEAF AND HARD OF HEARING  
 BALANCE SHEET  
 GOVERNMENTAL FUNDS  
 June 30, 2014

	General Fund	Special Revenue Telecommunications	Capital Outlay Deaf Cultural Center Fund (Non-major Fund)	Total
<b>ASSETS</b>				
Current Assets:				
Investment with NM State Treasurer	\$ 139,036	1,324,830	1,664	<b>1,465,530</b>
Due from other state agency	438,613	-	-	<b>438,613</b>
Prepaid asset	95,487	-	-	<b>95,487</b>
<b>Total assets</b>	<b>\$ 673,136</b>	<b>1,324,830</b>	<b>1,664</b>	<b>1,999,630</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Current Liabilities:				
Accounts payable	\$ 109,914	-	-	<b>109,914</b>
Accrued payroll	19,586	-	-	<b>19,586</b>
<b>Total liabilities</b>	<b>129,500</b>	<b>-</b>	<b>-</b>	<b>129,500</b>
Fund Balances:				
Restricted for:				
Special revenue	543,636	1,324,830	-	<b>1,868,466</b>
Capital projects	-	-	1,664	<b>1,664</b>
<b>Total fund balance</b>	<b>543,636</b>	<b>1,324,830</b>	<b>1,664</b>	<b>1,870,130</b>
<b>Total liabilities and fund balances</b>	<b>\$ 673,136</b>	<b>1,324,830</b>	<b>1,664</b>	<b>1,999,630</b>

*The Notes to the Financial Statements are an integral part of this statement.*

STATE OF NEW MEXICO  
 COMMISSION FOR THE DEAF AND HARD OF HEARING  
 RECONCILIATION OF THE GOVERNMENTAL ACTIVITIES BALANCE SHEET  
 TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION  
 GOVERNMENTAL FUNDS  
 June 30, 2014

Amounts reported for governmental activities in the Statement of Net Position are different because:

Fund balances - total government funds	\$ 1,870,130
Some liabilities are not due and payable in the current period and therefore are not reported in the fund:	
Compensated absences	<u>(31,939)</u>
<b>Net position of governmental activities (Statement of Net Position)</b>	<b><u>\$ 1,838,191</u></b>

*The Notes to the Financial Statements are an integral part of this statement.*

STATE OF NEW MEXICO  
 COMMISSION FOR THE DEAF AND HARD OF HEARING  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 GOVERNMENTAL FUNDS  
 Year Ended June 30, 2014

	General Fund	Special Revenue Telecommunication Access Fund	Capital Outlay Deaf Cultural Center Fund (Non-major Fund)	Total
Revenues				
Other	\$ 12,546	-	-	12,546
<b>Total revenues</b>	<u>12,546</u>	<u>-</u>	<u>-</u>	<u>12,546</u>
Expenditures				
General government:				
Personnel services and benefits	\$ 832,412	-	-	832,412
Contractual services	1,599,996	-	-	1,599,996
	254,036	-	-	254,036
<b>Total expenditures</b>	<u>2,686,444</u>	<u>-</u>	<u>-</u>	<u>2,686,444</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>(2,673,898)</u>	<u>-</u>	<u>-</u>	<u>(2,673,898)</u>
<b>Other Financing Sources (Uses)</b>				
Operating transfer in	7,884,264	-	-	7,884,264
Operating transfer out	-	(7,884,264)	-	(7,884,264)
Transfers from other state agencies:				
State general fund appropriation	300,000	-	-	300,000
Telecommunications relay tax	2,796,829	-	-	2,796,829
Transfers to other state agencies	(491,000)	-	-	(491,000)
<b>Total other financing sources (uses)</b>	<u>10,490,093</u>	<u>(7,884,264)</u>	<u>-</u>	<u>2,605,829</u>
<b>Net change in fund balances</b>	<u>7,816,195</u>	<u>(7,884,264)</u>	<u>-</u>	<u>(68,069)</u>
Fund balance, beginning of year	(7,676,722)	9,209,094	1,664	1,534,036
Restatement	404,163	-	-	404,163
Fund balance, beginning of year, as restated	<u>(7,272,559)</u>	<u>9,209,094</u>	<u>1,664</u>	<u>1,938,199</u>
<b>Fund balance, end of year</b>	<u>\$ 543,636</u>	<u>1,324,830</u>	<u>1,664</u>	<u>1,870,130</u>

*The Notes to the Financial Statements are an integral part of this statement.*



STATE OF NEW MEXICO  
 COMMISSION FOR THE DEAF AND HARD OF HEARING  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 Year Ended June 30, 2014

