

STATE OF NEW MEXICO
PUBLIC SCHOOL FACILITIES AUTHORITY



INDEPENDENT AUDITORS' REPORT
AND ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2011

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INTRODUCTORY SECTION

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STATE OF NEW MEXICO
PUBLIC SCHOOL FACILITIES AUTHORITY
FOR THE YEAR ENDED JUNE 30, 2011
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**OFFICIAL ROSTER
JUNE 30, 2011**

PUBLIC SCHOOL CAPITAL OUTLAY COUNCIL

<u>Name</u>	<u>Position</u>
David Abbey	Director, Legislative Finance Committee
Hanna Skandera	Deputy Secretary, Public Education Department
To be determined	Governor's Office
Richard Tavelli	Director, Construction Industries Division, Regulation and Licensing Department
Richard May	Secretary, Department of Finance & Administration
Joe Guillen	New Mexico School Boards Association
Frances Maestas	Director, Legislative Education Study Committee
Gene Gant	Member, Public Education Commission
Raul Burciaga	Director, Legislative Council Services

Administration

<u>Name</u>	<u>Position</u>
Robert Gorrell	Director
Tim Berry	Deputy Director
Jeff Eaton	Chief Financial Officer

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FINANCIAL SECTION

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Griego Professional Services, LLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Mr. Hector H. Balderas
New Mexico State Auditor and
Members of the Public School Capital Outlay Council
State of New Mexico
Public School Facilities Authority
Santa Fe, New Mexico

We have audited the accompanying basic financial statements consisting of the governmental activities, each major fund and the aggregate remaining fund information and the respective budgetary comparisons for the General Fund and the Bond Proceeds Capital Projects Special Revenue Fund of the State of New Mexico, Public School Facilities Authority, (Authority), as of and for the year ended June 30, 2011, which collectively comprise the Authority's basic financial statements, as listed in the Table of Contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Authority are intended to present the financial position and changes of financial position of only that portion of the governmental activities and each major fund and respective budgetary comparisons of the State of New Mexico attributable to the transactions of the Authority. They do not purport to, and do not, present fairly the financial position of the entire State of New Mexico as of June 30, 2011, or the changes in the financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Authority, as of June 30, 2011, and the respective changes in financial position thereof and the respective budgetary comparisons of the General Fund and the Bond Proceeds Capital Projects Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2011, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Phone (505) 856-2741 - Fax (505) 856-7510

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The Authority has not presented its *Management's Discussion and Analysis* that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the basic financial statements. The additional schedule listed as "Joint Powers Agreements" in the footnotes to the financial statements is presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

GRIEGO PROFESSIONAL SERVICES, LLC.

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December 15, 2011

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**BASIC
FINANCIAL STATEMENTS**

STATE OF NEW MEXICO
PUBLIC SCHOOL FACILITIES AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2011

Exhibit A-1

	Governmental Activities
ASSETS	
Current Assets	
Investment account with New Mexico State Treasurer	\$ 25,068,541
Other receivables	4,017
Prepaid expenses	-
Due from other state agency	42,435,447
Total Current Assets	67,508,005
Noncurrent Assets	
Capital assets	8,631,903
Less: accumulated depreciation	(2,761,263)
Total capital assets	5,870,640
Total assets	\$ 73,378,645
 LIABILITIES AND NET ASSETS	
Current Liabilities	
Investment account overdraft	\$ 78,583,809
Accounts payable	10,114,392
Accrued payroll	982,064
Accrued compensated absences - current	245,444
Deferred Revenue	42,435,447
Total Current Liabilities:	132,361,156
Total liabilities	132,361,156
 NET ASSETS	
Invested in capital assets	5,870,640
Unrestricted	(70,322,845)
Restricted for special appropriations	5,469,694
Total net assets	(58,982,511)
Total liabilities and net assets	\$ 73,378,645

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
PUBLIC SCHOOL FACILITIES AUTHORITY
STATEMENT OF ACTIVITIES
JUNE 30, 2011

Exhibit A-2

	Governmental Activities
EXPENSES:	
Education	\$ 142,192,392
General government:	
Personal services/employee benefits	3,715,015
Contractual services	484,308
Other costs	2,105,846
Depreciation	424,523
Total expenses	148,922,084
 REVENUES:	
General revenues:	
Transfer in-severance tax bond proceeds	119,946,241
Miscellaneous	762
Total general revenues	119,947,003
 Change in net assets	(28,975,081)
 Beginning net assets	(30,007,430)
 Ending net assets	\$ (58,982,511)

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
PUBLIC SCHOOL FACILITIES AUTHORITY
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2011

Exhibit B-1
(Page 1 of 2)

	<u>General Fund 94300</u>	<u>Bond Proceeds Capital Projects Special Revenue Fund 94700</u>	<u>Total</u>
ASSETS			
<i>Current:</i>			
Investment with New Mexico State Treasurer	\$ 25,038,377	\$ 30,164	\$ 25,068,541
Due from other state agencies	4,017	42,435,447	42,439,464
Prepaid expenses		-	-
<i>Total current assets</i>	<u>\$ 25,042,394</u>	<u>\$ 42,465,611</u>	<u>\$ 67,508,005</u>
 LIABILITIES AND FUND BALANCE			
<i>Current Liabilities:</i>			
Investment accounts overdraft	\$ 25,030,237	\$ 53,553,572	\$ 78,583,809
Accounts payable	30,033	10,084,359	10,114,392
Accrued payroll and benefits	308,233	673,831	982,064
Deferred Revenue	-	42,435,447	42,435,447
<i>Total liabilities</i>	<u>25,368,503</u>	<u>106,747,209</u>	<u>132,115,712</u>
 <i>Fund balance:</i>			
Unassigned	<u>(326,109)</u>	<u>(64,281,598)</u>	<u>(64,607,707)</u>
<i>Total fund balance</i>	<u>(326,109)</u>	<u>(64,281,598)</u>	<u>(64,607,707)</u>
 <i>Total liabilities and fund balance</i>	 <u>\$ 25,042,394</u>	 <u>\$ 42,465,611</u>	 <u>\$ 67,508,005</u>

