

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
FINANCIAL STATEMENTS
JUNE 30, 2017**



**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES**

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**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES**

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**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES**

Official Roster

Advisory Board Members

<u>Name</u>	<u>Region</u>
Billy Armijo	Southern Region
Christin Barden	Central Region
Michael Kozeliski	Western Region
Donald Reid	Eastern Region
Ralph Laughlin	Northern Region

Administration

Jack R. Fox	Cabinet Secretary-Designate
Alan Martinez	Deputy Secretary
Sal Soto	Director
Christina Baca	Chief Financial Officer

Independent Auditor's Report

Mr. Jack R. Fox, Cabinet Secretary
Department of Veterans' Services and
Mr. Timothy Keller
New Mexico State Auditor
Santa Fe, New Mexico

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, fiduciary activities, each major fund, and the aggregate remaining fund information, and the budgetary comparisons for the general fund and major special revenue funds of the State of New Mexico Department of Veterans' Services (Department) as of and for the year ended June 30, 2017, and the related notes to the financial statements which collectively comprise the Department's basic financial statements 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, fiduciary activities, each major fund, and the aggregate remaining fund information of the Department, as of June 30, 2017, and the respective changes in financial position and the respective budgetary comparisons for the general fund and major special revenue funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

As discussed in Note 2, the financial statements of the Department are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, each major fund and the aggregate remaining fund information of the State of New Mexico that are attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2017, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 11 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 statement 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 State 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The accompanying *Schedule of Expenditures of Federal Awards as required by Title 2 Code of Federal Regulations (CFR) Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, the budget comparison schedule, the combining and individual nonmajor fund financial statements and other schedules required by Section 2.2.2.NMAC* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The *Schedule of Expenditures of Federal Awards, the budget comparison schedule, the combining and individual nonmajor fund financial statements and other schedules required by Section 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 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, *Schedule of Expenditures of Federal Awards, the budget comparison schedule, the combining and individual nonmajor fund financial statements and other schedules required by Section 2.2.2.NMAC* are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2017, on our consideration of the Department'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 Department's internal control over financial reporting and compliance.



Albuquerque, New Mexico
November 1, 2017

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Management's Discussion and Analysis
Year Ended June 30, 2017**

The Department of Veterans' Services (Department) discussion and analysis is provided as an overview of the financial activities of the Department for the fiscal year ended June 30, 2017. The financial statements are presented in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related GASB statements. Axiom Certified Public Accountants and Business Advisors LLC prepared the financial statements with the assistance of the Department. The requirements of GASB Statement No. 34 were developed by GASB to make annual reports more comprehensive and easier to understand and use.

The Governor, on June 20, 2003, exercising his authority granted by the Laws of 2003, Chapter 403, by Executive Order No. 2003-022, elevated the Veterans' Service Commission to a cabinet-level status renaming the Veterans' Service Commission to the New Mexico Department of Veterans' Services. The newly appointed Secretary of the Department of Veterans' Services is appointed by and answers to the Governor of the State of New Mexico.

The Basic Financial Statements

In compliance with requirements of accounting principles generally accepted in the United States of America (GAAP), the Department's basic financial statements include the:

- Government-wide financial statements;
- Fund financial statements;
- Budget comparison statements; and
- Notes to the financial statements.

The Management's Discussion and Analysis (MD&A) is included as required supplementary information (RSI).

REPORTING THE DEPARTMENT AS A WHOLE

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Department's finances, in a manner similar to private-sector business reporting. These statements report information about the overall government without displaying individual funds or fund types. They distinguish between governmental and business-type activities. However, the Department does not have any business-type activities to report.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Management's Discussion and Analysis
Year Ended June 30, 2017**

The Statement of Net Position inclusively presents current and long-term assets and liabilities, with the difference between the assets and liabilities reported as net position. The *Statement of Activities* presents all changes in net assets as soon as the underlying event giving rise to the change occurs, regardless of the timing related to cash flows. Therefore, revenues and expenses are included in this statement for some items that will only result in cash flows in future fiscal periods, like uncollected receivables (even if the "available" criteria is not met) and earned but unused vacation leave.

Reporting on the Department's Most Significant Funds

The Fund Financial Statements

The fund financial statements are used to report additional and detailed information. 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. Funds are used to ensure and demonstrate compliance with finance-related legal requirements.

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 by governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Department's near-term financing decisions. Both of the governmental funds Balance Sheet and the governmental funds Statements of Revenues, Expenditures and Changes in Fund Balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Department maintains its fund structure in the Statewide Human Resources, Accounting and Management Reporting (SHARE) system. The Department operates with four governmental- type funds, the 1) General Fund, 2) Armed Forces Veterans' License Special Revenue Fund, 3) the Veterans ' Approval Special Revenue Fund and 4) the Veterans' Enterprise Fund. A fifth fund was created in FY 2015 as a capital project fund, to account for funds received from appropriations, designated income tax refunds and various other sources for the purpose of building veterans' cemeteries in different parts of the state. The governmental fund reporting focus is primarily on the sources, uses and balances of current financial resources and has a budgetary orientation.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to gain a full understanding of the data provided in the government-wide financial statements. The notes to the financial statements can be found on pages 23 through 42 of this report.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Management's Discussion and Analysis
Year Ended June 30, 2017**

The Budget Comparison Statements

The budget comparison statements required by GASB Statement 34 present the original and final appropriated budget for the reporting period as well as actual inflows and outflows stated on the budgetary basis. A separate column reports the variance between the final budget and actual amounts. In compliance with 2.2.2 New Mexico Administrative Code (NMAC) Section 2.2.2.10 P (1) through (3) the *Statement of Revenues and Expenditures -Budget and Actual*:

- Include prior-year cash required to balance the budget;
- Has been included as part of the basic financial statements; and
- Has been included in the auditor's opinion.

The Department's budgeted funds consist of five individual Statewide Human Resources Accounting and Management Reporting System (SHARE) funds. Therefore, five individual fund budget comparison statements have been included in order to demonstrate budget compliance at the SHARE fund level, and to comply with the audit scope requirements of 2.2.2 (NMAC) Section 2.2.2.10 A(2)(e).

The Department as Trustee

The Department is the trustee or fiduciary for the following:

1) Veterans' Trust Fund

This fund is used to account for the estates of veterans and minor children of veterans where the Department is appointed guardian or conservator. The funds come from the Veterans Administration, Social Security, Railroad Retirement, Civil Service Annuity, and other sources such as rent, royalties, insurance payments and inheritance funds. Disbursements are for support and maintenance, clothing, dental, medical and school expenses for the wards and their dependents. Also involved are other types of transactions such as purchasing and selling real estate, buying furniture and automobiles and renting housing. All funds are deposited into the individual ward's accounts at the First National Bank of Santa Fe. Funds are invested and disbursed by the Trustee Bank, the First National Bank of Santa Fe.

2) Cemetery Fund (Fund #12300)

This fund is administered by the New Mexico Department of Veterans' Services and is to be used to increase the size of the Santa Fe National Cemetery. Donations come from citizens and also are designated by individuals on their New Mexico income tax returns. The funds will be remitted to the City of Santa Fe.

All of the Department's fiduciary activities are reported in separate Statements of Assets and Liabilities and Changes in Fiduciary Assets and Liabilities on pages 22 and 47 through 48 of this report. We exclude these activities from the Department's other financial statements because the Department cannot use these funds to finance its operations. The Department is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Management's Discussion and Analysis
Year Ended June 30, 2017**

THE DEPARTMENT AS A WHOLE

Financial Analysis of the Department

The Department's combined net position was increased from a year ago, by \$122,504 or 38.4%, from \$318,827 to \$441,331.

Our analysis below focuses on the net position and changes in net position of the Department's governmental activities. Comparative information from the previous fiscal year is included for the reader's information.

	Net Position		
	<u>Governmental Activities</u>		
	<u>FY 2017</u>	<u>FY 2016</u>	<u>Change</u>
Investment in the State Treasurer			
Fund Investment Pool	\$ 1,284,446	1,088,532	195,914
Due from Federal government	920,657	1,487,036	(566,379)
Due from other state agencies	206,235	61,147	145,088
Other receivables	79	918	(839)
Total assets	<u>2,411,417</u>	<u>2,637,633</u>	<u>(226,216)</u>
Investment in the State Treasurer			
Fund Investment Pool – deficit	116,741	-	116,741
Accounts payable and other liabilities	339,744	224,771	114,973
Due to other state agencies	1,342,896	1,633,660	(290,764)
Due to State General Fund	10,829	301,314	(290,485)
Compensated absences – current	119,908	119,296	612
Compensated absences -long-term	39,968	39,765	203
Total Liabilities	<u>1,970,086</u>	<u>2,318,806</u>	<u>(348,720)</u>
Net position, restricted	601,207	477,888	123,319
Net position, unrestricted (deficit)	(159,876)	(159,061)	(815)
Total net position	<u>\$ 441,331</u>	<u>318,827</u>	<u>122,504</u>

Total assets decreased by \$226,216 or 8.5% from a year ago, and total liabilities decreased by \$348,720 or 15% from a year ago.

Accounts payable and other liabilities increased by \$114,973 from \$224,771 to \$339,744.

Total liabilities of \$1,970,086 constitute 81.6% of total assets.

The Department's net position is reported in the following two categories of net position; (1) restricted; and (2) unrestricted. The restricted balance is positive and the unrestricted balance is negative.