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

Net change in fund balances - total governmental funds	\$ (68,069)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, not reported as expenditures in governmental funds.	
Decrease in accrued compensated absences	<u>12,909</u>
<b>Change in net position of governmental activities (Statement of Activities)</b>	<b><u><u>\$ (55,160)</u></u></b>

*The Notes to the Financial Statements are an integral part of this statement.*

STATE OF NEW MEXICO  
 COMMISSION FOR THE DEAF AND HARD OF HEARING  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
 BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL - MAJOR GOVERNMENTAL FUNDS  
 GENERAL FUND  
 Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance Favorable (Unfavorable)
		Final		
Revenues				
Other	\$	-	-	12,546
				<u>12,546</u>
<b>Total revenues</b>		-	-	<u>12,546</u>
Expenditures				
Current:				
General government:				
Personnel services		1,087,400	1,087,400	831,940
Contractual services		1,844,400	1,844,400	1,481,584
Other costs		329,800	329,800	416,319
				<u>(86,519)</u>
<b>Total expenditures</b>		<u>3,261,600</u>	<u>3,261,600</u>	<u>2,729,843</u>
				<u>531,757</u>
<b>Excess (deficiency) of revenues over expenditures</b>		<u>(3,261,600)</u>	<u>(3,261,600)</u>	<u>(2,717,297)</u>
				<u>(519,211)</u>
Other Financing Sources (Uses)				
Operating transfers in		-	-	7,884,264
Transfers from other state agencies:				
State general fund appropriation		300,000	300,000	300,000
Telecommunications relay tax		3,252,600	3,252,600	2,796,013
Transfers to other state agencies		(491,000)	(491,000)	(491,000)
				<u>-</u>
<b>Total other financing sources (uses)</b>		<u>3,061,600</u>	<u>3,061,600</u>	<u>10,489,277</u>
				<u>(7,427,677)</u>
<b>Net change in fund balance</b>		<u>(200,000)</u>	<u>(200,000)</u>	<u>7,771,980</u>
				<u>(7,946,888)</u>
Fund balances, beginning of year		200,000	200,000	(4,190,642)
Restatement		-	-	404,163
Fund balances, beginning of year, as restated		<u>200,000</u>	<u>200,000</u>	<u>(3,786,479)</u>
				<u>3,986,479</u>
<b>Fund balances, end of year</b>	\$	<u>-</u>	<u>-</u>	<u>3,985,501</u>
				<u>(3,960,409)</u>
<b>Reconciliation to GAAP basis:</b>				
Other financing sources (uses), budgetary basis			\$	10,489,277
Changes in accounts receivable				816
Other financing sources (uses), GAAP basis			\$	<u>10,490,093</u>
Expenses, budgetary basis			\$	2,729,843
Changes in accounts payable				(162,283)
Changes in accrued liabilities				472
Deferred outflow of resources				118,412
Expenses, GAAP basis			\$	<u>2,686,444</u>

The Notes to the Financial Statements are an integral part of this statement.

STATE OF NEW MEXICO  
 COMMISSION FOR THE DEAF AND HARD OF HEARING  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
 BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL - MAJOR GOVERNMENTAL FUNDS  
 TELECOMMUNICATIONS ACCESS SPECIAL REVENUE FUND  
 Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		Actual Amounts Budgetary	Variance Favorable (Unfavorable)
	Final		Basis	
Revenues				
Other	\$ -	-	-	-
	<hr/>			
<b>Total revenues</b>	-	-	-	-
	<hr/>			
Expenditures				
Current:				
General government:				
Personnel services	-	-	-	-
Contractual services	-	-	-	-
Other costs	-	-	-	-
	<hr/>			
<b>Total expenditures</b>	-	-	-	-
	<hr/>			
<b>Excess (deficiency) of revenues over expenditures</b>	-	-	-	-
	<hr/>			
Other Financing Sources (Uses)				
Operating transfers in	-	-	-	-
Operating transfers out	-	-	(7,884,264)	7,884,264
Transfers from other state agencies	-	-	-	-
Transfers to other state agencies	-	-	-	-
	<hr/>			
<b>Total other financing sources (uses)</b>	-	-	(7,884,264)	7,884,264
	<hr/>			
<b>Net change in fund balance</b>	-	-	(7,884,264)	7,884,264
	<hr/>			
Fund balances, beginning of year	-	-	5,786,255	(5,786,255)
	<hr/>			
<b>Fund balances, end of year</b>	\$ -	-	(2,098,009)	2,098,009
	<hr/> <hr/>			

*The Notes to the Financial Statements are an integral part of this statement.*

**STATE OF NEW MEXICO  
COMMISSION FOR THE DEAF AND HARD OF HEARING  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014**

**NOTE 1. HISTORY AND ORGANIZATION**

The Commission for the deaf and hard of Hearing (the 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, 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.