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

STATE OF NEW MEXICO
PUBLIC SCHOOL FACILITIES AUTHORITY
GOVERNMENTAL FUND
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011

Exhibit B-1
(Page 2 of 2)

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

Fund balances - total governmental funds	\$ (64,607,707)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	
Capital Assets	8,631,903
Accumulated Depreciation	<u>(2,761,263)</u>
Total Capital Assets	<u>5,870,640</u>
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:	
Compensated absences	<u>(245,444)</u>
Total Net Assets	<u><u>\$ (58,982,511)</u></u>

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

STATE OF NEW MEXICO
PUBLIC SCHOOL FACILITIES AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2011

Exhibit B-2
(Page 1 of 2)

	General Fund 94300	Bond Proceeds Capital Projects Special Revenue Fund 94700	Total
<i>Revenues:</i>			
Miscellaneous	\$ 762	\$ -	\$ 762
<i>Total revenues</i>	762	-	762
<i>Expenditures:</i>			
Current:			
Education	-	142,192,392	142,192,392
General government:			
Personnel services and benefits	3,707,233	-	3,707,233
Contractual services	434,597	-	434,597
Other	2,163,037	-	2,163,037
<i>Total expenditures</i>	6,304,867	142,192,392	148,497,259
<i>Excess (deficiency) of revenues over expenditures</i>	(6,304,105)	(142,192,392)	(148,496,497)
<i>Other financing sources (uses):</i>			
Transfers in-severance tax bond proceeds	-	119,946,241	119,946,241
<i>Total other financing sources (uses)</i>	-	119,946,241	119,946,241
<i>Net change in fund balances</i>	(6,304,105)	(22,246,151)	(28,550,256)
<i>Fund balances - beginning of year</i>	5,977,996	(42,035,447)	(36,057,451)
<i>Fund balances - end of year</i>	\$ (326,109)	\$ (64,281,598)	\$ (64,607,707)

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

STATE OF NEW MEXICO
PUBLIC SCHOOL FACILITIES AUTHORITY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL
FUND TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

Exhibit B-2
 (Page 2 of 2)

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

Net change in fund balances - total governmental funds	\$ (28,550,256)
--	-----------------

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Capital Outlays	7,480
Depreciation expense	(424,523)

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

Increase in accrued compensated absences	<u>(7,783)</u>
Changes in Net Assets	<u><u>\$ (28,975,082)</u></u>

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

STATE OF NEW MEXICO
PUBLIC SCHOOL FACILITIES AUTHORITY
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET (GAAP BUDGETARY BASIS) AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Variance Favorable (Unfavorable)
	Original	Final		
<i>Revenues:</i>				
Other	\$ -	\$ -	\$ 762	\$ 762
<i>Total revenues</i>	-	-	762	762
<i>Expenditures:</i>				
Current:				
General Government				
Personal Services & Benefits	4,013,600	4,013,600.00	3,707,233	306,367
Contractual services	235,100	460,100	434,597	25,503
Other	1,598,300	3,666,800	2,163,037	1,503,763
<i>Total expenditures</i>	5,847,000	8,140,500	6,304,867	1,835,633
<i>Other Financing Sources (Uses):</i>				
Operating transfers in	5,847,000	8,140,500	-	8,140,500
<i>Total other financing sources (uses)</i>	5,847,000	8,140,500	-	8,140,500
<i>Excess (deficiency) of revenues over expenditures</i>	-	-	<u>\$ (6,304,105)</u>	<u>\$ 6,305,629</u>
Amount required to balance budget from current and future year bond proceeds appropriations	<u>\$ -</u>	<u>\$ -</u>		
<i>Reconciliation to GAAP Basis:</i>				
Adjustments to revenues			-	
Adjustments to expenditures			-	
Excess (deficiency) of revenues and other sources (uses) over expenditures (GAAP Basis)			<u>\$ (6,304,105)</u>	

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

STATE OF NEW MEXICO
PUBLIC SCHOOL FACILITIES AUTHORITY
BOND PROCEEDS CAPITAL PROJECTS SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET (GAAP BUDGETARY BASIS) AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Variance Favorable (Unfavorable)
	Original	Final		
<i>Revenues:</i>				
Other	\$ -	\$ -	\$ -	\$ -
<i>Total revenues</i>	-	-	-	-
<i>Expenditures:</i>				
Current:				
Personal Services & Benefits	-	-	-	-
Contractual services	-	-	49,711	(49,711)
Other	-	250,000	142,142,682	(141,892,682)
<i>Total expenditures</i>	-	250,000	142,192,393	(141,942,393)
<i>Other Financing Sources (Uses):</i>				
Operating transfer out	(5,847,000)	(8,140,500)	-	(8,140,500)
Transfer out to State of New Mexico General Fund	-	-	-	-
Transfer in - severance tax proceeds	-	250,000	119,946,241	(119,696,241)
<i>Total other financing sources (uses)</i>	(5,847,000)	(7,890,500)	119,946,241	(119,696,241)
<i>Excess (deficiency) of revenues over expenditures</i>	(5,847,000)	(8,140,500)	<u>\$ (22,246,152)</u>	<u>\$ 22,246,152</u>
Amount required to balance budget from current and future year bond proceeds appropriations	<u>\$ 5,847,000</u>	<u>\$ 8,140,500</u>		
<i>Reconciliation to GAAP Basis:</i>				
Adjustments to revenues			-	
Adjustments to expenditures			-	
Excess (deficiency) of revenues and other sources (uses) over expenditures (GAAP Basis)			<u>\$ (22,246,152)</u>	