The remaining balance of restricted net position of \$601,207 will be used to expand services to rural areas of the State including Native American communities and senior citizen centers. The Department's net position increased by \$122,504 during the current fiscal year.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Management's Discussion and Analysis
Year Ended June 30, 2017**

Statement of Activities – Changes in Net Assets

The statement below shows the components that increased, in the aggregate, the Department's net position by \$122,504 during the year.

	Changes in Net Position		
	<u>Governmental Activities</u>		
	<u>FY 2017</u>	<u>FY 2016</u>	<u>Change</u>
Program revenues:			
Operating grants – federal	\$ 3,307,867	3,000,550	307,317
Charges for services fees	232,400	165,000	67,400
Total program revenues	<u>3,540,267</u>	<u>3,165,550</u>	<u>374,717</u>
General revenues and transfers:			
State General Fund appropriations	3,238,900	3,404,300	(165,400)
Reversions to the State General Fund	(254,170)	(292,572)	38,402
Reversions to the State Board of Finance	-	(263,946)	263,946
Transfer in: Special appropriation	-	136,200	(136,200)
Transfer in: Severance tax appropriation	543,289	205,273	338,016
Miscellaneous	20,943	3,629	17,314
Total general revenues and transfers	<u>3,548,962</u>	<u>3,192,884</u>	<u>356,078</u>
Expenses			
Welfare and education	<u>6,966,725</u>	<u>6,288,939</u>	<u>677,786</u>
Total general expenses	<u>6,966,725</u>	<u>6,288,939</u>	<u>677,786</u>
Change in net position	122,504	69,495	53,009
Beginning net position	<u>318,827</u>	<u>249,332</u>	<u>69,495</u>
Ending net position	<u>\$ 441,331</u>	<u>318,827</u>	<u>122,504</u>

The Department's governmental activities program revenue increased by \$374,717 or 11.8%. This was the result of both charges for services and federal operating grant revenues increased and an increase in federal revenue related to the construction of a cemetery.

The Department's governmental activities general revenue increased by \$356,078 or 11.1%. This was the result of an increase in severance tax appropriations related to the construction of a cemetery.

The cost of governmental activities this year was \$6,966,725 compared to \$6,288,939 last year, or an increase of \$677,786 or 10.7%. This was the result of a construction costs related to the cemetery.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Management's Discussion and Analysis
Year Ended June 30, 2017**

The Department's Funds

As noted earlier, the Department uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements, providing useful information, near-term inflows, outflows, and balances of available resources (modified accrual basis). Unreserved fund balance serves as a measure of net resources available for future appropriation. Because unexpended balances in SHARE Fund 06500 (General Fund) must revert to the State General Fund, the unreserved fund balance will always be zero. SHARE Fund 89600 (Veterans' Approval Fund), SHARE Fund 78400 (Veterans' License Fund), SHARE Fund 20490 (Veterans' Enterprise Fund), and SHARE Fund 50280 (Cemetery Construction Fund) are non-reverting; therefore the unreserved balance is available for future appropriation. SHARE Fund 89200 (Severance Tax Bond Capital Projects Fund) is reverting to the State Board of Finance in the year 2024.

The composition of the fund balance reservations at the end of the current and prior fiscal years appears below:

	<u>FY 2017</u>	<u>FY 2016</u>	<u>Change</u>
Unreserved – designated for subsequent year's expenditures	\$ -	-	
Restricted	<u>601,207</u>	<u>477,888</u>	<u>123,319</u>
Total fund balance	<u>\$ 601,207</u>	<u>477,888</u>	<u>123,319</u>

The governmental funds (as presented in the balance sheet on page 14) reported a fund balance of \$601,207 which is up from last year's total of \$477,888. The increase of \$123,319 or 25.8% is attributable to the excess of revenues over expenditures in the Veterans' Approval Fund, Armed Forces Veterans' License Fund, and Veterans' Enterprise Fund results.

General Fund Budgetary Highlights

The Department executed eight Budget Adjustment Requests (BAR) during the year which increased the budgeted revenue in the general fund by \$90,000 of which \$75,000 was an inter-fund transfer from the Veterans' Enterprise Special Revenue Fund. Two of the eight BARs were for the reclassification of budgeted expenditures in the general fund where the personal services budget was increased by \$105,000 and contractual services budget was decreased by \$259,000, and the other costs budget by \$154,000.

Long-Term Debt

The Department's long-term debt is made up entirely of the long-term portion of the compensated absence liability amount of \$159,876, of which \$39,968 was the long-term portion and \$119,908 was the current portion at June 30, 2017.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Management's Discussion and Analysis
Year Ended June 30, 2017**

FY 2017 Operating Budget

General Fund 06500

Personal Services/Employee Benefits	\$	2,507,000
Contractual Services		280,000
Other Operating Costs		<u>541,900</u>
Total General Fund 06500		<u><u>3,328,900</u></u>

Veterans' Approval Fund 89600

Personal Services/Employee Benefits		765,000
Contractual Services		482,000
Other Operating Costs		<u>697,000</u>
Total General Fund 89600	\$	<u><u>1,944,000</u></u>

The budgets for the FY 2018 are not expected to have a significant effect on the financial position (net position) or results of operations of the Department for FY 2018.

Requests for Information

This financial report is designated to provide a general overview of the Department of Veterans' Services finances for all those interested in the Department finances. If you have questions about this report or need additional information please contact:

**The Department of Veterans' Services
P.O. Box 2324
Bataan Memorial Bldg.
Santa Fe, NM 87504-2324**

BASIC FINANCIAL STATEMENTS

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Statement of Net Position
June 30, 2017

	<u>Governmental Activities</u>
ASSETS	
Current Assets	
Investment in State Treasurer General Fund Investment Pool	\$ 1,284,446
Due from Federal government	920,657
Due from other state agencies	206,235
Other receivables	<u>79</u>
Total current assets	2,411,417
Capital assets	<u>-</u>
Total Assets	<u>2,411,417</u>
LIABILITIES	
Current Liabilities	
Investment in State Treasurer General Fund Investment Pool - deficit	116,741
Accounts payable	236,432
Accrued salaries payable	48,700
Payroll taxes and benefits payable	54,612
Due to other state agencies	1,342,896
Due to State General Fund	10,829
Compensated absences payable	<u>119,908</u>
Total current liabilities	1,930,118
Long-Term Liabilities	
Compensated absences payable, net of current portion	<u>39,968</u>
Total Liabilities	<u>1,970,086</u>
NET POSITION	
Net investment in capital assets	-
Restricted	601,207
Unrestricted (deficit)	<u>(159,876)</u>
Total net position	<u>\$ 441,331</u>

See Notes to Financial Statements.

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Statement of Activities
Year Ended June 30, 2017

	Governmental Activities
Expenditures	
Veterans' welfare	\$ <u>6,966,725</u>
Program Revenues	
Charges for services - fees	232,400
Operating grants - federal	<u>3,307,867</u>
Total program revenues	<u>3,540,267</u>
Net program expense	<u>3,426,458</u>
General Revenues	
State General Fund appropriations	3,238,900
Miscellaneous	20,943
Transfers	
Transfer in: Special Appropriation	-
Transfer in: Severance Tax Appropriation	543,289
Reversions to State Board of Finance	-
Reversions to the State General Fund	<u>(254,170)</u>
Total general revenues and transfers	<u>3,548,962</u>
Change in net position	122,504
Net position, beginning	<u>318,827</u>
Net position, ending	<u><u>\$ 441,331</u></u>

See Notes to Financial Statements.

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Balance Sheet – Governmental Funds
June 30, 2017

	Special Revenue Funds				Capital Project Funds		Total
	General Fund 06500	Veterans' Approval 89600	Armed Forces Veterans' License 78400	Veterans' Enterprise Fund 20490	Cemetery Construction Fund 50280	Non-major Capital Project Funds	
ASSETS							
Investment in State Treasurer General Fund Investment Pool	\$ 117,876	-	341,124	214,916	447,109	163,421	1,284,446
Due from Federal government	-	183,254	-	-	723,109	14,294	920,657
Due from other state agencies	15,000	-	7,776	12,253	171,206	-	206,235
Other receivables	79	-	-	-	-	-	79
Total assets	\$ 132,955	183,254	348,900	227,169	1,341,424	177,715	2,411,417
LIABILITIES AND FUND BALANCE							
Liabilities							
Investment in State Treasurer General Fund Investment Pool - deficit	\$ -	113,543	-	-	-	3,198	116,741
Accounts payable	39,749	22,166	-	-	-	174,517	236,432
Accrued salaries payable	37,435	11,265	-	-	-	-	48,700
Payroll taxes and benefits payable	43,470	11,142	-	-	-	-	54,612
Due to other state agencies	1,472	-	-	-	1,341,424	-	1,342,896
Due to State General Fund	10,829	-	-	-	-	-	10,829
Total liabilities	132,955	158,116	-	-	1,341,424	177,715	1,810,210
Fund Balance							
Restricted							
Special purposes	-	25,138	348,900	227,169	-	-	601,207
Unassigned	-	-	-	-	-	-	-
Total fund balance	-	25,138	348,900	227,169	-	-	601,207
Total liabilities and fund balance	\$ 132,955	183,254	348,900	227,169	1,341,424	177,715	2,411,417

See Notes to Financial Statements.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Reconciliation of the Governmental Activities Balance Sheet
to the Government-Wide Statement of Net Position – Governmental Funds
June 30, 2017**

Total fund balance for the Governmental fund (Balance Sheet)

Amounts reported for governmental activities in the Statement of Net Position are different because:	\$ 601,207
Long-term liabilities, including both current and long-term compensated absences payable, are not due and payable in the current period and, therefore are not reported in the finds.	<u>(159,876)</u>
Net position of governmental activities (Statement of Net Position)	\$ <u>441,331</u>

See Notes to Financial Statements.