Prior to 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 the deaf and hard of Hearing 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.

**STATE OF NEW MEXICO  
COMMISSION FOR THE DEAF AND HARD OF HEARING  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 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 No. 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 No. 37 and No. 38 which affect GASB No. 34 and its implementation.

**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.

STATE OF NEW MEXICO  
COMMISSION FOR THE DEAF AND HARD OF HEARING  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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 Statements No. 34, No. 63, and No. 65**

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 Position, 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, 2014, and the Commission has decided not to apply any FASB pronouncements issued after November 30, 1989.

GASB No. 63 amends GASB 34 to incorporate deferred outflows of resources and deferred inflows of resources in the financial reporting model.

*Deferred outflows of resources* – a consumption of net assets by the government that is applicable to a future reporting period. It has a positive effect on net position, similar to assets.

*Deferred inflows of resources* – an acquisition of net assets by the government that is applicable to a future reporting period. It has a negative effect on net position, similar to liabilities.

*Net position* – the residual of the net effects of assets, deferred outflows of resources, liabilities, and deferred inflows of resources.

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, 2014. However, the Commission did receive telecommunications access relay taxes during the year ended June 30, 2014. Revenue is recognized when taxes are remitted to the Commission by the State of New Mexico Taxation and Revenue Department. The Commission includes only one function, general government.

**STATE OF NEW MEXICO  
COMMISSION FOR THE DEAF AND HARD OF HEARING  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014**

**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 governmental 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 governmental-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.

STATE OF NEW MEXICO  
COMMISSION FOR THE DEAF AND HARD OF HEARING  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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 Commission after considering the criteria for major funds. Only individual governmental or individual enterprise funds can be considered for major fund status.

**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 governmental funds:

General Fund (SHARE FUND No. 04600 - nonreverting as of July 1, 2005) is the general operating fund of the Commission. 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).

Special Revenue Fund (SHARE FUND No. 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 (SHARE FUND No. 93100-reverting 6/30/2014) 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.

**Non-Current Governmental Assets/Liabilities**

GASB Statement No. 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 Position.



STATE OF NEW MEXICO  
COMMISSION FOR THE DEAF AND HARD OF HEARING  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 using the economic financial resource measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from exchange transactions are recognized when the exchange takes place. 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 No. 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:

- No later than September 1st, the Commission prepares a budget appropriation request by category to be presented to the next Legislature.
- 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).
- DFA makes recommendations and adjustments to the appropriation request which then becomes the Governor's proposal to the Legislature.
- The LFC holds hearings on the appropriation request, also submitting recommendations and adjustments before presentation to the Legislature.

STATE OF NEW MEXICO  
COMMISSION FOR THE DEAF AND HARD OF HEARING  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

- Both the DFA's and LFC's recommended appropriation proposals are presented to the Legislature for approval of the final budget plan.
- 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.
- The Act is signed into law by the Governor of the State of New Mexico within the legally prescribed time limit.
- 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.
- 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.
- Legal budget control for expenditures and encumbrances is by category of line item. Formal budgetary integration is employed as a management control device during the fiscal year for the General Fund and the Special Revenue Fund.
- 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 none of these accounts payable at June 30, 2014.

**F. Assets, Deferred Outflows of Resources, 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.

**Prepaid asset:** Each year the Commission purchases a bulk amount telecommunications equipment that is maintained in stock to service the needs of the deaf and hard of hearing population in New Mexico. The inventory is held by a third party and is "virtual." That is, the inventory is based on a cash value, not the physical item, which eliminates the risk of obsolete inventory. Inventory cash value can be moved from product to product as warranted by demand or utility. The third party provides the Commission with regular inventory status reports. Should the contract with the third party terminate, the inventory cash value will be converted to physical units (selected by the Commission), and the inventory will be physically delivered to the Commission.

STATE OF NEW MEXICO  
 COMMISSION FOR THE DEAF AND HARD OF HEARING  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2014

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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)	3 to 8 years
Furniture and fixtures	10 years

GASB Statement No. 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:

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

STATE OF NEW MEXICO  
COMMISSION FOR THE DEAF AND HARD OF HEARING  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Restrictions of Fund Balances:** Restrictions 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 restrictions of fund balance accounts at June 30, 2014 were:

Restricted for Telecommunications Access Act: Represents funds restricted by enabling legislation and held in accordance with the Telecommunications Access Act.