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

STATE OF NEW MEXICO
PUBLIC SCHOOL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1. Summary of Significant Accounting Policies

The Deficiencies Correction Unit (DCU) of the Public Schools Capital Outlay Council was created under Senate Bill 167 of the 2001 laws and was budgeted for the first time for the year ended June 30, 2002. Under Senate Bill 513 of the 2003 laws, the DCU became the State of New Mexico Public School Facilities Authority (Authority). The new Authority consists of the staff, contracts, and equipment of the DCU and various staff, contracts, and equipment of the State Department of Education Capital Outlay Unit. Currently, the Authority is a fully independent agency vouchering through the State of New Mexico Department of Finance and Administration (DFA).

The State of New Mexico Legislature created the Authority to administer a state-wide program in which the deficiencies in the facilities of each public school district in the State of New Mexico were corrected on a school by school basis.

The financial statements for the Authority have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units.

A. Reporting Entity

The Public School Facilities Authority (Authority) was created under the Public School Capital Outlay Council pursuant to Subsection A of Section 22-24-9 NMSA 1978. Its activities are as provided for by Sections 22-24-1 to 22-24-11 and 22-20-1 NMSA 1978. The Authority is governed by the Public School Capital Outlay Council.

B. Basic Financial Statements - GASB Statement #34

The basic financial statements include both government-wide (based on the Authority as a whole) and fund financial statements. The new reporting model focus is on either the Authority as a whole or major individual funds (within the fund financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type activities. In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are presented on a consolidated basis by column, and are reflected on a full accrual, economic resources basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. The Authority did not have any business-type activities during the year ended June 30, 2011, and the Authority has decided not to apply any FASB pronouncements issued after November 30, 1989.

The government-wide Statement of Activities reflects both the gross and net cost per functional category, which are otherwise being supported by general government revenues. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function or a business-type activity. The Authority had no program revenues during the year ended June 30, 2011. The Authority includes only one function (general government).

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

STATE OF NEW MEXICO
PUBLIC SCHOOL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1. Summary of Significant Accounting Policies – (Continued)

B. Basic Financial Statements - GASB Statement #34 (continued)

present net cost by function or activity. The Authority does not currently employ indirect cost allocation systems. The Authority'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 Authority as an entity and the change in aggregate financial position resulting from the activities of the current fiscal period.

The fund financial statements are similar to the financial statements presented in the previous accounting model. Emphasis here is on the major funds in either the governmental or business-type categories. Non-major funds (by category) or fund type are summarized into a single column. The General Fund is required to be a major program, and the Special Revenue Fund also is required to be a major fund. Therefore, there are no nonmajor funds. The Authority has no fiduciary funds, but if the Authority 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 Authority's actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental activities column, a reconciliation is presented on the page following each statement, which briefly explains the adjustments necessary to transform the fund based financial statements into the governmental activities column on the government-wide presentation. Interfund accounts which are on the fund financial statements have been eliminated in the government-wide financial statements.

C. Basis of Presentation

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

These financial statements include all activities over which the Authority has oversight responsibility, including decision-making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability in fiscal matters. There are no organizations that meet the definition of a component unit that should be included in these financial statements. Under GASB Statement 14 (as amended by GASB 39), the Authority 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.

The financial transactions of the Authority 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

STATE OF NEW MEXICO
PUBLIC SCHOOL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1. Summary of Significant Accounting Policies – (Continued)

C. *Basis of Presentation (continued)*

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. Under the requirements of GASB #34, the Authority reports the following major governmental funds.

General Fund – The General Fund is the general operating fund of the Authority and is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is (SHARE FUND #94000-94300) is non-reverting in accordance with NMSA 22-24-5, 1978.

Special Revenue Fund- The Bond Proceeds Capital Projects Special Revenue Fund (SHARE FUND #94000-94700) is the program fund of the Authority. It is used to account for all funding received and for all expenditures made for the operation of the deficiencies correction program. This fund is a non-reverting fund in accordance with NMSA 22-24-5 1978.

D. *Measurement Focus and Basis of Accounting*

The government-wide financial statements are reported using the *economic resources 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.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

E. *Budgetary Process*

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

1. No later than September 1st, the Authority prepares a budget appropriation request by category to be presented to the next Legislature.
2. The appropriation request is submitted to the New Mexico Department of Finance and Administration's Budget Division (DFA) and to the Legislative Finance Committee (LFC).
3. DFA makes recommendations and adjustments to the appropriation request which then becomes the Governor's proposal to the Legislature.
4. The LFC holds hearings on the appropriation request, also submitting recommendations and adjustments before presentation to the Legislature.