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Statement of Revenues, Expenditures and Changes
In Fund Balance – Governmental Funds
Year Ended June 30, 2017

	Special Revenue Funds				Capital Project Funds		Total
	General Fund 06500	Veterans' Approval 89600	Armed Forces Veterans' License 78400	Veterans' Enterprise Fund 20490	Cemetery Construction Fund 50280	Non-major Capital Project Funds	
Revenues							
Charges for services	\$ -	-	105,197	127,203	-	-	232,400
Intergovernment - federal grant revenue	-	1,227,667	-	-	2,065,906	14,294	3,307,867
Miscellaneous	15,030	-	-	5,913	-	-	20,943
Total revenues	15,030	1,227,667	105,197	133,116	2,065,906	14,294	3,561,210
Expenditures							
Welfare and assistance							
Current:							
Personal services and employee benefits	2,365,137	722,840	-	-	-	349,048	3,437,025
Contractual services	252,818	289,593	-	-	-	25,390	567,801
Other costs	456,805	255,228	-	-	2,237,112	11,939	2,961,084
Total expenditures	3,074,760	1,267,661	-	-	2,237,112	386,377	6,965,910
Excess (deficiency) of revenues over expenditures	(3,059,730)	(39,994)	105,197	133,116	(171,206)	(372,083)	(3,404,700)
Other Financing Sources (Uses)							
Transfer in: State General Fund Appropriation	3,238,900	-	-	-	-	-	3,238,900
Transfer in: Severance Tax Appropriation	-	-	-	-	171,206	372,083	543,289
Other financing sources	-	-	-	-	-	-	-
Reversions to the State General Fund	(254,170)	-	-	-	-	-	(254,170)
Inter agency transfers	75,000	-	-	(75,000)	-	-	-
Total other financing sources	3,059,730	-	-	(75,000)	171,206	372,083	3,528,019
Net change in fund balances	-	(39,994)	105,197	58,116	-	-	123,319
Fund balance, beginning of year	-	65,132	243,703	169,053	-	-	477,888
Fund balance, end of year	\$ -	25,138	348,900	227,169	-	-	601,207

See Notes to Financial Statements.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Reconciliation of the Governmental Funds Statement of
Revenues, Expenditures, and Changes in Fund Balance
to the Government-Wide Statement of Activities
Year Ended June 30, 2017**

Net change in fund balance – Governmental Fund (Statement of Revenues, Expenditures and Changes in Fund Balance)	\$ 123,319
Amounts reported for governmental activities in the Statement of Activities are different because:	
Some items reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Change in compensated absences	<u>(815)</u>
Change in net position of governmental activities (Statement of Activities)	<u><u>\$ 122,504</u></u>

See Notes to Financial Statements.

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Statement of Revenues, Expenditures and Encumbrances
Budget and Actual – Major Governmental Funds
General Fund (Fund 06500)
Year Ended June 30, 2017

	Original Budget	Final Budget	Actual Budget Basis	Variance Favorable (Unfavorable)
Revenues				
State General Fund Appropriations	\$ 3,238,900	3,238,900	3,238,900	-
Federal grants - operating	-	-	-	-
Miscellaneous	-	15,000	15,030	30
Total revenues	\$ 3,238,900	3,253,900	3,253,930	30
Expenditures				
Current:				
Personal services and employee benefits	\$ 2,352,000	2,507,000	2,365,137	141,863
Contractual services	539,000	280,000	252,818	27,182
Other costs	347,900	541,900	456,805	85,095
Total expenditures	\$ 3,238,900	3,328,900	3,074,760	254,140
Other Financing Sources				
Interagency transfers in	\$ -	75,000	75,000	-
Total other financing sources	\$ -	75,000	75,000	-
Items not included in budget schedule:				
Reversions fiscal year 2017			(254,170)	
Fund Balance Statement of Revenues and Expenditures and changes in Fund Balance - Governmental Funds			\$ -	

See Notes to Financial Statements.

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Statement of Revenues, Expenditures and Encumbrances
Budget and Actual – Major Governmental Funds
Veterans' Approval Special Revenue Fund (Fund 89600)
Year Ended June 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Budget Basis</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Federal grants - operating	\$ 1,944,000	1,944,000	1,227,667	(716,333)
Total revenues	<u>\$ 1,944,000</u>	<u>1,944,000</u>	<u>1,227,667</u>	<u>(716,333)</u>
Expenditures				
Current:				
Personal services and employee benefits	\$ 757,000	765,000	722,840	42,160
Contractual services	482,000	482,000	289,593	192,407
Other costs	705,000	697,000	255,228	441,772
Total expenditures	<u>\$ 1,944,000</u>	<u>1,944,000</u>	<u>1,267,661</u>	<u>676,339</u>
Items not included in budget schedule:				
Fund Balance Statement of Revenues and Expenditures and changes in Fund Balance - Governmental Funds			<u>\$ (39,994)</u>	

See Notes to Financial Statements.

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Statement of Revenues, Expenditures and Encumbrances
Budget and Actual – Major Governmental Funds
Armed Forces Veterans' License Special Revenue Fund (Fund 78400)
Year Ended June 30, 2017

	Original Budget	Final Budget	Actual Budget Basis	Variance Favorable (Unfavorable)
Revenues				
Charges for services	\$ 39,700	39,700	105,197	65,497
Total revenues	\$ 39,700	39,700	105,197	65,497
Expenditures				
Current:				
Other costs	\$ 39,700	39,700	-	-
Total expenditures	\$ 39,700	39,700	-	-

Fund Balance Statement of Revenues and Expenditures
and changes in Fund Balance - Governmental Funds

\$ 105,197

See Notes to Financial Statements.

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Statement of Revenues, Expenditures and Encumbrances
Budget and Actual – Major Governmental Funds
Veterans' Enterprise Special Revenue Fund (Fund 20490)
Year Ended June 30, 2017

	Original Budget	Final Budget	Actual Budget Basis	Variance Favorable (Unfavorable)
Revenues				
Federal grants - operating	\$ -	-	127,203	-
Miscellaneous	-	-	5,913	-
Total revenues	\$ -	-	133,116	-
Expenditures				
Current:				
Personal services and employee benefits	\$ -	-	-	-
Contractual services	-	-	-	-
Other costs	-	-	-	-
Total expenditures	\$ -	-	-	-
Other Financing Uses				
Interagency transfers out	\$ -	75,000	75,000	-
Total other financing uses	\$ -	75,000	75,000	-
Fund Balance Statement of Revenues and Expenditures and changes in Fund Balance - Governmental Funds			\$ <u>58,116</u>	

See Notes to Financial Statements.

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2017

Assets

Investment in the State Treasurer General Fund		
Investment pool	\$	10,186
Cash on deposit in banks		-
Investments and other property		4,366,857
Due from other state agencies		-
Total assets	\$	<u><u>4,377,043</u></u>

Liabilities

Assets held for others	\$	<u>4,377,043</u>
Total liabilities	\$	<u><u>4,377,043</u></u>

See Notes to Financial Statements.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to Financial Statements
June 30, 2017**

NOTE 1. ORGANIZATION

History and Functions

The Department of Veterans' Services (the Department) is a cabinet-level department created by the Laws 2003, Ch.403 and is governed by Section 9-22-1 through 9-22-20, NMSA 1978. The mission of the Department of Veterans' Services is to assist veterans, widows, and children of veterans in establishing the privileges to which they are entitled.

The Department is responsible for:

- A. assisting veterans, their surviving spouses and their children in the preparation , presentation and prosecution of claims against the United States arising by reason of military or naval service;
- B. assisting veterans, their surviving spouses and their children in establishing the rights and the procurement of benefits that have accrued or may accrue to them pursuant to state law;
- C. disseminating information regarding laws beneficial to veterans, their surviving spouses and their children, and
- D. cooperating with agencies of the United States that are or may be established for the beneficial interest of veterans, to which end the Department may enter into agreements or contracts with the United States for the purpose of protecting rights or benefits of veterans.

The Department includes the following divisions:

- 1) Administrative Services Division;
- 2) Field Services Division;
- 3) State Approving Division, and
- 4) State Benefits Division

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Department of Veterans' Service (Department) 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 Department's accounting policies are described below:

A. Reporting Entity and Component Units

The Department is a department of the primary government, of the State of New Mexico. These financial statements present the financial position and results of operations of only those *Statewide Human Resources, Accounting and Management Reporting System Accounting System (SHARE)* funds for which the Department has oversight responsibility. The District is a user organization of the SHARE system. The service organization is the Department of Finance and Administration (DFA).

The Department has decision making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters.

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to Financial Statements
June 30, 2017

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Reporting Entity and Component Units (Continued)

The Department is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards, but would be included in a state-wide Comprehensive Annual Financial Report (CAFR).

