

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Financial Statements
June 30, 2019**



**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

Judy M. Griego	Cabinet Secretary
Bryan Osterhage	Deputy Secretary
Monica Maestas	Chief Financial Officer

Independent Auditor's Report

Ms. Judy M. Griego, Cabinet Secretary
Department of Veterans' Services and
Mr. Brian S. Colón, Esq.
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, 2019, 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, 2019, 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.

Emphasis of Matter

As discussed in Note 1, the financial statements of the New Mexico State Personnel Board (the Board) are intended to present the net position and the changes in net position of only that portion of the governmental activities, the major fund and budgetary comparison for the general fund that are attributable to the transactions of the Board. They do not purport to, and do not, present fairly the net position of the State of New Mexico as of June 30, 2019, and the changes in its net position thereof for the year ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted *Management's Discussion and Analysis* that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

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 January 24, 2020, 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

January 24, 2020

BASIC FINANCIAL STATEMENTS

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Statement of Net Position
June 30, 2019

	<u>Governmental Activities</u>
ASSETS	
Current Assets	
Investment in State Treasurer General Fund Investment Pool	\$ 1,668,980
Cash	538
Receivables	2,022,947
Due from Federal government	2,304,269
Prepaid	658
Inventory	<u>307,870</u>
Total current assets	6,305,262
Capital assets, net	<u>1,530,590</u>
Total Assets	<u>7,835,852</u>
LIABILITIES	
Current Liabilities	
Investment in State Treasurer General Fund Investment Pool - deficit	2,500,874
Accounts payable	2,454,621
Accrued salaries payable	259,606
Payroll taxes and benefits payable	136,162
Held for others	28,479
Compensated absences payable	<u>399,693</u>
Total current liabilities	5,779,435
Long-Term Liabilities	
Compensated absences payable, net of current portion	<u>133,226</u>
Total Liabilities	<u>5,912,661</u>
NET POSITION	
Net investment in capital assets	1,530,590
Restricted	925,520
Unrestricted (deficit)	<u>(532,919)</u>
Total net position	\$ <u>1,923,191</u>

See Notes to Financial Statements.

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Statement of Activities
For the Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
Personal services and employee benefits	\$ 12,716,282	13,309,833	5,610,631	-	\$ 6,204,182
Contractual services	7,598,149	152,747	-	-	(7,445,402)
Other costs	5,123,153	-	-	-	(5,123,153)
<i>Total primary government</i>	<u>\$ 25,437,584</u>	<u>13,462,580</u>	<u>5,610,631</u>	<u>-</u>	<u>(6,364,373)</u>
General Revenues and Transfers					
					3,795,400
					44,500
					2,978,000
					(199,550)
					14,559
					<u>6,632,909</u>
					268,536
					<u>1,654,655</u>
					\$ <u><u>1,923,191</u></u>

See Notes to Financial Statements.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Balance Sheet – Governmental Funds
June 30, 2019**

	General Fund 06500	New Mexico Veterans' Home Fund 50460	Special Revenue Funds	Capital Project Funds		Non-major Funds	Total
			Veterans' Enterprise Fund 20490	Cemetery Construction Fund 50280	Cemetery Construction Fund 50420		
ASSETS							
Investment in State Treasurer General Fund Investment Pool	\$ 775,945	-	126,374	-	685,630	81,031	1,668,980
Cash	-	538	-	-	-	-	538
Accounts receivables, net	-	2,022,947	-	-	-	-	2,022,947
Due from federal government	-	-	-	2,058,345	37,454	208,470	2,304,269
Prepaid	146	512	-	-	-	-	658
Inventory	-	307,870	-	-	-	-	307,870
Total assets	\$ 776,091	2,331,867	126,374	2,058,345	723,084	289,501	6,305,262
LIABILITIES AND FUND BALANCE							
Liabilities							
Investment in State Treasurer General Fund Investment Pool - deficit	\$ -	1,400,269	-	261,283	-	839,322	2,500,874
Accounts payable	192,053	583,171	-	1,674,305	-	5,092	2,454,621
Accrued salaries payable	53,703	205,903	-	-	-	-	259,606
Payroll taxes and benefits payable	50,741	85,421	-	-	-	-	136,162
Held for others	-	28,479	-	-	-	-	28,479
Total liabilities	296,497	2,303,243	-	1,935,588	-	844,414	5,379,742
Fund Balance							
Restricted							
Special purposes	479,594	28,624	126,374	122,757	723,084	81,031	1,561,464
Unassigned	-	-	-	-	-	(635,944)	(635,944)
Total fund balance	479,594	28,624	126,374	122,757	723,084	(554,913)	925,520
Total liabilities and fund balance	\$ 776,091	2,331,867	126,374	2,058,345	723,084	289,501	6,305,262