Restricted for Deaf Cultural Center: Represents funds restricted by enabling legislation and held in accordance for use by the Deaf Cultural Center Capital Outlay Fund.

**Net Position:** The government-wide financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted, and unrestricted.

**Net investment in capital assets** is intended to reflect the portion of net assets which are associated with non-liquid, capital assets less outstanding capital asset related debt. The Commission did not have any related debt during the year ended June 30, 2014.

**Restricted for Telecommunications Access Act and Deaf Cultural Center** represent the net assets restricted due to the Telecommunications Access Act and for the Deaf Cultural Center, respectively.

**Unrestricted Net Position** represents the net assets of the Commission at June 30, 2014 that are not invested in capital assets and that are not restricted.

When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first, then unrestricted resources as they are needed.

**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. 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.

STATE OF NEW MEXICO  
 COMMISSION FOR THE DEAF AND HARD OF HEARING  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2014

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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 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:* Consists 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 Commission. 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:* Consists 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 Commission 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:

	General Fund	Special Revenue Telecommunications Access Fund	Capital Outlay Deaf Cultural Center Fund	Total
<b>Fund Balances:</b>				
<b>Restricted for:</b>				
General purposes	\$ -	\$ -	\$ -	\$ -
Telecommunications access special	543,636	1,324,830	-	1,868,466
Deaf cultural center capital project	-	-	1,664	1,664
<b>Assigned to:</b>				
Other capital projects	-	-	-	-
Other purposes	-	-	-	-
<b>Unassigned</b>				
Total fund balances	\$ 543,636	\$ 1,324,830	\$ 1,664	\$ 1,870,130

STATE OF NEW MEXICO  
 COMMISSION FOR THE DEAF AND HARD OF HEARING  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2014

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Commission considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Commission considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing body has provided otherwise in its commitment or assignment actions.

**H. 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 ACCOUNT AND INVESTMENT POLICY**

**Investment Accounts with State Treasurer**

The following is a summary of the investment accounts of the Commission with the New Mexico State Treasurer at June 30, 2014 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	\$ 139,036
Telecommunications Access Special Revenue Fund	60400-08000	1,324,830
Deaf Cultural Center Capital Outlay Fund	60400-93100	<u>1,664</u>
<b>Total</b>		<b><u>\$ 1,465,530</u></b>

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, 2014. 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.

STATE OF NEW MEXICO  
COMMISSION FOR THE DEAF AND HARD OF HEARING  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014

**NOTE 3. INVESTMENT ACCOUNT AND INVESTMENT POLICY (CONTINUED)**

For additional GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, information regarding cash held by the New Mexico State Treasurer, the reader should see the separate audit report for the New Mexico State Treasurer's Office for the fiscal year ended June 30, 2014.

**Interest in the General Fund Investment Pool**

State Law (Section 8-6-3 NMSA 1978) requires the Commission's cash be managed by the New Mexico State Treasurer's Office. Accordingly, the investments of the Commission consist of an interest in the General Fund Investment Pool managed by the New Mexico State Treasurer's Office.

Interest Rate Risk - The New Mexico State Treasurer's Office has an investment policy that limits investment maturities to five years or less on allowable investments. This policy is means of managing exposure to fair value losses arising from increasing interest rates. This policy is reviewed and approved annually by the New Mexico State Board of Finance.

Credit Risk - The New Mexico State Treasurer pools are not rated.

**General Fund Investment Pool Not Reconciled**

The General Fund Investment Pool is the State of New Mexico's main operating account. State revenues such as income taxes, sales taxes, rents and royalties, and other recurring revenues are credited to the General Fund Investment Pool. The fund also comprises numerous State agency accounts whose assets, by statute (Section 8-6-3 NMSA 1978), must be held at the State Treasury.

In June 2012, an independent diagnostic report revealed that Pool balances had not been reconciled at a "business unit by fund" level since the inception of the Statewide Human Resources, Accounting, and Management Reporting System (SHARE) system in July 2006. This report, entitled "Current State Diagnostic of Cash Control," also described a difference between Pool bank balances and the corresponding general ledger balances and indicated that the effect of reconciling items were unknown. The report, dated June 20, 2012, is available on the website of the New Mexico Department of Finance & Administration at: [http://www.nmdfa.state.nm.us/Cash\\_Control.aspx](http://www.nmdfa.state.nm.us/Cash_Control.aspx).