In evaluating how to define the Department for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the government body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Department is able to exercise oversight responsibilities. Based upon the application of these criteria, the Department does not have any component units.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements, statement of net position and statement of activities, report information on all of the non-fiduciary activities. The Department also has fiduciary activities. When applicable, the effect of inter-fund activity is eliminated from the statement of net position and the statement of activities in order to avoid a grossing-up effect on the assets and liabilities within the statement of net position and the "doubling-up" effect on the statement of activities. The Department does not have any business-type activities; therefore, only government activities are shown. Governmental activities are normally supported by taxes and intergovernmental revenues.

The fund financial statements, the balance sheet and the statement of revenues, expenditures and changes in fund balances are presented to report additional and detailed information about the Department. Emphasis is on the major funds of the governmental category. The General Fund, Veterans ' Approval Fund, Armed Forces Veteran's License Fund, Veterans' Enterprise Fund, and the cemetery fund have been classified as major funds. The General Fund is the Department's operating fund and includes all financial transactions conducted to fulfill its general government function. It accounts for all financial resources of the Department. There were no nonmajor funds.

The Department's fiduciary funds are presented in the fund financial statements by type. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated in the government-wide statements.

The focus is on the Department as a whole and the fund financial statements, including the major individual funds of the governmental category, as well as the fiduciary fund by category.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to Financial Statements
June 30, 2017**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-Wide and Fund Financial Statements (Continued)

The financial transactions of the Department are recorded in individual 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 spending activities are controlled.

The new model sets forth the minimum criteria (percentage of the assets, liabilities, revenues, or expenditures of either fund category or the governmental and enterprise combined) for the determination of major funds.

The following fund types are used by the Department:

Governmental Fund Types

All governmental fund types are accounted for on a spending or financial measurement focus. Only current assets and liabilities are generally included on their balance sheets. Their reported fund balance (net current position) is considered a measure of available spendable resources. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current position. Accordingly, they are said to present a summary of sources and uses of available spendable resources during a period. Due to their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by noncurrent liabilities. Since they do not affect net current position, such long-term amounts are not recognized as governmental fund type expenditures.

General Fund — The General Fund is the general operating fund of the Department and a major fund. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is made up of the following Statewide Human Resources, Accounting and Management Reporting System Accounts System (SHARE) fund.

06500 General Operating — The operating account for the Department. This is a reverting fund.

Special Revenue Funds — The Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes. The Department's Special Revenue Funds are as follows:

20490 Veterans' Enterprise Special Revenue Fund — Enacted by the Legislature of the State of New Mexico under Chapter 9, Article 22 NMSA 1978. This fund consists of appropriations, gifts, grants, donations, bequests, proceeds from the sale of publications produced by the Department, fees collected by the department and public or private funds applied for and received by the department to carry out its programs, duties or services. This fund is non-reverting to the State General Fund per Section 9-22-1, NMSA 1978.

78400 Armed Forces Veterans' License Special Revenue Fund — The purpose of providing special registration plates for veterans. A portion of the fee collected shall be credited to the fund. Expenditures are for the purpose of expanding services to rural areas of the State including Native American communities and senior citizen centers. This fund is non-reverting to the State General Fund as per Section 66-3-419.F, NMSA 1978.

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to Financial Statements
June 30, 2017

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-Wide and Fund Financial Statements (Continued)

89600 Veterans' Approval Special Revenue Fund — This is created within the New Mexico Veterans' Service Department the Veterans Approval Agency to carry out the state obligation under provision of 38 USC Section 1771, Article 13 Section 28-13-13. (Former Sub-chapter VII of Chapter 17 was renumbered Sub-chapter IV of Chapter 20. Section 1771 was renumbered Section 3671.) The purpose of this fund is to collect administrative monies from the U.S. Department of Veterans' Affairs. These monies are used for administrative costs of the Veterans' Approval Agency which is now supervised by the director of the New Mexico Department of Veterans' Services. The fund is non-reverting to the State General Fund pursuant to the above cited sections of the U.S. Code.

Capital Project Funds -Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. The Department's major Capital Project Funds are as follows:

50280 Cemetery Construction Capital Project Fund -This fund disburses grant funds received from the U.S. Department of Veterans Affairs for the construction of regional Veterans' National Cemeteries within the State. This fund is non-reverting to the State General Fund

Fiduciary Fund Types

Fiduciary fund types include trust and agency funds, which are used to account for assets held by the Department in the capacity of trustee or agent.

Agency Funds – Agency funds are used to account for assets held as an agent for other governmental units, individual and other funds. The agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Agency funds of the Department are used to account for the proceeds of settlement and court decisions until the proceeds may be distributed to the proper recipients. The Department's agency funds are as follows:

Veterans' Trust Fund (Fund# 11240) – This fund is used to account for the estates of veterans and minor children of veterans where the Department is appointed guardian or conservator. The funds come from the Veterans Administration, Social Security, Railroad Retirement, Civil Service Annuity, and other sources such as rent, royalties, insurance payments and inheritance funds. Disbursements are for support and maintenance, clothing, dental, medical and school expenses for the wards and other dependents. Also involved are other types of transactions such as purchases and selling real estate, buying furniture and automobiles and renting housing. All funds are deposited to the wards' accounts at the First National Bank of Santa Fe. Funds are invested and disbursed by the Trustee Bank, the First National Bank of Santa Fe.

Cemetery Fund (Fund #12300) – This fund is administered by the New Mexico Department of Veterans' Services. Effective February 9, 2015, Senate Bill 368 was passed relating to this fund which, changed the name from the Veterans' National Cemetery Fund to the Veterans' State Cemetery Fund, removed a requirement that certain excess amounts in the fund be distributed to the substance abuse education fund, and repealed Section 7-2-27 NMSA 1978 to increase the size of the national veterans cemetery in Santa Fe. Donations come from citizens and via designation on their New Mexico income tax returns.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to Financial Statements
June 30, 2017**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting is related to timing of the measurements made, regardless of the measurement focus applied.

The government-wide financial statements and the fiduciary financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from exchange transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, and assets and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33. The Department's program revenues consist of federal grants and charges for services. Revenue from federal grants is recognized when all eligibility requirements have been met on a "reimbursement basis." Charges for services consists of fees collected from sales of license plates. All other revenues are considered general revenues. Capital assets are reported at historical cost and depreciated over their estimated useful lives. Depreciation expense is reported in the statement of activities.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Only current assets and current liabilities are included on the balance sheet. The reported fund balance is considered a measure of available spendable resources.

Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in fund balance. Accordingly, they are said to present a summary of sources and uses of spendable resources during a period. Revenues are available if collectible within the current period or soon enough afterwards to pay liabilities of the current period. The Department considers revenues to be available if collected within sixty days of the end of the fiscal year. Expenditures are recorded when a liability is incurred, as under accrual accounting. The Department does not have any debt service expenditures. The current portion of the compensated absences liability is not included in the fund financial statements because the State of New Mexico does not budget for any compensated absences in the current year.

D. Receivables and Payables

When applicable, amounts "due to/from other funds" between the two SHARE funds are netted for financial statement presentation when they are combined into the General Fund. Any amounts "due to/from other agencies" shown in the General Fund reflect outstanding balances of the receivables and payables between the Department and other departments of the State of New Mexico. Amounts shown as "due to the State General Fund" reflect current year reversions for unexpended appropriations for the current fiscal year. Balances to which a fiduciary fund is a party are treated as "external" receivables and payables.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to Financial Statements
June 30, 2017**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Capital Assets

The Department does not own any Capital assets. The Department utilizes facilities and buildings that are owned by the Property Control Division of the State of New Mexico General Services Department. These assets and the related depreciation expense are not included in the accompanying financial statements. GASB 34 requires the recording and depreciation of infrastructure assets, such as roads, bridges, etc. The Department does not own any infrastructure assets.

Capital assets are defined in Section 12-6-10 NMSA 1978. Section 12-6-10 NMSA 1978 was amended effective June 19, 2005 changing the capitalization threshold of movable chattels and equipment from items costing more than \$1,000 to items costing more than \$5,000. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. Computer software which is purchased with computer equipment is included as part of the capitalized computer equipment in accordance with 2.20.1.9 C(5) NMAC. The Department does not develop computer software. The cost of maintenance and repairs that do not add to the asset value or materially extend assets lives are not capitalized. The Department does not undertake major capital projects involving interest costs during the construction phase. There is no debt related to the capital assets. Capital assets of the Department are depreciated using zero salvage value and the straight-line method over the following estimated useful lives:

Machinery and equipment	5 years
Information technology equipment	5 years
Furniture and equipment	7 years

F. Budgets and Budgetary Accounting

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

1. No later than September 1, the Department prepares a budget request by appropriation unit to be presented to the next Legislature.
2. The appropriation request is submitted to the Department of Finance and Administrations Budget Division (DFA) and to the Legislative Finance Committee (LFC).
3. DFA makes recommendations and adjustments to the appropriation request which become the Governor's proposal to the Legislature.
4. LFC holds hearings on the appropriation request, also submitting recommendations and adjustments before presentation to the Legislature.
5. Both the DFA and LFC recommended appropriation proposals are presented to the Legislature for approval of the final budget plan.
6. Budgetary control is exercised by the Department at the appropriation unit level. Budget Adjustment Requests (BARs) are approved by the DFA Budget Division.