STATE OF NEW MEXICO
PUBLIC SCHOOL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1. Summary of Significant Accounting Policies – (Continued)

E. *Budgetary Process (continued)*

5. Both the DFA's and LFC's recommended appropriation proposals are presented to the Legislature for approval of the final budget plan.
6. Budget hearings are scheduled before the New Mexico House Appropriations and Senate Finance Committees. The final outcome of these hearings are incorporated into the General Appropriations Act.
7. The Act is signed into law by the Governor of the State of New Mexico within the legally prescribed time limit.
8. The Authority submits, no later than May 1, to DFA an annual operating budget by category and line item based upon the appropriations made by the Legislature. The DFA - Budget Division reviews and approves the operating budget which becomes effective on July 1.
9. All subsequent budget adjustments must be approved by the Authority and the Director of the DFA - Budget Division. The budget for the current year was properly amended.
10. Legal budget control for expenditures and encumbrances is by category of line item.
11. Formal budgetary integration is employed as a management control device during the fiscal year for the General Fund and the Special Revenue Fund.
12. The budget is adopted on a modified accrual basis of accounting that is consistent with accounting principles generally accepted in the United States of America. This change was implemented with the laws of 2004, Chapter 114, Section 3, paragraph N and paragraph O. It is effective for fiscal years beginning July 1, 2004. However, there is a statutory exception per the General Appropriation Act, Laws of 2006, Chapter 109, Section 3, Subsections N and O. The budget is adopted on the modified accrual basis of accounting except for accounts payable accrued at the end of the fiscal year that do not get paid by the statutory deadline per Section 6-10-4 NMSA 1978. Those accounts payable must be paid out of the next year's budget. There were none of these accounts payable at June 30, 2009. A reconciliation is not provided because there were no differences between the budgetary basis and the modified accrual basis.
13. Each year the Legislature approves multiple year appropriations, which the State considers as continuing appropriations. The Legislature authorizes these appropriations for two to five years; however, it does not identify the authorized amount by fiscal year. Consequently, the appropriation is budgeted in its entirety the first year the Legislature authorizes it. The unexpended portion of the budget is carried forward as the next year's beginning budget balance until either the project period has expired or the appropriation has been fully expended. The budget presentations in these financial statements are consistent with the budgeting methodology.

STATE OF NEW MEXICO
PUBLIC SCHOOL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1. Summary of Significant Accounting Policies – (Continued)

E. *Budgetary Process (continued)*

The Authority's General Fund and Special Revenue Fund are not reverting funds.

F. *Property and Equipment*

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 Authority 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 Authority utilizes Internal Revenue Service guidelines to estimate the useful lives on fixed assets as follows:

Equipment	8 years
Computer equipment	4 to 8 years
Leasehold improvements	10 years
Portable classrooms	20 years

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

G. *Encumbrance 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, is employed as an extension of formal budgetary control in the General Fund and the Special Revenue Funds. Encumbrances not recorded as vouchers payable at year end lapse.

H. *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.

STATE OF NEW MEXICO
PUBLIC SCHOOL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1. Summary of Significant Accounting Policies – (Continued)

H. *Compensated Absences (continued)*

Qualified classified employees, per the schedule approved by the Authority, 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

I. *Reservations of Fund Balances*

Reservations of fund balances on the Governmental funds are created to either (1) satisfy legal covenants that require that a portion of the fund balance be segregated or (2) identify the portion of the fund balance that cannot be appropriated for future expenditures. The only specific reservation of fund balance accounts at June 30, 2011 was:

Reserved for Special Appropriations– This reserve was created to indicate that funds are held for unspent Special Appropriations.

J. *Net Assets*

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

Invested in Capital Assets, Net of Related Debt - is intended to reflect the portion of net assets which are associated with non-liquid, capital assets less outstanding capital asset related debt. The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost. The Authority did not have any related debt during the year ended June 30, 2011.

Unrestricted Net Assets (deficit) - represent the net assets of the Authority at June 30, 2011 that are not invested in capital assets and that are not restricted.

Restricted for Special Appropriations - represents the monies restricted for unspent special appropriations.

K. *Reclassifications and interfund eliminations*

Reclassifications: Certain amounts presented in prior year data have been reclassified in order to be consistent with the current year's presentation.

STATE OF NEW MEXICO
PUBLIC SCHOOL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1. Summary of Significant Accounting Policies – (Continued)

K. Reclassifications and interfund eliminations (continued)

Interfund Transactions: Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund from expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements are reported as transfers. Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

L. Revenues, Expenditures and Expenses

Substantially all governmental fund revenues are accrued. No allowance for doubtful accounts for the Due from other state agencies was necessary because this amount was due from bond proceeds held by another state agency, and it is considered fully collectible by management.

Expenditures are recognized when the related fund liability is incurred.

M. Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

N. Subsequent Events

Subsequent events have been evaluated through December 15, 2011, which is the date the financial statements were available to be issued.

STATE OF NEW MEXICO
PUBLIC SCHOOL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 2. Cash and cash equivalents

Investment (Overdraft) Accounts with State Treasurer

The following is a summary of the investment (overdraft) accounts of the Authority with the New Mexico State Treasurer which represent the Authority'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	94000-94300	\$ 25,038,377
General Fund	94000-94300	(25,030,237)
		8,140
Bond Proceeds Capital Projects Special Revenue Fund	94000-94700	\$ 30,164
Bond Proceeds Capital Projects Special Revenue Fund	94000-94700	(53,553,572)
		(53,523,408)
Total		\$ (53,515,268)

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 Authority which represent the Authority'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 Authority is not permitted to have any other investments, and the Authority did not have any other investments during the year ended June 30, 2011. There is no custodial risk in relation to the accounts at the Authority's level. The custodial risk would belong to the New Mexico State Treasurer.