By state statute, the New Mexico Department of Finance and Administration (DFA) is responsible for the performance of monthly reconciliations with the balances and accounts kept by the State Treasurer. Therefore, under the direction of the State Controller / Financial Control Division Director, the Financial Control Division (FCD) of the New Mexico Department of Finance & Administration undertook action to address the situation. DFA/FCD initiated the Cash Management Remediation Project (Remediation Project) in partnership with the Office of the New Mexico State Treasurer, the New Mexico Department of Information Technology, and a contracted third party with expertise in the Enterprise System Software used by the State.

**STATE OF NEW MEXICO  
COMMISSION FOR THE DEAF AND HARD OF HEARING  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014**

**NOTE 3. INVESTMENT ACCOUNT AND INVESTMENT POLICY (CONTINUED)**

The Remediation Project objective was to design and implement changes necessary to ensure ongoing completion of timely, accurate and comprehensive reconciliation of the Pool. DFA has or is in the process of implementing all the recommendations resulting for the Remediation Project and has made changes to the State's SHARE system configuration, cash accounting policies and procedures, business practices, and banking structure. This has enabled DFA to complete timely and accurate reconciliation of bank to book balances at the State and Business Unit level on a post-implementation basis; however, it did not resolve historical reconciling items. Additional changes recommended by the Project continue to be cascaded through DFA and state agencies to support the Business Unit by Fund accounting requirements.

A plan to address historical reconciling items is being assessed and a separate initiative will need to be undertaken to resolve the historical reconciling items. Management considers it unlikely that this separate initiative will be successful in allocating all historical reconciling items to the State entities invested in the Pool. As a result, any remaining differences post specific allocation to Pool participants will be reported in the State General Fund.

The Cash Management Remediation close out report dated April 29, 2013 indicates the project was able to deliver to the State, the New Mexico Department of Finance and Administration (DFA), and the New Mexico Department of Information Technology (Procuring Agency) strategic initiatives by working to improve data security, client service, and business performance through information technology solutions. Project accomplishments included improved financial data processing functionality and system integration and reduced reliance on manual processes and system customizations.

Section 6-5-2.1(J) NMSA 1978 requires DFA to complete, on a monthly basis, reconciliation with the balances and accounts kept by the state treasurer and adopt and promulgate rules regarding reconciliation for state agencies. The Commission adheres to the standards established in the Cash Management Function of the Manual of Model Accounting Practices which was issued by the New Mexico Department of Finance and Administration – Financial Control Division. The Commission has taken every reasonable measure within its control to ensure that its cash balances in SHARE are correct.

**NOTE 4. DUE FROM OTHER STATE AGENCY AND OTHER RECEIVABLE**

The Commission's General Fund (Agency No. 60400, Fund No. 04600) was owed \$438,613 by the State of New Mexico Taxation and Revenue Department (Agency No. 82600) at June 30, 2014 for taxes collected for this fund but not yet remitted at June 30, 2014.



**STATE OF NEW MEXICO  
 COMMISSION FOR THE DEAF AND HARD OF HEARING  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2014**

**NOTE 5. CAPITAL ASSETS**

A summary of changes in the capital assets for the year ended June 30, 2014 is as follows:

	Balance, June 30, 2013	Additions	Deletions	Balance, June 30, 2014
Capital Assets				
Computer Equipment	\$ 42,604	-	-	42,604
Accumulated Depreciation				
Computer Equipment	(42,604)	-	-	(42,604)
Capital Assets, Net	\$ -	-	-	-

Depreciation expense for the year ended June 30, 2014 was \$0. All of the Commissions assets were fully depreciated at June 30, 2014.

**NOTE 6. COMPENSATED ABSENCES**

A summary of changes in the compensated absences payable for the year ended June 30, 2014 is as follows:

	Balance June 30, 2013	Increases	Decreases	Balance June 30, 2014	Due Within One Year
Compensated Absences	\$ 44,848	27,747	(40,656)	31,939	31,939

In the Statement of Net Position, \$31,939 has been classified as a current liability. 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 - PUBLIC EMPLOYEES RETIREMENT ASSOCIATION**

*Plan Description.* Substantially all of the Commission’s full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement, disability benefits, survivor benefits, and cost-of-living adjustments to plan members and beneficiaries. PER A 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 <http://www.pera.state.nm.us>.