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, 2019

Total fund balance for the Governmental fund (Balance Sheet)	\$	925,520
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
The cost of capital assets		1,886,153
Accumulated depreciation		(355,563)
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 funds.		<u>(532,919)</u>
Net position of governmental activities (Statement of Net Position)	\$	<u>1,923,191</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, 2019

	General Fund 06500	New Mexico Veterans' Home Fund 50460	Revenue Funds	Capital Project Funds		Non-major Funds	Total
			Veterans' Enterprise Fund 20490	Cemetery Construction Fund 50280	Cemetery Construction Fund 50420		
Revenues							
Charges for services	\$ -	-	86,359	-	-	66,388	152,747
Intergovernmental - federal grant revenue	-	-	-	4,957,938	231,978	420,715	5,610,631
Payments for care	-	13,309,833	-	-	-	-	13,309,833
Miscellaneous	99	4,742	4,579	-	-	5,139	14,559
Total revenues	99	13,314,575	90,938	4,957,938	231,978	492,242	19,087,770
Expenditures							
Welfare and assistance							
Current:							
Personal services and employee benefits	2,753,518	9,041,739	-	-	-	970,740	12,765,997
Contractual services	412,966	2,421,548	-	4,626,649	101,465	35,521	7,598,149
Other costs	684,266	4,095,888	27,361	-	-	75,536	4,883,051
Capital outlay	79,392	108,975	-	-	-	-	188,367
Total expenditures	3,930,142	15,668,150	27,361	4,626,649	101,465	1,081,797	25,435,564
Excess (deficiency) of revenues over expenditures	(3,930,043)	(2,353,575)	63,577	331,289	130,513	(589,555)	(6,347,794)
Other Financing Sources (Uses)							
Transfer in: State General Fund Appropriation	3,795,400	-	-	-	-	-	3,795,400
Transfer in: Compensation Package	44,500	-	-	-	-	-	44,500
Transfer in: Special Appropriation	225,000	2,753,000	-	-	-	-	2,978,000
Transfer in: Intra-agency transfers	474,287	-	(286,602)	-	-	(187,685)	-
Reversions to the State General Fund - (FY 19)	(199,550)	-	-	-	-	-	(199,550)
Total other financing sources	4,339,637	2,753,000	(286,602)	-	-	(187,685)	6,618,350
Net change in fund balances	409,594	399,425	(223,025)	331,289	130,513	(777,240)	270,556
Fund balance, beginning of year	70,000	(370,801)	349,399	(208,532)	592,571	222,327	654,964
Fund balance, end of year	\$ 479,594	28,624	126,374	122,757	723,084	(554,913)	925,520

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, 2019**

Net change in fund balance – Governmental Fund (Statement of Revenues, Expenditures and Changes in Fund Balance)	\$	270,556
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts were:		
Capital outlay		188,367
Depreciation expense		(240,102)
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>49,715</u>
Change in net position of governmental activities (Statement of Activities)	\$	<u><u>268,536</u></u>

See Notes to Financial Statements.

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Statement of Revenues, Expenditures and Encumbrances
Budget and Actual (Budgetary Basis) – Major Governmental Funds
General Fund (Fund 06500)
Year Ended June 30, 2019

	Original Budget	Final Budget	Actual Budget Basis	Variance Favorable (Unfavorable)
Revenues				
State General Fund Appropriations	\$ 3,976,400	3,976,400	3,795,400	(181,000)
Miscellaneous	-	-	99	99
Total revenues	<u>\$ 3,976,400</u>	<u>3,976,400</u>	<u>3,795,499</u>	<u>(180,901)</u>
Expenditures				
Current:				
Personal services and employee benefits	\$ 3,046,400	3,077,400	2,753,518	323,882
Contractual services	255,500	435,500	412,966	22,534
Other costs	538,000	982,287	763,658	218,629
Total expenditures	<u>\$ 3,839,900</u>	<u>4,495,187</u>	<u>3,930,142</u>	<u>565,045</u>
Other Financing Sources				
Compensation Package	\$ 44,500	44,500	44,500	-
Special Appropriations	-	-	225,000	225,000
Intra-agency transfers in	-	-	474,287	474,287
Total other financing sources	<u>\$ 44,500</u>	<u>44,500</u>	<u>743,787</u>	<u>699,287</u>
Items not included in budget schedule:				
Reversions fiscal year 2019			\$ (199,550)	
Fund Balance Statement of Revenues and Expenditures and changes in Fund Balance - Governmental Funds			<u>\$ 409,594</u>	

See Notes to Financial Statements.