NOTE 3. Capital Assets

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

	Balance 6/30/09	Additions	Deletions	Balance 6/30/10
Equipment	\$ 21,350	\$ —	\$ —	\$ 21,350
Computer Equipment	121,973	7,480	—	129,453
Portable Classrooms	8,481,100	—	—	8,481,100
Total Assets	8,624,423	7,480	—	8,631,903
Less Accumulated Depreciation:				
Equipment	7,643	—	—	7,643
Computer Equipment	100,056	468	—	100,524
Portable Classrooms	2,229,041	424,055	—	2,653,096
Total Accumulated Depreciation	2,336,740	424,523	—	2,761,263
Total Capital Assets	\$ 6,287,683	\$ (417,043)	\$ —	\$ 5,870,640

STATE OF NEW MEXICO
PUBLIC SCHOOL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3. Capital Assets (continued)

Depreciation expense for the year ended June 30, 2011 was \$424,523. All of the depreciation expense was allocated to the Authority's general government function.

NOTE 4. Compensated Absences Payable

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

	Balance June 30, 2010	Increases	Decreases	Balance June 30, 2011	Due Within One Year
Compensated Absences Payable	\$ 237,662	\$ 437,460	\$ 429,678	\$ 245,444	\$ 245,444

The liability at June 30, 2011 of \$245,444 has been recorded in the basic financial statements and represents the Authority's commitment to fund accrued vacation, sick leave and personal time off costs from future operations.

NOTE 5. Pension Plan – Public Employees Retirement Association

A. *Plan Description*

Substantially all of the Authority'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 benefits, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, NM 87504-2123. The report is also available on PERA's website at www.pera.state.nm.us.

B. *Funding Policy*

Plan members are required to contribute 7.42% of their gross salary. The Authority is required to contribute 16.59% of the gross covered salary. The contribution requirements of plan members and the Authority are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Authority's contributions to PERA for the fiscal years ending June 30, 2011, 2010 and 2009 were \$395,218, \$456,140 and \$470,202 respectively, which equal the amount of the required contributions for each fiscal year.

STATE OF NEW MEXICO
PUBLIC SCHOOL FACILITIES AUTHORITY
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JUNE 30, 2011

NOTE 6. Post-Employee Benefits – State Retiree Health Care Plan

A. Plan Description

The Authority contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the 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 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. The report and further information can be obtained by writing to the Retiree Health Care Authority at 4308 Carlisle NE, Suite 104, Albuquerque, NM 87107.

B. Funding Policy

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

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that established the required contributions of participating employers and their employees. During the fiscal year ended June 30, 2011, the statute requires each participating employer to contribute 1.666% of each participating employee's annual salary; each participating employee is required to contribute .8333% of their salary. In the fiscal years ending June 30, 2012 and June 30, 2013 the contribution rates for employees and employers will raise as follows:

STATE OF NEW MEXICO
PUBLIC SCHOOL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 6. Post-Employee Benefits – State Retiree Health Care Plan (continued)

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
FY12	2.292%	1.146%
FY14	2.500%	1.250%

Also, employers joining the program after January 1, 1998, are also required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

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

The Authority’s contributions to the RHCA for the years ended June 30, 2011, 2010 and 2009 were \$43,410, \$45,806 and \$36,903, respectively, which equal the required contributions for each year.

NOTE 7. Risk Management

The Authority is subject to various legal proceedings claims and liabilities which arise in the ordinary course of the Authority’s operations.

The State of New Mexico Public School Facilities Authority, as a “State Agency” defined in the Mexico Tort Claims Act, is insured through the Risk Management Division of the State of New Mexico. Annual premiums are paid by the Office of Risk Management Division for coverage provided in the following areas:

1. Liability and civil rights protection for claims made by others against the State of New Mexico;
2. Coverage to protect the State of New Mexico’s property and assets; and
3. Fringe benefit coverage for the State of New Mexico employees.

These coverages are designed to satisfy the requirements of the State Tort Claims Act. All employees of the Authority are covered by blanket fidelity bond and money securities coverage by the State of New Mexico for the period July 1, 2010 through June 30, 2011.

NOTE 8. Commitments – Operating Leases

The Authority leased its office space in Santa Fe and in Albuquerque under operating leases. The Santa Fe lease was renewed as of July 1, 2006 for ten years. The Albuquerque lease was entered as of July 1, 2008 for an initial term of five years with the Authority having the option to renew for two five-year terms. Total rental expenditures for the year ended June 30, 2011 for operating leases were \$286,064.

Future rental expenditures under these leases are as follows:

STATE OF NEW MEXICO
PUBLIC SCHOOL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 8. Commitments – Operating Leases - continued

Year Ending 30-Jun	Payments		
	Santa Fe	Albuquerque	Total
2012	81,599	202,125	283,724
2013	84,047	207,900	291,947
2014	86,569	207,900	294,469
2015	91,841	-	91,841
2016	94,596	-	94,596
Total	<u>\$ 438,652</u>	<u>\$ 617,925</u>	<u>\$ 1,056,577</u>

NOTE 9. Deficit in Fund Balance

The General Fund had a deficit fund balance of \$326,106 and the Special Revenue Fund had a deficit fund balance of \$64,281,598 at June 30, 2011. The deficit is expected to be recovered in the coming years.

NOTE 10. Due From Other State Agency

The Special Revenue Fund (Agency #94000, Fund #94700) was owed \$42,435,447 by the State of New Mexico, at June 30, 2011 for uncollected draw-downs for this Fund not yet remitted at June 30, 2011.