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to Financial Statements
June 30, 2017

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Budgets and Budgetary Accounting (Continued)

7. The budget for the General Fund and all Special Revenue Funds is adopted on a modified accrual basis of accounting. Per the General Appropriations Act, Laws of 2008, Chapter 109, Section 3, Subsections N and O, the budgetary basis is modified accrual. However, there is a statutory exception. 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 require approval to pay prior year bills out of the current budget.
8. The original budget differs from the final budget presented in the budget comparison statements by amendments made during the fiscal year.
9. Appropriations lapse at the end of the fiscal year.

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 this budgeting methodology.

In accordance with the requirements of Section 2.2.2. 10.A(2) (b) of 2.2.2 NMAC *Requirements for Contracting and Conducting Audits of Agencies* and the allowance made by GASB 34 footnote 53, the budgetary comparison statement for the General Fund and for each major special revenue fund have been included as part of the basic financial statements.

G. Accrued Compensated Absences

Annual leave and other compensated absences with similar characteristics are accrued as a liability as benefits are earned by employees if: the employees' right to receive compensation is attributable to services already rendered; and it is probable that the employer will compensate employees for benefits through paid time off or some other means such as cash payments at termination or retirement.

Where applicable, the compensated absence liability is presented in two parts in the government-wide financial statements, a current portion and long-term portion. The current portion is the amount expected to be expended within one year of fiscal year end. It is an estimate management determined by comparing the amount actually paid out during the current fiscal year compared to the liability balance at year end.

Employees accumulate annual leave at a rate based on appointment date and length of continuous service. A maximum of 240 hours of annual leave may be carried forward after the pay period beginning in December and ending in January. When employees terminate, they are compensated at their current hourly rate for accumulated unpaid annual leave as of the date of termination, up to a maximum 240 hours.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to Financial Statements
June 30, 2017**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Accrued Compensated Absences (Continued)

Employees accumulate sick leave at a rate of 3.69 hours per pay period. There is no limit to the amount of sick leave that an employee may accumulate. State agencies are allowed to pay fifty percent of each employee's hourly rate for accumulated sick leave over 600 hours, up to 120 hours. Payment may be made only once per fiscal year at a specified pay period in either January or July. Additionally, upon retirement those employees with over 600 hours accumulated sick leave have the option to convert 400 hours of such leave to cash at one half of their hourly rate.

Fair Labor Standards Act (FLSA) states that nonexempt employees accumulate compensation time at a rate of 1.5 times the number of hours worked, in excess of forty hours per week, based on their regular hourly rate. Exempt and classified employees who are FLSA exempt accumulate compensation time at the same rate as the number of hours worked.

Exempt employees cannot carry forward unused compensation time into January of the subsequent calendar year. Overtime must be preapproved by management. Payment of this liability can be made by compensated leave time or cash payment.

Accrued compensated absences consist of accumulated annual leave, sick leave between 600 and 720 hours, compensatory leave for employees, including the related employers' matching FICA and Medicare payroll taxes.

H. Reversions

Any unexpended balance remaining in SHARE Fund #06500 is generally reverted to the State General Fund. The General Appropriations Act of 2004, Section 3, Subsection N, states that "for the purpose of administration of the General Appropriations Act of 2005, the State of New Mexico shall follow the modified accrual basis of accounting for governmental funds in accordance with the manual of model accounting practices issued by the Department of Finance and Administration." In accordance with the Department of Finance and Administration's "Basis of Accounting-Modified Accrual and the Budgetary Basis," the Office has accrued as payables amounts owed for goods and services received by year end. Any remaining SHARE Fund 06500 fund balance not specifically reserved for prepaid postage or federal grant funds accounted for separately is being reverted to the State General Fund in accordance with Section 6-5-10, NMSA 1978. Fund 78400, Armed Forces Veterans' License Fund is non-reverting per Section 66-3-419F, NMSA 1978. Fund 89600 Veterans' Approval Fund is non-reverting per 38 USC Section 1771, Article 13, Section 28-13-13 of the U.S. Code.

In addition, unexpended balances of special appropriations are reverted when required by law.

I. Federal Grants Receivable (Deferred Revenue)

Reimbursement procedures are used for federal awards received by the Department. Consequently, timing differences between expenditures and program reimbursements can exist at any time during the fiscal year. Receivable balances and fiscal balances at fiscal year-end represent an excess of modified accrual basis expenditures over cash reimbursements received to date. Conversely, deferred revenue balances represent an over draw of cash (advances) in excess of modified accrual basis expenditures. Generally, receivable or deferred revenue balances caused by differences in the timing of cash reimbursements and expenditures are returned to the grantor in the remaining grant period.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to Financial Statements
June 30, 2017**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Federal Grants Receivable (Deferred Revenue) (Continued)

Determining the amount of expenditures reimbursable by the federal government, in some cases, requires management to estimate allowable costs to be charged to the federal government. As a result of this and other issues, management provides an allowance for potential contractual allowances for federal revenue. Any changes in these estimates are recorded in the period that the estimate is changed.

J. Net Position/Fund Balance

In the government-wide financial statements, net position consists of two components: restricted; and unrestricted. The government-wide statement of net position reports \$601,207 of restricted net position as stipulated by resource providers (grantor, contributor, other government enabling legislation) that the funds would be used for a specific purpose, of which \$576,069 is restricted by enabling legislation. The government-wide statement of net position also reports an unrestricted deficit net position of \$159,876 which relates to the liability for compensated absences (not considered in the reversion calculation for amounts due to State General Fund). Generally, the Department would first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net positions are available.

Fund balance amounts are reported within one of the fund balance categories list below:

1. *Nonspendable* - includes amounts that cannot be spent because (1) they are either not in spendable form or (2) they are legally or contractually required to be maintained intact.
2. *Restricted* - fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
3. *Committed* - fund balance classification includes amounts that can be used only 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's highest level of decision-making authority removes or changes the specified use by taking the same action it employed to previously commit those amounts.
4. *Assigned* - fund balance 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.
5. *Unassigned* - fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.

The Department has reviewed each of the classifications and has determined that the Armed Forces Veterans' License fund balance is restricted for the purpose of expanding services to rural areas of the State, including Native American communities and senior citizen centers in compliance with 66- 3-419.F, NMSA 1978; The Veterans Approval fund is restricted for administrative costs of the Veterans' Approval Agency to carry out the state obligation under provision of 38 USC Section 1771, Article 13 Section 28-13-13; and the Veterans' Enterprise Fund is restricted to carry out the Department programs, duties or services, or as restricted by donors or grant agreements. Balances held in the Armed Forces License fund and the Veterans Enterprise fund, totaling \$576,069 are restricted by enabling legislation.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to Financial Statements
June 30, 2017**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Net Position/Fund Balance (Continued)

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Department considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Department considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

K. Use of 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

L. Subsequent Events

Management has evaluated subsequent events through November 1, 2017, the date which the financial statements were available to be issued

NOTE 3. CASH – INVESTMENTS AND COLLATERAL

A. Interest (deficit) in the General Fund Investment Pool

The State General Fund Investment Pool (SGFIP) 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 SGFIP. 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.

Section 8-6-3 NMSA 1978 NMSA, requires that all money of the state except when otherwise specially provided, be kept by the State Treasurer. Cash of the Board is maintained on deposit with State Treasurer in the State General Fund Investment Pool (SGFIP). The State Treasurer, with the advice and consent of the state board of finance, may invest money held in demand deposits and not immediately needed for operations, in securities in accordance with Sections 6-10-10 I through O, NMSA 1978 as amended.

For additional disclosure information regarding the investment in the State Treasurer's SGFIP, the reader should see the separate audit report for the State Treasurer's Office for the fiscal year ended June 30, 2017, review the State Treasurer's Investment Policy at http://www.nmsto.gov/investment_policy_1 and review Sections 2.60.4.1 through 2.60.4.1 5 of the New Mexico Administrative Code, regarding Investment of Deposits of Public Funds Depository Bank Requirements, Collateral Level Requirements, and Custodial Bank Requirements.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to Financial Statements
June 30, 2017**

NOTE 3. CASH – INVESTMENTS AND COLLATERAL (CONTINUED)

At June 30, 2017, the Department had the following invested in the General Fund Investment Pool:

Account Name	Agency Number	SHARE Fund	Balance Per SHARE
NM Veterans' Service	67000	06500	\$ 117,876
Veterans' Approval Fund	67000	89600	(113,543)
Armed Forces Veterans' License Fund	67000	78400	341,124
Veterans' Enterprise Fund	67000	20490	214,916
Veterans' National Cemetery Fund	67000	50240	(3,198)
Cemetery Construction Fund	67000	50280	447,109
Veterans' Cemetery Severance Tax Bond Proceeds Fund	67000	89200	<u>163,421</u>
Total government funds			<u>1,167,705</u>
Cemetery Agency Fund	67000	12300	<u>10,186</u>
Total cash and investments in SGFIP			\$ <u>1,177,891</u>

B. Investments (First National Bank of Santa Fe Trust Department)

Credit Risk, Custodial Credit Risk and Interest Rate Risk

The First National Bank of Santa Fe Trust Department (Trustee) invests veterans' benefits in the Veterans' Trust Fund under a trust agreement with the Department. The Department is the conservator or personal representative of the estates of certain wards pursuant to Section 28-13-9, NMSA 1978. The trustee holds, manages, invests, and receives the trust-estate, collects income and disposes of the net income and principal in accordance with the trust agreement. The trustee is specifically authorized and empowered to "invest and reinvest any funds of the trust estate in deposits, assets, or other, securities, or property insured by an agency of the federal government, such as, but not limited to the Federal Deposit Insurance Corporation and the Federal Savings and Loan Insurance Corporation or obligation issued by the United States Government or its agencies, or money market funds limited to investment in obligations of the United States Government or its agencies or other legal investments as in its discretion it shall deem advisable."