STATE OF NEW MEXICO  
COMMISSION FOR THE DEAF AND HARD OF HEARING  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014

**NOTE 7. RETIREMENT PLAN - PUBLIC EMPLOYEES RETIREMENT ASSOCIATION  
(CONTINUED)**

*Funding Policy.* Plan members are required to contribute 8.92% 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, 2014, 2013 and 2012 were \$85,519, \$86,125, and \$90,563, respectively, which was equal to the amount of the required contribution for each year.

**NOTE 8. POST-EMPLOYMENT BENEFITS - STATE RETIREE HEALTH CARE PLAN**

*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 Commission (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, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during 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](http://www.nmrhca.state.nm.us).

**STATE OF NEW MEXICO  
COMMISSION FOR THE DEAF AND HARD OF HEARING  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014**

**NOTE 8. POST-EMPLOYMENT BENEFITS - STATE RETIREE HEALTH CARE PLAN  
(CONTINUED)**

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

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2014, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2014, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The Commission's contributions to the RHCA for the years ended June 30, 2014, 2013 and 2012 were \$10,331, \$11,421, and \$9,878, respectively, which equal the required contributions for each year.

**NOTE 9. OPERATING LEASES**

During the fiscal year ended June 30, 2014, 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 fiscal year 2012 and has a yearly rent expense of \$4,800.

The ten-year Albuquerque lease terminates December 31, 2014 and has an escalating annual rental cost. 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 terminated April 30, 2014. A new lease which terminates on May 31, 2018 was entered into during fiscal year 2014. The annual rental cost varies each year based on a 2.5% escalation. The lease includes an option to renew for three five-year renewals subject to the same terms and conditions except for the amount of the rental cost which will vary.

STATE OF NEW MEXICO  
 COMMISSION FOR THE DEAF AND HARD OF HEARING  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2014

**NOTE 9. OPERATING LEASES (CONTINUED)**

The Commission also has operating leases for four vehicles with varying lengths and payments.

For the year ended June 30, 2014 operating lease expenses consisted of the following amounts:

<u>Xerox Copier</u>	<u>Santa Fe</u>	<u>Albuquerque</u>	<u>Las Cruces</u>	<u>Vehicles</u>	<u>Total</u>
\$ 5,763	\$ 4,800	\$ 77,763	\$ 26,354	\$ 16,164	\$ 130,844

Future minimum operating lease commitments are as follows:

Year ending June 30:	
2015	\$ 89,824
2016	33,963
2017	34,651
2018	32,881
2019	3,671
Total	<u>\$ 194,990</u>

**NOTE 10. RISK MANAGEMENT**

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions and natural disasters for which the government carries commercial insurance. The Commission maintains insurance 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, 2013 through June 30, 2014. Management believes that a potential loss would be adequately covered by insurance and would not result in any material adverse effect on the financial condition of the Commission. During the past three years the Commission has not had any significant reductions in insurance coverage or settlements exceeding insurance coverage.

**NOTE 11. 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, 2014, the Commission did not expend any money from this fund leaving an unexpended and unencumbered balance of \$1,664.

**NOTE 12. INTERFUND TRANSFERS**

The Commission recorded an interfund transfer from the General Fund (SHARE No. 04600) to the Special Revenue Fund (SHARE No. 08000) in the amount of \$7,884,264 to cover operating costs related to the telecommunication fund.

STATE OF NEW MEXICO  
 COMMISSION FOR THE DEAF AND HARD OF HEARING  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2014

**NOTE 13. TRANSFERS TO / FROM 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 Department of Vocational Rehab (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 No. 82600)	\$ 2,796,829	
Commission's General Fund (Agency No. 60400, Fund No. 04600)		\$ 2,796,829

Purpose: Transfer tax funds

Commission's General Fund (Agency No. 60400, Fund No. 04600)	491,000	
State of New Mexico Division of Vocational Rehabilitation (DVR) (Agency No. 50000)		491,000

Purpose: Transfer funds to match federal funds used to provide deaf and hard of hearing services

Department of Finance & Administration (Agency No. 34100)	300,000	
Commission's General Fund (Agency No. 60400, Fund No. 04600)		300,000

Purpose: Transfer general appropriation funds

STATE OF NEW MEXICO  
 COMMISSION FOR THE DEAF AND HARD OF HEARING  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2014

**NOTE 14. RESTATEMENT OF BEGINNING BALANCES**

The beginning fund balance of the General Fund has been restated on the fund basis financial statements to record a prior period adjustment. A reconciliation of the prior period ending fund balance to the current year beginning balance for the General Fund is as follows:

Beginning fund balance	\$ (7,676,722)
Adjustment to correct opening fund balance	(7,542)
Adjustment to correct telecommunications relay tax revenue	197,806
Adjustment to record telecommunications equipment inventory	<u>213,899</u>
Beginning fund balance, as restated	<u>\$ (7,272,559)</u>

The above adjustment increased the prior year change in fund balance by \$404,163 and had no impact on the current year change in fund balance.