NOTE 11. Special Appropriations

The Authority received a special appropriation in the fiscal year ended June 30, 2007 of \$2,000,000 which was to be used for planning, designing, constructing and renovating schools. It was not spent but was received during the fiscal year ended June 30, 2008. The \$90,000,000 special appropriation is to be used to make local share advances for qualified high-priority projects and was authorized in 2006, and there were no expenditures related to it during the fiscal year ended June 30, 2010. In addition, the Authority was awarded two other special appropriations in the fiscal year ended June 30, 2008. They were \$4,500,000 for Charter School Capital Outlay and \$20,000,000 for Public School Capital Outlay. Both are to be funded through severance tax bond proceeds. Two other special appropriations for \$2,300,000 and \$2,500,000 were received during fiscal year ended June 30, 2009. They were to be passed through to the School for the Deaf and the School for the Blind and Visually Impaired. No special appropriations were received during fiscal year ended June 30, 2011.

STATE OF NEW MEXICO
PUBLIC SCHOOL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 11. Special Appropriations (continued)

The following is a summary of special appropriations still outstanding at June 30, 2011:

Applicable Fiscal Year Period		Original Balance	Amount Spent	Amount Returned to State of New Mexico General Fund	Unexpended Balance at 6/30/2011
2007-2011	Public School Capital Outlay Council Project, Laws of 2007, Chapter 2, Section 27, Item 1	2,000,000	400,000	(1,600,000)	-
2008-2011	Charter School Capital Outlay Laws of 2007. Chapter 214, Section 25, Item 1	4,500,000	3,151,665	-	1,348,335
2009-2011	State of New Mexico School for the Deaf, Laws of 2009, Chapter 125	2,300,000	96,976	-	2,203,024
2009-2011	State of New Mexico School of the Blind and Visually Impaired, Laws of 2009, Chapter 125	2,500,000	581,665	-	1,918,335
	Totals	<u>\$ 11,300,000</u>	<u>\$ 4,230,306</u>	<u>\$ (1,600,000)</u>	<u>\$ 5,469,694</u>

The unexpended balance of \$5,469,694 is shown as reserved for special appropriations in the fund financial statements, and it is shown as restricted for special appropriations in the government-wide financial statements.

NOTE 12. Transfer to State of New Mexico General Fund

The reversion was transferred back to the State of New Mexico General Fund from severance tax bond proceeds subsequent to June 30, 2011, pursuant to the Special Session of the New Mexico Legislature held in October 2009.

NOTE 13. Future Projects

The PSCOC certifies to the Board of Finance the need to issue bonds for projects and other uses provided for under the Public School Capital Outlay Act. Bond proceeds therefore support funding needs of project commitments identified on a priority basis by the PSCOC and made on behalf of the State of New Mexico for public school capital improvements statewide. Reallocation of revenue in the fund by the Legislature that is not supplanted by other replacement sources within a short period of time will delay commencement or completion of public school facility improvements the State has committed to participate in.

STATE OF NEW MEXICO
PUBLIC SCHOOL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 14. Joint Powers Agreements

The following is a list of Joint Powers Agreements the Authority has entered into:

District	Responsible Party	Beginning		Amount	Amount	Audit
		(DFA	Ending			
Alamogordo	PSFA Director	12/4/2006	6/30/2011	N/A	N/A	School District
Albuquerque	PSFA Director	12/4/2006	6/30/2011	N/A	N/A	School District
Animas	PSFA Director	12/4/2006	6/30/2011	N/A	N/A	School District
Aztec	PSFA Director	2/16/2007	6/30/2011	N/A	N/A	School District
Belen	PSFA Director	2/16/2007	6/30/2011	N/A	N/A	School District
Bernalillo	PSFA Director	12/19/2006	6/30/2011	N/A	N/A	School District
Bloomfield	PSFA Director	12/6/2006	6/30/2011	N/A	N/A	School District
Capitan	PSFA Director	1/21/2007	6/30/2011	N/A	N/A	School District
Carlsbad	PSFA Director	1/21/2007	6/30/2011	N/A	N/A	School District
Carrizozo	PSFA Director	12/4/2006	6/30/2011	N/A	N/A	School District
Central	PSFA Director	12/4/2006	6/30/2011	N/A	N/A	School District
Chama	PSFA Director	12/4/2006	6/30/2011	N/A	N/A	School District
Cimarron	PSFA Director	1/21/2007	6/30/2011	N/A	N/A	School District
Clayton	PSFA Director	12/19/2006	6/30/2011	N/A	N/A	School District
Cloudcroft	PSFA Director	12/4/2006	6/30/2011	N/A	N/A	School District
Clovis	PSFA Director	12/4/2006	6/30/2011	N/A	N/A	School District
Cobre	PSFA Director	12/19/2006	6/30/2011	N/A	N/A	School District
Corona	PSFA Director	12/4/2006	6/30/2011	N/A	N/A	School District
Cuba	PSFA Director	12/4/2006	6/30/2011	N/A	N/A	School District
Deming	PSFA Director	12/4/2006	6/30/2011	N/A	N/A	School District
Des Moines	PSFA Director	12/4/2006	6/30/2011	N/A	N/A	School District
Dexter	PSFA Director	12/5/2006	6/30/2011	N/A	N/A	School District
Dora	PSFA Director	12/6/2006	6/30/2011	N/A	N/A	School District
Dulce	PSFA Director	2/16/2007	6/30/2011	N/A	N/A	School District
Elida	PSFA Director	2/16/2007	6/30/2011	N/A	N/A	School District
Estancia	PSFA Director	12/19/2006	6/30/2011	N/A	N/A	School District
Eunice	PSFA Director	12/6/2006	6/30/2011	N/A	N/A	School District
Farmington	PSFA Director	12/6/2006	6/30/2011	N/A	N/A	School District
Fort Sumner	PSFA Director	12/19/2006	6/30/2011	N/A	N/A	School District
Gadsden	PSFA Director	12/6/2006	6/30/2011	N/A	N/A	School District
Gallup	PSFA Director	12/22/2006	6/30/2011	N/A	N/A	School District
Grady	PSFA Director	12/6/2006	6/30/2011	N/A	N/A	School District