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Statement of Revenues, Expenditures and Encumbrances
Budget and Actual (Budgetary Basis) – Major Governmental Funds
New Mexico Veterans' Home Fund (Fund 50460)
Year Ended June 30, 2019

	Original Budget	Final Budget	Actual Budget Basis	Variance Favorable (Unfavorable)
Revenues				
State General Fund Appropriations	\$ 2,753,000	2,753,000	2,753,000	-
Payments for care	10,260,700	10,260,700	13,309,833	3,049,133
Miscellaneous	20,000	20,000	4,742	(15,258)
Total revenues	\$ 13,033,700	13,033,700	16,067,575	3,033,875
Expenditures				
Current:				
Personal services and employee benefits	\$ 6,796,800	7,746,800	9,041,739	(1,294,939)
Contractual services	1,319,600	2,519,600	2,421,548	98,052
Other costs	2,164,300	4,267,300	4,204,863	62,437
Total expenditures	\$ 10,280,700	14,533,700	15,668,150	(1,134,450)
Other Financing Sources				
Interagency transfers in	\$ -	-	-	-
Total other financing sources	\$ -	-	-	-
Fund Balance Statement of Revenues and Expenditures and changes in Fund Balance - Governmental Funds			\$ <u>399,425</u>	

See Notes to Financial Statements.

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Statement of Revenues, Expenditures and Encumbrances
Budget and Actual (Budgetary Basis) – Major Governmental Funds
Veterans' Enterprise Special Revenue Fund (Fund 20490)
Year Ended June 30, 2019

	Original Budget	Final Budget	Actual Budget Basis	Variance Favorable (Unfavorable)
Revenues				
Federal grants - operating	\$ -	-	86,359	86,359
Miscellaneous	-	-	4,579	4,579
Total revenues	\$ -	-	90,938	90,938
Expenditures				
Current:				
Personal services and employee benefits	\$ -	-	-	-
Contractual services	-	80,000	-	80,000
Other costs	-	30,000	27,361	2,639
Total expenditures	\$ -	110,000	27,361	82,639
Other Financing Uses				
Interagency transfers out	\$ -	(286,602)	(286,602)	-
Total other financing uses	\$ -	(286,602)	(286,602)	-
Fund Balance Statement of Revenues and Expenditures and changes in Fund Balance - Governmental Funds			\$ <u>(223,025)</u>	

See Notes to Financial Statements.

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2019

Assets

Investment in the State Treasurer General Fund		
Investment pool	\$	20,745
Cash on deposit in banks		140,378
Investments and other property		-
Total assets	\$	<u>161,123</u>

Liabilities

Assets held for others	\$	<u>161,123</u>
Total liabilities	\$	<u>161,123</u>

See Notes to Financial Statements.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to Financial Statements
June 30, 2019**

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 Benefits Division, and
- 4) Health Care Coordination Division

Effective July 1, 2017, the 2017 Legislative session Senate Bill 204 was enacted transferring oversight of the New Mexico State Veterans' Home (VA Home) located in Truth or Consequences, New Mexico from the New Mexico Department of Health (DOH) 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 Equivalent positions.

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:

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to Financial Statements
June 30, 2019

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

During fiscal year 2017, GASB Statement No. 77, Tax Abatement Disclosures, became effective. The Department does not have any agreements that require disclosure under the standards.

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, New Mexico Veterans' Home Fund, Veterans' Enterprise Fund, and the Cemetery construction Funds 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. The Angel Fire Memorial Fund, Veterans' Approval Fund, Armed Forces Veteran's License Fund, and Veterans' Cemetery STB Proceeds Fund have been classified as nonmajor funds.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to Financial Statements
June 30, 2019**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

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.