The trustee shall develop a general plan or plans for investment, not less than once a year. The trustee shall invest property and income in accordance with the plan. The compensation to the trustee is 1% per annum of the total value of the managed trust estate and the trustee shall create and manage an "individual account" on behalf of each of the wards for whom the granter has been appointed conservator by a court of competent jurisdiction.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to Financial Statements
June 30, 2017**

NOTE 3. CASH – INVESTMENTS AND COLLATERAL (CONTINUED)

B. Investments (First National Bank of Santa Fe Trust Department) (Continued)

Credit Risk, Custodial Credit Risk and Interest Rate Risk (Continued)

The Department's investments in the Veterans' Trust Fund at June 30, 2017 included the following:

Investment	Maturities	Carrying Amount	Fair Value
Federal Government – Money market fund	N/A	3,859,375	3,859,375
Total investments		<u>3,859,375</u>	<u>3,859,375</u>
Other Property			
Automobiles, mobile homes, real estate and other	N/A	501,440	501,440
Prepaid burial account	N/A	6,042	6,042
Total other property		<u>507,482</u>	<u>507,482</u>
Total Investments and other property		<u>\$ 4,366,857</u>	<u>4,366,857</u>

The Department categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Department has the following recurring fair value measurements as of June 30, 2017:

- Federal Government Money Market Funds \$3,589,375 and prepaid burial account totaling \$6,042, valued using quoted market prices (Level 1 inputs).

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to Financial Statements
June 30, 2017**

NOTE 3. CASH – INVESTMENTS AND COLLATERAL (CONTINUED)

B. Investments (First National Bank of Santa Fe Trust Department) (Continued)

Credit Risk, Custodial Credit Risk and Interest Rate Risk (Continued)

The Department also has nonrecurring fair value measurements as of June 30, 2017, for other property and real estate held by the trust department on behalf of beneficiaries for which cost is deemed to represent the fair market value. The Department is not aware of any impairments to these investments (Level 3 inputs).

Credit Risk

All investments are insured by an agency of the federal government or registered or securities held by the trustee or its agent in the name of the Department. Investments are in accordance with the "general plan." Investments are in legal investments which have safety, assured income, stability of principal and ready convertibility. Investments in Mutual funds are subject to market fluctuations.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that in the event of the failure of the counter-party, the Department will not be able to recover the value of its investments or collateral securities that are in possession of an outside party.

All investment securities are insured and registered in the name of the Department or are held by either the counter-party or counter-party's trust department.

Interest Rate Risk

In accordance with its investment policy, the Department and trustee manages its exposure to declines in fair values and losses arising from increasing interest rates by limiting the modified duration of its investments to short periods of up to five years.

NOTE 4. RISK MANAGEMENT

The Department 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 Department maintains commercial insurance through the Risk Management Division for coverage for workers compensation, auto liability, general liability, civil rights, property and contents, and fidelity bonds. Management believes that any potential loss would be adequately covered by insurance and would not result in any material adverse effect on the financial condition of the Department. During the past three years, the Department has not had any significant reduction in insurance coverage of settlements exceeding insurance coverage.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to Financial Statements
June 30, 2017**

NOTE 5. CAPITAL ASSETS

Summaries of changes in capital assets and related depreciation for the year ended June 30, 2017, follows:

	Balance 6/30/16	Additions	Deletions	Balance 6/30/17
Capital Assets				
Information and technology equipment	\$ 58,291	-	(58,291)	-
Furniture and fixtures	23,507	-	(23,507)	-
Machinery and equipment	50,408	-	(50,408)	-
Total capital assets	<u>132,206</u>	<u>-</u>	<u>(132,206)</u>	<u>-</u>
Accumulated depreciation				
Information and technology equipment	58,291	-	(58,291)	-
Furniture and fixtures	23,507	-	(23,507)	-
Machinery and equipment	50,408	-	(50,408)	-
Total accumulated depreciation	<u>132,206</u>	<u>-</u>	<u>(132,206)</u>	<u>-</u>
Capital assets, net of accumulated depreciation				
Information and technology	-	-	-	-
Furniture and fixtures	-	-	-	-
Machinery and equipment	-	-	-	-
Net capital assets	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>

The Department does not have any debt related to capital assets. Assets were fully depreciated prior to disposal and thus there is no depreciation expense for the year ended June 30, 2017.

NOTE 6 COMPENSATED ABSENCES PAYABLE

The Department has recognized a liability of \$159,876 in the statement of net position for annual leave and compensated absences based on current pay rates and hours accumulated at June 30, 2017. Compensated absences are paid with General Fund appropriations out of SHARE Fund 06500.

	Balance 6/30/16	Increase	Decrease	Balance 6/30/17	Due Within One Year
Compensated absences	\$ 159,061	216,305	215,490	159,876	119,908
Total compensated absences	<u>\$ 159,061</u>	<u>216,305</u>	<u>215,490</u>	<u>159,876</u>	<u>119,908</u>

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to Financial Statements
June 30, 2017**

NOTE 7. REVERSIONS

Reversions to State General Fund

The General Fund receives a State General Fund appropriation annually. Any unexpended funds at the end of the year revert to the State General Fund. In addition, any other revenue received in the fund which is not specifically appropriated by the Legislature also reverts to the State General Fund. Federal grant funds which are commingled in the Department's General Fund, are accounted for separately, and do not revert to the State General Fund. The Department of Veterans' Services was appropriated \$3,238,900 for fiscal year 2017.

General Fund

Fund balance, July 1, 2016	\$	-
Revenue		3,328,930
Expenditures		(3,074,760)
Reversions		<u>(254,170)</u>
Fund balance, June 30, 2017		-
Due to the State General Fund for 2017 appropriations	\$	<u>10,741</u>
Composition of amounts due from/due to General Fund by fiscal year appropriation:		
2017 fiscal year due to State General Fund	\$	(10,741)
Stale dated warrants due to State General Fund		<u>(88)</u>
Total due to the State General Fund, June 30, 2017	\$	<u>(10,829)</u>

NOTE 8. ASSETS HELD IN CUSTODY FOR OTHERS

Assets held in trust consist of cash, investments, real property and miscellaneous property held in trust for veterans. All real property is reported on the financial statements at acquisition cost of the items or an estimate of what acquisition cost was for items transferred into the Department of Veterans' Services guardianship.

NOTE 9. PERA PENSION PLAN

Plan Description. Substantially all of the Department's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article I 1, 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.

Funding Policy. Plan members are required to contribute 8.92% of their gross salary. The Department is required to contribute 16.99% of the gross covered salary. The contribution requirements of plan members and the Department are established in State statute under Chapter 10, Article I 1, NMSA 1978. The requirements may be amended by acts of the Legislature. The Department's contributions to PERA for the fiscal years ending June 30, 2017, 2016, and 2015 were \$366,620, \$338,871, and \$250,617, respectively, which equal the amount of the required contributions for each fiscal year.

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to Financial Statements
June 30, 2017

NOTE 9. PERA PENSION PLAN (CONTINUED)

The Department, as a part of the primary government of the State of New Mexico, is a contributing employer to a cost-sharing multiple employer defined benefit pension plan administered by the Public Employees Retirement Association (PERA). Disclosure requirements for governmental funds apply to the primary government as a whole, and as such, this information will be presented in the Component Appropriation Funds Annual Financial Report (General Fund) and the Comprehensive Annual Financial Report (CAFR) of the State of New Mexico.

Information concerning the net pension liability, pension expense, and pension-related deferred inflows and outflows of resources of the primary government will be contained in the General Fund and the CAFR and will be available, when issued, from the Office of State Controller, Room 166, Bataan Memorial Building, 407 Galisteo Street, Santa Fe, New Mexico, 87501.

NOTE 10. POST-EMPLOYMENT BENEFITS-STATE RETIREE HEALTH CARE PLAN

Plan Description. Department of Veterans' Services contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment health care 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 health care 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 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 post-employment health care 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 health care 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.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to Financial Statements
June 30, 2017**

NOTE 10. 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, 2017, 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, 2017, 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 Department's contributions to the RHCA for the years ended June 30, 2017, 2016, and 2015 were \$32,956, \$39,839, and \$29,512, respectively, which equal the required contributions for each year.

NOTE 11. COMMITMENTS AND CONTINGENCIES

Operating Lease Obligations

The Department of Veterans' Services is committed under several leases for Department office space, grounds, vehicles, and various equipment. These leases are considered for accounting purposes to be operating leases and are not reflected in the Department of Veterans' Services long-term liabilities. Rent and lease expenditures for the year ended June 30, 2017 amounted to \$140,364. As of fiscal year 2017, all leases are on a month-to-month basis.