The beginning net position of the Governmental Activities in the government-wide Statement of Net Position has also been restated to record the prior period adjustments described above. A reconciliation of the prior period ending net position to the current year beginning net position for the Governmental Activities is as follows:

Beginning net position	\$ 1,489,188
Adjustment to correct opening fund balance	(7,542)
Adjustment to correct telecommunications relay tax revenue	197,806
Adjustment to record telecommunications equipment inventory	<u>213,899</u>
Beginning fund balance, as restated	<u>\$ 1,893,351</u>

The above adjustment increased the change in net position by \$404,163 for the prior year and had no impact on the current year change in net position.

**NOTE 15. SUBSEQUENT ACCOUNTING STANDARD PRONOUNCEMENTS**

GASB No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27*, approved in June 2012, and is effective for fiscal years beginning after June 15, 2014. The primary objective of this Statement is to improve accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts. This Statement requires the liability of employers and nonemployer contributing entities to employees for defined benefit pensions (net pension liability) to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (total pension liability), less the amount of the pension plan's fiduciary net position.

STATE OF NEW MEXICO  
 COMMISSION FOR THE DEAF AND HARD OF HEARING  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
 BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL - NON-MAJOR GOVERNMENTAL FUNDS  
 DEAF CULTURAL CENTER CAPITAL PROJECT FUND  
 Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		Actual Amounts Budgetary	Variance Favorable (Unfavorable)
	Final		Basis	
Revenues				
Other	\$ -	-	-	-
<b>Total revenues</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Expenditures				
Current:				
General government:				
Personnel services	-	-	-	-
Contractual services	-	-	-	-
Other costs	-	-	-	-
<b>Total expenditures</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Other Financing Sources (Uses)				
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
Transfers from other state agencies				
Transfers to other state agencies	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net change in fund balance</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Fund balances, beginning of year	-	-	12,425	(12,425)
<b>Fund balances, end of year</b>	<b>\$ -</b>	<b>-</b>	<b>12,425</b>	<b>(12,425)</b>

*The Notes to the Financial Statements are an integral part of this statement.*

# Ricci & Company LLC

CERTIFIED PUBLIC ACCOUNTANTS  
6200 UPTOWN BLVD. NE - SUITE 400  
ALBUQUERQUE, NM 87110

## **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***

### **Independent Auditor's Report**

Mr. Hector Balderas, New Mexico State Auditor  
and the Commission for the Deaf and Hard of Hearing  
Albuquerque, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, the budgetary comparisons of the general fund and major special revenue fund of the Commission for the Deaf and Hard of Hearing (the Commission), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and related budgetary comparisons of the Commission, presented as supplemental information, and have issued our report thereon dated November 13, 2014.

### **Internal Control Over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect 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. 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.



Mr. Hector Balderas, New Mexico State Auditor  
and the Commission for the Deaf and Hard of Hearing  
Albuquerque, New Mexico

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described in the accompanying schedule of findings and responses as item 2014-001.

### **The Commission's Response to Findings**

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

### **Purpose of this Report**

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

*Ricci & Company LLC*

Albuquerque, New Mexico  
November 13, 2014

**STATE OF NEW MEXICO  
COMMISSION FOR THE DEAF AND HARD OF HEARING  
SCHEDULE OF FINDINGS AND RESPONSES  
June 30, 2014**

**SECTION I – SUMMARY OF AUDIT RESULTS**

*Financial Statements:*

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

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**FS 2014-001 PERSONAL SERVICE CONTRACTOR –  
Finding that does not rise to the level of a significant deficiency**

**CONDITION**

In accordance with NMAC 2.2.2.10 H 2(b), as part of our audit we performed a test to ensure that personal service contractors engaged by the Commission met the Internal Revenue Service (IRS) guidelines to qualify as contract labor. We judgmentally selected a sample of three relationships for review, out of the nine total relationships identified as the population.

Our review determined that the Commission classified one worker as an independent contractor who it appears, based on IRS guidelines, should have been classified as an employee. The worker was paid \$6,451 in fiscal year 2014 to provide administrative and project support for the Commission's Las Cruces office, as well as outreach and sign language interpretation services, under a contract first executed in July 2011 and extended into fiscal year 2014. The worker performed duties primarily during the Commission's regular business hours at the Commission's office using the Commission's tools and resources. The duties performed by the worker were primarily administrative in nature and were judged to fall under the regular, routine business of the Commission.