STATE OF NEW MEXICO
PUBLIC SCHOOL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 14. Joint Powers Agreements (continued)

District	Responsible Party	Beginning		Amount Applicable	Amount Contributed	Audit Responsibility
		(DFA Approval)	Ending			
Gadsden	PSFA Director	12/6/2006	6/30/2011	N/A	N/A	School District
Gallup	PSFA Director	12/22/2006	6/30/2011	N/A	N/A	School District
Grady	PSFA Director	12/6/2006	6/30/2011	N/A	N/A	School District
Grants	PSFA Director	12/22/2006	6/30/2011	N/A	N/A	School District
Hagerman	PSFA Director	12/6/2006	6/30/2011	N/A	N/A	School District
Hatch	PSFA Director	2/16/2007	6/30/2011	N/A	N/A	School District
Hobbs	PSFA Director	12/6/2006	6/30/2011	N/A	N/A	School District
Hondo	PSFA Director	12/6/2006	6/30/2011	N/A	N/A	School District
House	PSFA Director	12/22/2006	6/30/2011	N/A	N/A	School District
Jemez Mountain	PSFA Director	1/21/2007	6/30/2011	N/A	N/A	School District
Jemez Valley	PSFA Director	2/16/2007	6/30/2011	N/A	N/A	School District
Las Cruces	PSFA Director	7/1/2004	6/30/2011	N/A	N/A	School District
Las Vegas City	PSFA Director	1/21/2007	6/30/2011	N/A	N/A	School District
Logan	PSFA Director	7/1/2004	6/30/2011	N/A	N/A	School District
Lordsburg	PSFA Director	12/6/2006	6/30/2011	N/A	N/A	School District
Los Alamos	PSFA Director	2/16/2007	6/30/2011	N/A	N/A	School District
Los Lunas	PSFA Director	12/6/2006	6/30/2011	N/A	N/A	School District
Lovington	PSFA Director	12/22/2006	6/30/2011	N/A	N/A	School District
Magdalena	PSFA Director	12/7/2006	6/30/2011	N/A	N/A	School District
Maxwell	PSFA Director	12/6/2006	6/30/2011	N/A	N/A	School District
Melrose	PSFA Director	1/21/2007	6/30/2011	N/A	N/A	School District
Mesa Vista	PSFA Director	1/21/2007	6/30/2011	N/A	N/A	School District
Moriarty	PSFA Director	12/6/2006	6/30/2011	N/A	N/A	School District
Mosquero	PSFA Director	12/6/2006	6/30/2011	N/A	N/A	School District
Mountainair	PSFA Director	12/6/2006	6/30/2011	N/A	N/A	School District
NM School for the Deaf	PSFA Director	11/6/2009	Indefinite	N/A	N/A	School District
NM School for the Blind	PSFA Director	10/16/2009	Indefinite	N/A	N/A	School District
Pecos	PSFA Director	9/25/2007	6/30/2011	N/A	N/A	School District
Portales	PSFA Director	12/6/2006	6/30/2011	N/A	N/A	School District
Questa	PSFA Director	1/21/2007	6/30/2011	N/A	N/A	School District
Raton	PSFA Director	12/6/2006	6/30/2011	N/A	N/A	School District
Reserve	PSFA Director	12/7/2006	6/30/2011	N/A	N/A	School District
Rio Rancho	PSFA Director	12/22/2006	6/30/2011	N/A	N/A	School District
Roswell	PSFA Director	12/8/2006	6/30/2011	N/A	N/A	School District
Roy	PSFA Director	12/8/2006	6/30/2011	N/A	N/A	School District
Ruidoso	PSFA Director	12/8/2006	6/30/2011	N/A	N/A	School District
Pojoaque	PSFA Director	12/6/2006	6/30/2011	N/A	N/A	School District
Penasco	PSFA Director	12/6/2006	6/30/2011	N/A	N/A	School District

STATE OF NEW MEXICO
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NOTES TO FINANCIAL STATEMENTS
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NOTE 14. Joint Powers Agreements (continued)

District	Responsible Party	Beginning		Amount	Amount	Audit
		(DFA	Ending			
San Jon	PSFA Director	12/8/2006	6/30/2011	N/A	N/A	School District
Santa Fe	PSFA Director	12/8/2006	6/30/2011	N/A	N/A	School District
Santa Rosa	PSFA Director	12/8/2006	6/30/2011	N/A	N/A	School District
Silver City	PSFA Director	12/8/2006	6/30/2011	N/A	N/A	School District
Socorro	PSFA Director	2/16/2007	6/30/2011	N/A	N/A	School District
Springer	PSFA Director	12/8/2006	6/30/2011	N/A	N/A	School District
Texico	PSFA Director	1/21/2007	6/30/2011	N/A	N/A	School District
T or C	PSFA Director	1/21/2007	6/30/2011	N/A	N/A	School District
Tucumcari	PSFA Director	12/22/2006	6/30/2011	N/A	N/A	School District
Tularosa	PSFA Director	12/8/2006	6/30/2011	N/A	N/A	School District
Vaughn	PSFA Director	12/8/2006	6/30/2011	N/A	N/A	School District
Wagon Mound	PSFA Director	12/8/2006	6/30/2011	N/A	N/A	School District
West Las Vegas	PSFA Director	12/8/2006	6/30/2011	N/A	N/A	School District
Zuni	PSFA Director	2/16/2007	6/30/2011	N/A	N/A	School District

Note: These joint power agreements do not have monetary amounts within them; they merely enable the Authority to work with the various school districts.