50460 New Mexico Veterans' Home – The operating account for the Veterans' home. This is a reverting fund.

Special Revenue Funds **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.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to Financial Statements
June 30, 2019**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

50420 Cemetery Construction Capital Project Fund – This fund disburses grant funds received from the U.S. Department of Veterans Affairs for the pre-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:

11240 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 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.

12300 Cemetery Fund – 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.

50490 Veterans' Home Fiduciary Fund – The fund consists of general accounts for residents, residents trust accounts, and burial fund accounts held on behalf of all Veterans of the New Mexico State Veterans Home located in Truth or Consequence.

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to Financial Statements
June 30, 2019

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.

E. Capital Assets

The Department's capital assets are related to the Veteran's Home. 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.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to Financial Statements
June 30, 2019**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Capital Assets (continued)

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. 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:

Building and improvement	5-40 years
Machinery and equipment	5-20 years
Vehicles and Automotive	5-10 years
Furniture and equipment	7-10 years

F. Patient Service Revenue and Contractual Adjustments

Patient services revenue is recorded at the established rates of the medical facility but is reduced by “contractual adjustments” to recognize allowances for charity services, provisions for uncollectible accounts, and charges that otherwise exceed payments from Medicare, Medicaid, private or other resources. Amounts receivable and payable under reimbursement from “third-party payor” agreements, primarily Medicare and Medicaid, are subject to examination and retroactive adjustment by a third-party payor. Provisions for estimated retroactive adjustments by third-party payors are provided in the period the related services are rendered. Any difference between the amounts accrued and settled is reflected in operations in the year of settlement. The facilities are paid for substantially all inpatient services rendered to Medicaid and/or Medicare program beneficiaries under prospectively determined rates per client. Accordingly, to the extent that costs incurred (exclusive of other defined capital costs and certain education costs of the rehabilitation centers which continue to be paid on the basis of reasonable costs) for services rendered to Medicare and Medicaid patients exceed the determined payment rates, those costs are not recoverable from the Medicare and Medicaid programs or their beneficiaries.

G. 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.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to Financial Statements
June 30, 2019**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Budgets and Budgetary Accounting (continued)

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.
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.

H. 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, 2019**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. 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.

I. 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 28-13-1 3 of the U.S. Code.

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

J. Federal Grants Receivable (Unearned 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 unearned revenue balances caused by differences in the timing of cash reimbursements and expenditures are returned to the grantor in the remaining grant period.

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.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to Financial Statements
June 30, 2019**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. 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 \$965,037 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. 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 \$197,161 are restricted by enabling legislation.

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.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to Financial Statements
June 30, 2019**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. 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.

M. Inventories

Inventories are stated at lower cost or market (first in, first out method) and consist primarily of medical, surgical, and maintenance supplies, and pharmaceuticals.

N. Accounts Receivables Allowances

Contractual allowances represent the amounts which reduce patient accounts receivable to amounts that are considered to be due from third-party payors based on existing contracts VA Home has with these payors. The contractual allowance percentages are updated periodically by payor class and line of business.

The allowance for doubtful accounts is that amount which, in management's judgment, is considered adequate to reduce patient accounts receivable to an amount that is considered to be ultimately collectible. VA Home calculates its allowance for doubtful accounts based on management's estimate of historical write-offs by major payor categories over the past several years.

Management believes that the allowances for doubtful accounts and contractual allowances are adequate. Because of the uncertainty regarding the ultimate collectability of patient accounts receivable, there is a possibility that recorded estimates of the allowance for doubtful accounts and contractual allowances will change by a material amount in the near term.

O. Prepaid

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

P. Subsequent Events

Subsequent events through January 22, 2020 the date which the financial statements were available to be issued, were evaluated for recognition and disclosure in the June 30, 2019, financial statements.

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.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to Financial Statements
June 30, 2019**

NOTE 3. CASH – INVESTMENTS AND COLLATERAL (CONTINUED)

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

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, 2019, 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.