Federal Grants

The Department of Veterans' Services receives federal grants which may be refundable in the event that all terms of the grants are not complied with. In the opinion of management, no material refunds will occur.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to Financial Statements
June 30, 2017**

NOTE 12. DUE FROM/DUE TO OTHER STATE AGENCIES

The Department receives and makes operating loans for various reasons as described below:

	Due From	Due To
<i>Due from other state agencies:</i>		
Indian Affairs Department (Agency No. 60900)	\$ 15,000	
Department's General Fund (Agency No. 67000, Fund No. 06500) Purpose: Reimbursement for collaborative project		15,000
Department of Finance & Administration - Board of Finance (Agency No. 34103)	\$ 171,206	
Department's Cemetery Construction Fund (Agency No. 67000, Fund No. 50280) Purpose: Reimbursement for Cemetery Construction		171,206
State of New Mexico, Taxation and Revenue Department (Agency No. 82600)	\$ 7,776	
Department's Armed Forces Veterans' License Fund (Agency No. 67000, Fund No. 78400) Purpose: MVD distributions, Sec. 66-6-23		7,776
State of New Mexico, Taxation and Revenue Department (Agency No. 82600)	\$ 12,253	
Department's Veterans' Enterprise Special Revenue Fund (Agency No. 67000, Fund No. 20490) Purpose: MVD distributions, Sec 9-22-1		12,253
<i>Due to other state agencies:</i>		
Department's General Fund (Agency No. 67000, Fund No. 06500) Purpose: Reversion to State General Fund	\$ 10,829	
Department of Finance & Administration (Agency No. 34100)		10,829
Department's General Fund (Agency No. 67000, Fund No. 06500)	\$ 1,472	
State of New Mexico, Human Services Department (Agency No. 63000) Purpose: Office lease		1,472
Department's General Fund (Agency No. 67000, Fund No. 06500)	\$ 1,341,424	
State of New Mexico, General Services Department (Agency No. 35000) Purpose: Reimbursement pursuant to MOA for construction of Cemetery		1,341,424

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to Financial Statements
June 30, 2017**

NOTE 13. TRANSFERS TO/FROM OTHER STATE AGENCIES

The Department receives and makes operating transfers for various reasons as described below:

	Transfer From	Transfer To
Department of Finance & Administration (Agency No. 34100)	\$ 3,238,900	
Department's General Fund (Agency No. 67000, Fund No. 06500) Purpose: General fund appropriation FY 2017		3,238,900
State of New Mexico, Taxation and Revenue Department (Agency No. 82600)	\$ 105,197	
Department's Armed Forces Veterans' License Fund (Agency No. 67000, Fund No. 78400) Purpose: MVD distributions, Sec. 66-6-23		105,197
State of New Mexico, Taxation and Revenue Department (Agency No. 82600)	\$ 127,203	
Department's Veterans' Enterprise Special Revenue Fund (Agency No. 67000, Fund No. 20490) Purpose: MVD distributions, Sec 9-22-1		127,203

NOTE 14. STATE GENERAL FUND APPROPRIATIONS

	Revenues to Date	Appropriation Period	Expenditures & Reversions to Date	Balance of Appropriation	
				Designated for Subsequent Year Expenditure	Due to State General Fund
General Fund					
Appropriation Laws 2016,	\$ 3,238,900	7/1/2016 to 6/30/2017	\$ -	\$ -	\$ -
Interagency transfer	75,000		-	-	-
Other revenues	15,030		-	-	-
	<u>3,328,930</u>		<u>3,318,189</u>	<u>-</u>	<u>10,741</u>

NOTE 15. SEVERANCE TAX BOND APPROPRIATIONS

	Original Appropriation	Appropriation Period	Expenditures to Date	Outstanding Encumbrances	Reversions	Unencumbered Balance
Severance Tax Bonds, 2016 Senate Bill 172						
Chap. 83, Sec 95	\$ 600,000	7/1/2016 to 6/30/2024	578,683	-	-	21,317

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to Financial Statements
June 30, 2017

NOTE 16. SUBSEQUENT EVENTS

Effective July 1, 2017, the 2017 Legislative session Senate Bill 204 was enacted transferring oversight of the New Mexico State Veterans' Home located in Truth or Consequences, New Mexico from the New Mexico Department of Health to the New Mexico Veterans' Services Department creating the Health Care Coordination Division of the Veterans' Services Department. The transfer of the State Veterans' Home to the Veterans' Services Department will have a significant impact on the Department's mission and fiscal year 2018 operations by increasing the Department's operating budget by approximately \$14.6 million and 212 Full-Time Equivalents positions. The accounting for the transfer of capital assets will be finalized upon the completion of both state agencies' external audits. Effective June 30, 2017, the Department of Veterans' Services Advisory Board was dissolved and no longer exists as of July 1, 2017.

SUPPLEMENTAL INFORMATION

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Description of Nonmajor Capital Projects Funds
June 30, 2017

CAPITAL PROJECT FUNDS

Cemetery Construction (Fund 50420). This fund was set up to receive the original State appropriation of severance tax bond funds, pending determination of matters concerning federal reimbursement.

Severance Tax Bond Capital Projects Fund (Fund 89200). This fund receives capital projects funds as authorized by the State Legislature for the acquisition of property and preparation for construction of regional Veterans' National Cemeteries within the State. Funds are administered by the State Board of Finance and are obtained by the issuance of bonds which are secured by collections of severance tax revenues. This is a multi-year appropriation, and funds not expended at the end of the appropriation period revert to the State Board of Finance.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Combining Balance Sheet
Nonmajor Capital Projects Funds
June 30, 2017**

	Capital Project Funds		Total
	Veterans' National Cemetery Fund 50420	Veterans' Cemetery STB Proceeds 89200	
ASSETS			
Investment in State Treasurer General Fund			
Investment Pool	\$	163,421	163,421
Due from Federal government	14,294	-	14,294
Due from other state agencies	-	-	-
Total assets	\$ 14,294	163,421	177,715
LIABILITIES AND FUND BALANCE			
Liabilities			
Investment in State Treasurer General Fund	\$ 3,198	-	3,198
Investment Pool - deficit	-	-	-
Accounts payable	11,096	163,421	174,517
Total liabilities	14,294	163,421	177,715
Fund Balance			
Restricted			
Special purposes	-	-	-
Unassigned	-	-	-
Total fund balance	-	-	-
Total liabilities and fund balance	\$ 14,294	163,421	177,715

See Notes to Financial Statements.

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Combining Statement of Revenues, Expenditures
and Changes in Fund Balance
Year Ended June 30, 2017

	Veterans' National Cemetery Fund 50420	Veterans' Cemetery STB Proceeds 89200	Total
Revenues			
Charges for services	\$ -	-	-
Intergovernment - federal grant revenue	14,294	-	14,294
Miscellaneous	-	-	-
Total revenues	14,294	-	14,294
Expenditures			
Welfare and assistance			
Current:			
Personal services and employee benefits	-	349,048	349,048
Contractual services	25,390	-	25,390
Other costs	-	11,939	11,939
Total expenditures	25,390	360,987	386,377
Excess (deficiency) of revenues over expenditures	(11,096)	(360,987)	(372,083)
Other Financing Sources (Uses)			
Transfer in: State General Fund Appropriation	-	-	-
Transfer in: Special Appropriation	-	-	-
Transfer in: Severance Tax Appropriation	11,096	360,987	372,083
Other financing sources			
Reversions to State Board of Finance	-	-	-
Reversions to the State General Fund	-	-	-
Total other financing sources	11,096	360,987	372,083
Net change in fund balances	-	-	-
Fund balance, beginning of year	-	-	-
Fund balance, end of year	\$ -	-	-

See Notes to Financial Statements.

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Statement of Revenues, Expenditures and Encumbrances
Multi-Year Budget and Actual – Capital Projects Fund
Cemetery Construction Fund (Fund 50280)
Year Ended June 30, 2017

	Original Budget	Final Budget	Prior Year Actual Budget Basis	Current Year Actual Budget Basis	LTD Actual Budget Basis	Variance Favorable (Unfavorable)
Revenues						
Federal grants - operating	\$ 5,338,308	5,338,308	1,626,529	2,065,906	3,692,435	(1,645,873)
Transfer in: Severance Tax Appropriation	-	-	-	171,206	-	-
Total revenues	<u>\$ 5,338,308</u>	<u>5,338,308</u>	<u>1,626,529</u>	<u>2,237,112</u>	<u>3,692,435</u>	<u>(1,645,873)</u>
Expenditures						
Current:						
Contractual services	400,000	400,000	-	-	-	400,000
Other costs	4,938,308	4,938,308	1,626,529	2,237,112	3,863,641	1,074,667
Total expenditures	<u>\$ 5,338,308</u>	<u>5,338,308</u>	<u>1,626,529</u>	<u>2,237,112</u>	<u>3,863,641</u>	<u>1,474,667</u>

Fund Balance Statement of Revenues and Expenditures
and changes in Fund Balance - Governmental Funds

\$ -

See Notes to Financial Statements.

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Combining Statement of Fiduciary Net Assets
Agency Funds
June 30, 2017

	Veterans' Trust Fund 11240	Cemetery Fund 12300	Total Agency Funds
	<u>11240</u>	<u>12300</u>	<u>Funds</u>
ASSETS			
Investment in State Treasurer General Fund			
Investment Pool	\$ -	10,186	10,186
Cash on deposit in banks	-	-	-
Investments and other property	4,366,857	-	4,366,857
Due from other state agencies	-	-	-
Total assets	<u>\$ 4,366,857</u>	<u>10,186</u>	<u>4,377,043</u>
LIABILITIES			
Assets held for others	\$ 4,366,857	10,186	4,377,043
Total liabilities	<u>\$ 4,366,857</u>	<u>10,186</u>	<u>4,377,043</u>

See Notes to Financial Statements.