NOTE 15. Contingent Liabilities

The Agency is involved in various claims and lawsuits arising in the normal course of business. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the Authority's legal counsel that resolution of these matters will not have a material adverse effect on the financial condition of the Authority.

NOTE 16. Subsequent Accounting Standard Pronouncements

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

In December of 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is effective for financial statements for periods beginning after December 15, 2011. The objective of this

STATE OF NEW MEXICO
PUBLIC SCHOOL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 16. Subsequent Accounting Standard Pronouncements (continued)

Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

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

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

NOTE 17. Governmental Fund Balance

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

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

Nonspendable: Consists of amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. No balance in this classification for the fiscal year ended June 30, 2011.

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

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

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

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

Detail relating to the fund balance classifications is displayed below:

STATE OF NEW MEXICO
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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 17. Fund Balance (continued)

	General Fund	Bond Proceeds Capital Projects Special Revenue Fund	Total Funds
Fund Balances:			
Nonspendable:			
Inventory	\$ -	\$ -	\$ -
Restricted for:			
General fund	-	-	-
Special Revenue	-	-	-
Capital projects	-	-	-
Assigned to:			
Other capital projects	-	-	-
Other purposes	-	-	-
Unassigned:			
Total fund balances	(326,109)	(64,281,598)	(64,607,707)
	\$ (326,109)	\$ (64,281,598)	\$ (64,607,707)

NOTE 18. Deficit Fund Balance

The Authority had a deficit fund balance of \$326,109 and \$64,281,598 in its General Fund and Bond Proceeds Capital Projects Special Revenue Fund, respectively, for a total deficit of \$64,607,707 at June 30, 2011. The Authority is in the process of resolving this issue.

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COMPLIANCE SECTION

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Mr. Hector H. Balderas
Members of the Public School Capital Outlay Council
State of New Mexico
Public School Facilities Authority
Santa Fe, New Mexico

We have audited the financial statements of the governmental activities, each major fund, the aggregate remaining fund information and the budgetary comparisons of the General Fund and the Bond Proceeds Capital Projects Special Revenue Fund of the State of New Mexico, Public School Facilities Authority (Authority) as of and for the year ended June 30, 2011 and have issued our report thereon dated December 15, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified one certain deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies in internal control over financial reporting as item 11-01. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether agency'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted one matter that is required to be reported under *Government Auditing Standards January 2007 Revision* paragraphs 5.14 and 5.16, and Section 12-6-5, NMSA 1978, which is described in the accompanying schedule of findings and responses as findings 10-01 and 11-02.

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

This report is intended solely for the information and use of management, others within the agency, the audit committee, the State Auditor, the New Mexico Legislature, and applicable federal grantors, and is not intended to be and should not be used by anyone other than these specified parties.

GRIEGO PROFESSIONAL SERVICES, LLC.

A handwritten signature in cursive script that reads "Griego Professional Services, LLC".

Albuquerque, New Mexico
December 15, 2011

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STATE OF NEW MEXICO
PUBLIC SCHOOL FACILITIES AUTHORITY
JUNE 30, 2011

Section I – Summary of Audit Results

Financial Statements:

1. Type of auditors' report issued	Unqualified
2. Internal control over financial reporting:	
a. Material weaknesses identified?	No
b. Significant deficiencies identified?	Yes
Noncompliance material to financial statements noted?	No

Section II – Financial Statement Findings

FS 10-01 — Control Deficiency Timeliness of Deposits & Lack of Supporting Documentation– Revised and Repeated

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

- Three instances out of thirteen in which the receipt in question was not deposited in a timely manner. These receipts totaled \$525,387.17.
- One out of thirteen items did not have verification of date received.

Criteria: The effectiveness of internal controls governing the receipting process is highly dependent upon the timeliness of associated deposits and payments received should be stamped to verify date received.

Effect: A lack of adherence to internal controls governing the timeliness of deposits may enable long outstanding receipts to be misappropriated.

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

Auditors' Recommendations: We recommend the Authority emphasize the importance of timely deposits of receipts, and monitor receipts more closely. The Authority should cross-train employees so that more than one individual is able to make deposits to ensure timely deposits are possible.

Management's Response: The Authority agrees that deposits should be made within a reasonable timeframe subsequent to receipt. As such, the Authority intends to implement procedures that will ensure funds are deposited within one week of receipt.

STATE OF NEW MEXICO
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FS 11-01 Significant Deficiency - Deficit Fund Balance

Condition: The Authority had a deficit fund balance of \$326,109 and \$64,281,598 in its General Fund and Bond Proceeds Capital Projects Special Revenue Fund, respectively, for a total deficit of \$64,607,707 at June 30, 2011.

Criteria: Deficit fund balances are not permitted.

Effect: The Authority will have to eliminate the deficit.

Cause: The deficit fund balance was caused by late drawn-down requests for severance tax bond proceeds.

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

Management's Response: The Public Schools Facility Authority will address this deficit fund balance in fiscal year 2011-2012, with the assistance of the Department of Finance and Administration.

FS-11-02 — Audit Report Not Submitted Timely

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

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

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

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

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

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

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PUBLIC SCHOOL FACILITIES AUTHORITY
JUNE 30, 2011

Section III – Prior Year Audit Findings

FS 10-01 — Control Deficiency Timeliness of Deposits – Repeated

Section IV – Other Disclosures

Auditor Prepared Financials

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

Exit Conference

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

Public School Facilities Authority

Robert Gorrell, Director

Jeff Eaton, Chief Financial Officer

Griego Professional Services, LLC

J.J. Griego, CPA