At June 30, 2019, 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	\$ 775,945
New Mexico Veterans' Home Fund	67000	50460	(1,400,269)
Veterans' Approval Fund	67000	89600	(839,322)
Armed Forces Veterans' License Fund	67000	78400	70,787
Veterans' Enterprise Fund	67000	20490	126,374
Veterans' National Cemetery Fund	67000	50420	685,630
Cemetery Construction Fund	67000	50280	(261,283)
Angel Fire Memorial Fund	67000	67920	10,244
Total government funds			(831,894)
Cemetery Agency Fund	67000	12300	20,745
Total cash and investments in SGFIP			\$ (811,149)

NOTE 4. ACCOUNTS RECEIVABLE

The Department accounts receivables and related allowances for uncollectible accounts for the VA Home as of June 30, 2019 are as follows:

New Mexico Veterans' Home Fund - 50460	
Accounts Receivable	\$ 2,057,770
Allowance for Uncollectible	(34,823)
Net Accounts Receivable	<u>\$ 2,022,947</u>

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to Financial Statements
June 30, 2019**

NOTE 5. CAPITAL ASSETS

Summaries of changes in capital assets and related depreciation for the year ended June 30, 2019, follows:

	Balance 6/30/18	Additions	Deletions	Balance 6/30/19
Capital assets being depreciated:				
Machinery and equipment	\$ 1,658,761	108,975	-	1,767,736
Vehicles and automotive	39,025	79,392	-	118,417
Total capital assets	<u>1,697,786</u>	<u>188,367</u>	<u>-</u>	<u>1,886,153</u>
Accumulated depreciation				
Machinery and equipment	(108,698)	(224,517)	-	(333,215)
Vehicles and automotive	(6,763)	(15,585)	-	(22,348)
Total accumulated depreciation	<u>(115,461)</u>	<u>(240,102)</u>	<u>-</u>	<u>(355,563)</u>
Net capital assets, net of accumulated depreciation	<u>\$ 1,582,325</u>	<u>(51,735)</u>	<u>-</u>	<u>1,530,590</u>

The Department does not have any debt related to capital assets. Depreciation expense for the year ended June 30, 2019 was \$355,536.

NOTE 6. COMPENSATED ABSENCES PAYABLE

The Department has recognized a liability of \$532,919 in the statement of net position for annual leave and compensated absences based on current pay rates and hours accumulated at June 30, 2019. Compensated absences are paid with General Fund appropriations out of SHARE Fund 06500.

	Balance 6/30/18	Increase	Decrease	Balance 6/30/19	Due Within One Year
Compensated absences	\$ 582,634	684,663	734,378	532,919	399,693
Total compensated absences	<u>\$ 582,634</u>	<u>684,663</u>	<u>734,378</u>	<u>532,919</u>	<u>399,693</u>

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

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to Financial Statements
June 30, 2019**

NOTE 7. REVERSIONS (CONTINUED)

General Fund. The Department of Veterans' Services was appropriated \$3,795,400 for fiscal year 2019.

General Fund

Fund balance, July 1, 2018	\$ 70,000
Revenue	3,795,499
Compensation Package	44,500
FY2019 Special Appropriation	225,000
Intra-agency Transfers	474,287
Expenditures	(3,930,142)
Reversions	<u>(199,550)</u>
Fund balance, June 30, 2019	<u>\$ 479,594</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. As of 2016, the Department has been the process to close out this program. Fiduciary responsible has been transferred to Guardianships of New Mexico, LLC, some of the funds were directly transferred back to veterans' family members.

NOTE 9. PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

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 <http://www.nmpera.org>.

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, 2019, 2018, and 2017 were \$1,377,044, \$1,401,554, and \$366,620, respectively, which equal the amount of the required contributions for each fiscal year.

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.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
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June 30, 2019**

NOTE 9. PERA PENSION PLAN (CONTINUED)

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

Compliant with the requirement of Government Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, the State of New Mexico has implemented this standard for the fiscal year ended June 30, 2019.

The Department, as part of the primary government of the State of New Mexico, is a contributing employer to a cost-sharing multiple- employer defined benefit postemployment health care plan that provides comprehensive group health insurance for persons who have retired from certain public service positions in New Mexico. The other postemployment benefits (OPEB) Plan is administered by the Retiree Health Care Authority of the State of New Mexico. Overall, total OPEB liability exceeds OPEB plan net position resulting in a net OPEB liability. The State had determined that States share of the net liability to be the State as a whole, rather than any agency or department of the State and the liability will not be reported in the department or agency level financial statements of the State. All required disclosures will be presented in the Comprehensive Annual Financial Report (CAFR) of the State of New Mexico.

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

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, 2019 amounted to \$146,177. As of fiscal year 2019, 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.