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Combining Schedule of Changes in Fiduciary Assets and Liabilities
Agency Funds
June 30, 2017

	Balance June 30, 2016	Additions	Deductions	Balance June 30, 2017
<u>Veterans' Trust Fund (11240)</u>				
ASSETS				
Cash on deposit in banks	\$ 149,757	-	(149,757)	-
Investments and other property	7,836,416	666,235	(4,135,794)	4,366,857
Total assets	\$ 7,986,173	666,235	(4,285,551)	4,366,857
LIABILITIES				
Assets held for others	7,986,173	666,235	(4,285,551)	4,366,857
Total liabilities	\$ 7,986,173	666,235	(4,285,551)	4,366,857
<u>Cemetery Fund (12300)</u>				
ASSETS				
Investment in the State Treasurer General Fund Investment Pool	\$ 19,983	-	(9,797)	10,186
Due from other state agencies	318	-	(318)	-
Total assets	\$ 20,301	-	(10,115)	10,186
LIABILITIES				
Assets held for others	\$ 20,301	-	(10,115)	10,186
Total liabilities	\$ 20,301	-	(10,115)	10,186
<u>TOTAL - ALL AGENCY FUNDS</u>				
ASSETS				
Investment in the State Treasurer General Fund Investment Pool	\$ 19,983	-	(9,797)	10,186
Cash on deposit in banks	149,757	-	(149,757)	-
Investments and other property	7,836,416	666,235	(4,135,794)	4,366,857
Due from other state agencies	318	-	(318)	-
Total assets	\$ 8,006,474	666,235	(4,295,666)	4,377,043
LIABILITIES				
Assets held for others	\$ 8,006,474	666,235	(4,295,666)	4,377,043
Total liabilities	\$ 8,006,474	666,235	(4,295,666)	4,377,043

See Notes to Financial Statements.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Schedule of Cash and Investment Accounts
June 30, 2017**

<u>Account Name</u>	<u>SHARE Fund No. Account Number</u>	<u>Balance Per Depository</u>	<u>Reconciling Items Outstanding Warrants</u>	<u>Reconciled Balance June 30, 2017</u>
Cash:				
Investment in the State Treasurer General				
Fund Investment Pool				
General Fund	06500	\$ 117,876	-	117,876
Special Revenue Funds				
Veterans' Approval Fund	89600	(113,543)	-	(113,543)
Armed Forces Veterans' License	78400	341,124	-	341,124
Veterans' Enterprise Fund	20490	214,916	-	214,916
Total special revenue funds		442,497	-	442,497
Capital Project Funds				
Veterans' National Cemetery Fund	50240	(3,198)		(3,198)
Cemetery Construction Fund	50280	447,109		447,109
Veterans' Cemetery Severance Tax Bond Proceeds Fund	89200	163,421	-	163,421
Total capital project funds		607,332	-	610,530
Total governmental funds		1,167,705	-	1,167,705
Agency Funds				
Cemetery Fund	12300	10,186	-	10,186
Total State Treasurer cash accounts		1,177,891	-	1,177,891
First National Bank of Santa Fe:				
Agency Funds				
Veterans' Trust Funds	N/A	\$ 4,366,857	-	4,366,857
Total Cash on deposit		6,094,935	-	6,094,935
			Book Carrying Value	Market Value
Investments:				
First National Bank of Santa Fe				
Agency Funds - Veterans' Trust Fund:				
Mutual Funds			\$ -	-
Money market funds			3,859,375	3,859,375
Total investments			3,859,375	3,859,375
Other Property				
First National Bank of Santa Fe				
Agency Funds - Veterans' Trust Fund:				
Automobiles, mobile homes, real estate and other			501,440	501,440
Prepaid Burial account			6,042	6,042
Total other property			507,482	507,482
Total investments and other property			\$ 4,366,857	4,366,857

See Notes to Financial Statements.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Schedule of Expenditures of Federal Awards
June 30, 2017**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDS Number	Pass-Through Entity Identifying	Total Federal Expenditures
US Small Business Administration Veterans Outreach Program	59.044	N/A	\$ <u>199,282</u>
US Department of Veteran's Affairs Rural Veterans Coordination Pilot	64.038	N/A	902,192
Veterans Cemetary Grants Program Fund 50280 Fund 50420	64.203	N/A	2,065,906 14,294
Education Service (SAA)	64.Unknown	N/A	<u>126,193</u>
Total US Department of Veterans Affairs			<u>3,108,585</u>
Total Expenditures of Federal Awards			\$ <u><u>3,307,867</u></u>

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the State of New Mexico Department of Veterans' Services under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Department, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Department.

Note 2. Summary of Significant Accounting Policies

Expenditures shown in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or limited as to reimbursement.

Note 3. Indirect Cost Rate

The Department has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

**Independent t Auditor's 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. Jack R. Fox, Cabinet Secretary
Department of Veterans' Services and
Mr. Timothy Keller
New Mexico State Auditor
Santa Fe, New Mexico

We have audited , in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the fiduciary activities, each major fund, the aggregate remaining fund information and the budgetary comparisons of the general fund and major special revenue funds of the Department of Veterans' Services (the Department) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements and have issued our report thereon dated November 1, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit, of the financial statements, we considered the Department'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 Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a 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 a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department'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*.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Albuquerque, New Mexico
November 1, 2017

**Independent Auditor's Report on Compliance for Each Major Federal Program and on
Internal Control over Compliance Required by the Uniform Guidance**

Mr. Jack R. Fox, Cabinet Secretary
Department of Veterans Services and
Mr. Timothy Keller
New Mexico State Auditor
Santa Fe, New Mexico

Report on Compliance for Each Major Federal Program

We have audited the Department of Veterans' Services (the Department) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Department's major federal programs for the year ended June 30, 2017. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Department's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Department's compliance.

Opinion on Each Major Federal Program

In our opinion, the Department, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2017-001. Our opinion on each major federal program is not modified with respect to the matter.

The Department's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Department's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Department is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Department's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Albuquerque, New Mexico
November 1, 2017

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017**

SECTION I - SUMMARY OF AUDITOR' S RESULTS

Financial Statements

Type of auditor's report issued

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes None Reported
- Non-compliance material to financial statements noted? Yes No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weakness(es) Yes None Reported
- Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes No

Identification of Major Program

<u>CFDA No.</u>	<i>Name of Federal Program or Cluster</i>	<i>Type of Opinion</i>
64.203	Veterans Cemetery Grants Program	Unmodified
64.038	Rural Veterans Coordination Pilot	Unmodified
Dollar threshold used to distinguish between Type A and Type B programs		\$ 750,000
Auditee qualified as low-risk auditee?		<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017**

SECTION II - FINANCIAL STATEMENT FINDINGS

None

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017**

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2017-001 Lack of Supporting Documentation for Payment to General Services Department

Federal Agency: Department of Veterans Affairs
Program Name: Veterans Cemetery Grants Program
CFDA No. and Program Expenditures: 64.203 (\$2,091,296)
Fiscal Program Award Year Ended: June 30, 2017
Compliance Requirement: Cash Management
Type of Finding: Non Compliance and Other Matter
Questioned Costs: \$2,184

CONDITION

While performing our testwork over federal expenditures, we noted that the New Mexico General Services Department (GSD) provided contract management services to the Department for the design and construction of the Fort Stanton cemetery project. As part of its contract management services, GSD pays the project contractors and requests reimbursement from the Department. On November 9, 2016, GSD submitted to the Department "Request for Reimbursement – Invoice #2" in the amount \$26,031 for reimbursement of expenditures GSD made to contractors on behalf of the Department. The GSD reimbursement request total of \$26,031 did not include proper supporting documentation for \$2,184. The Department reimbursed GSD the full amount of \$26,031 without proper supporting documents for \$2,184.

CRITERIA

2 CFR Section 200.514(c) requires entities to have proper internal controls over cash management. For grants and cooperative agreements to non-Federal entities that are paid on a reimbursement basis, supporting documentation that shows that the costs for which the reimbursement was requested were paid prior to the date of the reimbursement request.

CAUSE

GSD and the Department were trying to close out and record FY16 project expenditures before the end of the year close and the Department processed the payment to GSD even though it had questioned the lack of supporting documentation provided by GSD.

EFFECT

The Department may have over reimbursed GSD by \$2,184 for costs that were not incurred on the cemetery project.

RECOMMENDATION

We recommend that the Department and GSD review the supporting documentation for the \$26,031 reimbursement and correct the payment amount paid to GSD if no supporting documentation can be provided for the \$2,184 unsupported amount. We also recommend that the Department ensure that GSD provides proper supporting documentation for all of its request for reimbursement amounts prior to reimbursing GSD.

MANAGEMENT'S RESPONSE/CORRECTIVE ACTION PLAN

We made various attempts with the General Services Department to remedy this matter, but to no avail. The Agency has since then established a procedure whereby no invoices will be processed if the supporting documents do not total the amount of the reimbursement.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Status of Prior Years Findings
Year Ended June 30, 2017**

2015-001	Active Veteran Conservatorship/Guardianship	Resolved
2016-001	Procurement Code Violation	Resolved

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Exit Conference
Year Ended June 30, 2017**

An exit conference was held on October 30, 2017 to discuss the annual financial report. Attending were the following:

Representing the Department of Veterans' Services:

Jack R. Fox, Secretary
Sal Soto, Director
Christina Baca, Chief Financial Officer

Representing the Independent Auditor Axiom CPAs:

Jaime Rumbaoa, Managing Audit Partner