We noted that the Commission's management recognized the potential misclassification of the worker in the audit year and subsequently ended the relationship in September 2014. The position vacated by the worker remains open as of the date of our fieldwork, and management is in the process of determining how to meet its staffing needs while remaining within the relevant guidelines.

**STATE OF NEW MEXICO  
COMMISSION FOR THE DEAF AND HARD OF HEARING  
SCHEDULE OF FINDINGS AND RESPONSES  
June 30, 2014**

**SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**CRITERIA**

In chapter 2 of IRS Publication 15-A, *Employer's Supplemental Tax Guide*, the IRS has established certain criteria to assist employers in making the distinction between classifying individuals as employees or independent contractors. Under these guidelines, employers must examine the relationship between the worker and the business and consider the degree of control and independence in the relationship with respect to three categories – behavioral control, financial control, and the relationship of the parties. Behavioral control covers facts that show whether the business has a right to direct and control what work is accomplished and how the work is done, through instructions, training, or other means. Financial control covers facts that show whether the business has a right to direct or control the financial and business aspects of the worker's job, including whether workers maintain their own office space and related equipment and how the business pays the worker. Relationship of the parties covers facts that show the type of relationship the parties had, including the permanency of the relationship and the extent to which services performed by the worker are a key aspect of the regular business of the agency.

**EFFECT**

The distinction between whether an individual is an employee or an independent contractor is important because there are certain laws that apply when an individual serves in the role of an employee rather than an independent contractor. For example, compensation to independent contractors is not subject to withholding for employment taxes, such as Federal Insurance Contributions Act and Medicare taxes. In addition, Public Employees Retirement Association contributions may be required for employees that are not required for independent contractors. Without adequate and sufficient information in public records to evidence the relevant facts and circumstances for classifying individuals as employees or independent contractors, there is an increased risk that the Commission may be subject to additional payroll taxes and penalties for individuals classified as independent contractors that should have been classified as employees.

**CAUSE**

The Commission's personnel needs exceeded its level of staffing authorized by the State of New Mexico. As a result, it contracted with the worker in order to serve the mission of the agency and meet the needs of New Mexico's deaf and hard of hearing community. In doing so, the Commission failed to properly evaluate and document the classification of the relationship with the worker under the IRS guidelines.

**STATE OF NEW MEXICO  
COMMISSION FOR THE DEAF AND HARD OF HEARING  
SCHEDULE OF FINDINGS AND RESPONSES  
June 30, 2014**

**SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**RECOMMENDATION**

The Commission should establish procedures to document the relevant facts and circumstances upon which workers are classified as independent contractors rather than employees. For circumstances in which the Commission is unable to establish the basis upon which a worker is an employee or independent contractor, the Commission may file Form SS-8, *Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholding*, with the IRS for it to make the determination. In addition, the Commission should consider amending its payroll reporting and, if appropriate, remit any required payroll taxes and retirement contributions for the employee to the appropriate Federal and State agencies.

**MANAGEMENT RESPONSE**

The New Mexico Commission for the Deaf and Hard of Hearing acknowledges the finding related to the designation of employee or contractor during Fiscal Year 14. During Fiscal Year 14 we had already acknowledge that the issue existed and removed the contractor role that was causing the classification issue. The Commission has also established better identification procedures to avoid repeating this issue. Currently the Commission is working to appropriately staff the agency so that our personnel needs are no longer exceeding the staffing authorized by the State of New Mexico. We are currently working to establish a temporary staff position and have requested the budget necessary to fill those positions.

**SECTION III – PRIOR YEAR FINDINGS**

FS 2009-01 Deficit Fund Balance	Resolved
FS 2013-01 Procurement Violation	Resolved

**STATE OF NEW MEXICO  
COMMISSION FOR THE DEAF AND HARD OF HEARING  
EXIT CONFERENCE  
June 30, 2014**

Exit Conference

The contents of this report were discussed on September 15, 2014. The following individuals were in attendance.

New Mexico Commission for Deaf & Hard of Hearing:

Mark Apodaca, Commission Chairman  
Nathan Gomme, Executive Director  
Deborah Romero, Director of Administrative Services

Ricci & Company, LLC:

Michelle Martinez, CPA  
Christina Cosme, CPA

Auditor Prepared Financials

Ricci & Company, 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.