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

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to Financial Statements
June 30, 2019**

NOTE 11. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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.

Receivables

The VA Home grants credit without collateral to patients, most are local residents and uninsured under third-party payor agreements. Management believes that estimates made for the allowance for doubtful accounts are adequate.

Because of the uncertainty regarding the ultimate collectivity of patient accounts receivable, there is at least a reasonable possibility that recorded estimates of the allowance accounts will change by material amount in the near term.

The VA Home recognizes that revenue and receivables from government agencies are significant to its operations, however does not believe that there are any significant credit risks associated with these governmental agencies. The mix of receivables from patients and third-party payors at June 30, 2019 was as follows:

Commercial Insurance	29%
Private Payor	17%
Veterans Administration	26%
Federal Per Diem	23%
Medicare	5%

Compliance with Laws and Regulations

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, and government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity continues to increase with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the VA Home is in compliance with fraud and abuse laws and regulations as well as other applicable government regulations. While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to Financial Statements
June 30, 2019**

NOTE 12. 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) Department's General Fund (Agency No. 67000, Fund No. 06500) Purpose: General fund appropriation FY 2019	\$ 4,020,400	4,020,400
Department of Finance & Administration (Agency No. 34100) Department's General Fund (Agency No. 67000, Fund No. 50460) Purpose: General fund appropriation FY 2019	\$ 2,753,000	2,753,000
State of New Mexico, Taxation and Revenue Department (Agency No. 82600) Department's Armed Forces Veterans' License Fund (Agency No. 67000, Fund No. 78400) Purpose: MVD distributions, Sec. 66-6-23	\$ 66,387	66,387
State of New Mexico, Taxation and Revenue Department (Agency No. 82600) Department's Veterans' Enterprise Special Revenue Fund (Agency No. 67000, Fund No. 20490) Purpose: MVD distributions, Sec 9-22-1	\$ 86,359	86,359

NOTE 13. 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 - 06500					
Appropriation Laws 2018 Special Appropriation Laws 2019	\$ 3,795,400 225,000 4,020,400	7/1/2018 to 6/30/2019	- - 3,930,142	- - -	- - 199,550
New Mexico Veterans' Home Fund - 50460					
Appropriation Laws 2018 Special Appropriation Laws 2019	- 2,753,000 2,753,000 \$ 6,773,400	7/1/2018 to 6/30/2019	- - 15,668,150 19,598,292	- - - -	- - - 199,550

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to Financial Statements
June 30, 2019**

NOTE 14. DEFICIT NET POSITION AND BUDGET OVERSPENDING

GASB statement No. 34 requires capitalized assets, net of accumulated depreciation and the inclusion of long term debt to be discretely presented in the statement of net position which has resulted in an unrestricted net position deficit of (\$532,919). This deficit is created by compensated absences liabilities which will be paid from subsequent years State General Fund Appropriations.

Generally accepted accounting principles require disclosures of certain information concerning individual funds including:

Deficit Fund balance. The following fund maintained a deficit fund balance at June 30, 2019:

	Due From
<i>Non-Major Funds:</i>	
Veterans' Approval Special Revenue (89600)	635,944

The Department exceeded budgeted expenditures for the New Mexico Veteran's Home for fund 50460 in the amount of \$1,294,939.

NOTE 15. SUBSEQUENT EVENTS

Effective July 1, 2019, the 2019 House Bill 643 was enacted transferring oversight of the New Mexico State Veteran's Home located in Truth or Consequences, New Mexico from the New Mexico Veterans' Services Department to the New Mexico Department of Health. The transfer of the State Veterans' Home to the New Mexico Department of Health will have a significant impact on the New Mexico Veterans' Services Department's mission and fiscal year 2020 operations by decreasing the Department's operating budget. The accounting for the transfer of capital assets will be finalized upon the completion of both state agencies' external audits.

SUPPLEMENTAL INFORMATION

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Description of Nonmajor Governmental Funds
June 30, 2019

SPECIAL REVENUE FUNDS

Angel Fire Memorial (Fund 67920). This fund was set up to receive the individuals' donations to the Angel Fire Memorial for Veterans.

Veterans' Approval Special Revenue (Fund 89600). 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.

Armed Forces Veterans' License Special Revenue (Fund 78400). 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.

CAPITAL PROJECT FUND

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 Governmental Funds
June 30, 2019**

	Special Revenue Funds			Capital	Total
	Angel Fire Memorial Fund 67920	Veterans' Approval 89600	Armed Forces Veterans' License 78400	Project Funds Veterans' Cemetery STB Proceeds 89200	
ASSETS					
Investment in State Treasurer General Fund					
Investment Pool	\$ 10,244	-	70,787	-	81,031
Due from Federal government	-	208,470	-	-	208,470
Due from other state agencies	-	-	-	-	-
Total assets	\$ 10,244	208,470	70,787	-	289,501
LIABILITIES AND FUND BALANCE					
Liabilities					
Investment in State Treasurer General Fund					
Investment Pool - deficit	\$ -	839,322	-	-	839,322
Accounts payable	-	5,092	-	-	5,092
Accrued payroll	-	-	-	-	-
Payroll taxes and benefits payable	-	-	-	-	-
Total liabilities	-	844,414	-	-	844,414
Fund Balance					
Restricted					
Special purposes	10,244	-	70,787	-	81,031
Unassigned	-	(635,944)	-	-	(635,944)
Total fund balance	10,244	(635,944)	70,787	-	(554,913)
Total liabilities and fund balance	\$ 10,244	208,470	70,787	-	289,501

See Independent Auditor's Report.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Combining Statement of Revenues, Expenditures
and Changes in Fund Balance
Nonmajor Governmental Funds
Year Ended June 30, 2019**

	Special Revenue Funds			Capital Project Funds	Total
	Angel Fire Memorial Fund 67920	Veterans' Approval 89600	Armed Forces Veterans' License 78400	Veterans' Cemetery STB Proceeds 89200	
Revenues					
Charges for services	\$ -	-	66,388	-	66,388
Intergovernmental - federal grant revenue	-	420,715	-	-	420,715
Miscellaneous	5,139	-	-	-	5,139
Total revenues	5,139	420,715	66,388	-	492,242
Expenditures					
Welfare and assistance					
Current:					
Personal services and employee benefits	-	970,740	-	-	970,740
Contractual services	-	35,521	-	-	35,521
Other costs	-	75,536	-	-	75,536
Total expenditures	-	1,081,797	-	-	1,081,797
Excess (deficiency) of revenues over expenditures	5,139	(661,082)	66,388	-	(589,555)
Other Financing Sources (Uses)					
Transfer in: bond proceeds	-	-	-	-	-
Transfer in: other fund	-	-	(187,685)	-	(187,685)
Total other financing sources	-	-	(187,685)	-	(187,685)
Net change in fund balances	5,139	(661,082)	(121,297)	-	(777,240)
Fund balance, beginning of year	5,105	25,138	192,084	-	222,327
Fund balance, end of year	\$ 10,244	(635,944)	70,787	-	(554,913)

See Independent Auditor's Report.

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Statement of Revenues, Expenditures and Encumbrances
Multi-Year Budget and Actual (Budgetary Basis) – Capital Projects Fund
Cemetery Construction Fund (Fund 50280)
Year Ended June 30, 2019

	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	\$ 9,903,407	9,903,407	2,721,514	4,957,938	7,679,452	(2,223,955)
Total revenues	<u>\$ 9,903,407</u>	<u>9,903,407</u>	<u>2,721,514</u>	<u>4,957,938</u>	<u>7,679,452</u>	<u>(2,223,955)</u>
Expenditures						
Current:						
Contractual services	9,439,360	9,439,360	2,025,159	4,626,649	6,651,808	2,787,552
Other costs	-	-	904,887	-	904,887	(904,887)
Total expenditures	<u>\$ 9,439,360</u>	<u>9,439,360</u>	<u>2,930,046</u>	<u>4,626,649</u>	<u>7,556,695</u>	<u>1,882,665</u>
Fund Balance Statement of Revenues and Expenditures and changes in Fund Balance - Governmental Funds				\$	<u>331,289</u>	

See Independent Auditor's Report.

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Combining Statement of Fiduciary Net Assets
Agency Funds
June 30, 2019

	Veterans' Trust Fund 11240	Cemetery Fund 12300	Veterans' Home Fiduciary Fund 50490	Total Agency Funds
ASSETS				
Investment in State Treasurer General Fund Investment Pool	\$ -	20,745	-	20,745
Cash on deposit in banks	-	-	140,378	140,378
Investments and other property	-	-	-	-
Total assets	\$ -	20,745	140,378	161,123
LIABILITIES				
Assets held for others	\$ -	20,745	140,378	161,123
Due to governmental funds	-	-	-	-
Total liabilities	\$ -	20,745	140,378	161,123

See Independent's Auditor's Report.

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Combining Schedule of Changes in Fiduciary Assets and Liabilities
Agency Funds
June 30, 2019

	Balance June 30, 2018	Additions	Deductions	Balance June 30, 2019
<u>Veterans' Trust Fund (11240)</u>				
ASSETS				
Investments and other property	\$ 1,364,354	20,558	(1,384,912)	-
Total assets	\$ 1,364,354	20,558	(1,384,912)	-
LIABILITIES				
Assets held for others	1,364,354	20,558	(1,384,912)	-
Total liabilities	\$ 1,364,354	20,558	(1,384,912)	-
<u>Cemetery Fund (12300)</u>				
ASSETS				
Investment in the State Treasurer General Fund Investment Pool	\$ 11,940	8,805	-	20,745
Total assets	\$ 11,940	8,805	-	20,745
LIABILITIES				
Assets held for others	\$ 11,940	8,805	-	20,745
Total liabilities	\$ 11,940	8,805	-	20,745
<u>Veterans' Home Fiduciary Fund (50490)</u>				
ASSETS				
Cash on deposit in banks	\$ 334,298	140,378	(334,298)	140,378
Total assets	\$ 334,298	140,378	(334,298)	140,378
LIABILITIES				
Assets held for others	\$ 334,298	140,378	(334,298)	140,378
Total liabilities	\$ 334,298	140,378	(334,298)	140,378
<u>TOTAL - ALL AGENCY FUNDS</u>				
ASSETS				
Investment in the State Treasurer General Fund Investment Pool	\$ 11,940	8,805	-	20,745
Cash on deposit in banks	334,298	140,378	(334,298)	140,378
Investments and other property	1,364,354	20,558	(1,384,912)	-
Total assets	\$ 1,710,592	169,741	(1,719,210)	161,123
LIABILITIES				
Assets held for others	\$ 1,710,592	169,741	(1,719,210)	161,123
Total liabilities	\$ 1,710,592	169,741	(1,719,210)	161,123

See Independent Auditor's Report.

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Schedule of Cash and Investment Accounts
June 30, 2019

<u>Account Name</u>	SHARE Fund No. Account Number	Balance Per Depository	Reconciling Items Outstanding Warrants	Reconciled Balance June 30, 2019
Cash:				
Investment in the State Treasurer General				
Fund Investment Pool				
General Fund	06500	\$ 775,945	-	775,945
New Mexico Veterans' Home Fund	50460	(1,400,269)	-	(1,400,269)
Total general funds		(624,324)	-	(624,324)
Special Revenue Funds				
Veterans' Approval Fund	89600	(839,322)	-	(839,322)
Armed Forces Veterans' License	78400	70,787	-	70,787
Veterans' Enterprise Fund	20490	126,374	-	126,374
Angel Fire Memorial Fund	20490	10,244	-	10,244
Total special revenue funds		(631,917)	-	(631,917)
Capital Project Funds				
Veterans' National Cemetery Fund	50240	685,630	-	685,630
Cemetery Construction Fund	50280	(261,283)	-	(261,283)
Veterans' Cemetery STB Proceeds Fund	67920	-	-	-
Total capital project funds		424,347	-	424,347
Total governmental funds		(831,894)	-	(831,894)
Agency Funds				
Cemetery Fund	12300	20,745	-	20,745
Total State Treasurer cash accounts		(811,149)	-	(811,149)
First National Bank of Santa Fe:				
Agency Funds				
Veterans' Trust Funds	N/A	-	-	-
Bank of the Southwest:				
Government Funds				
New Mexico Veterans' Home Fund	N/A	178,876	(178,338)	538
Agency Funds				
Veterans' Home Fiduciary Funds	N/A	141,312	(934)	140,378
Total Cash on deposit		\$ (490,961)	(179,272)	(670,233)

See Independent Auditor's Report.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019**

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying	Total Federal Expenditures
US Small Business Administration Veterans Outreach Program	59.044	N/A	\$ <u>688,968</u>
Veterans Cemetery Grants Program Fund 50280 Fund 50420	64.203	N/A	4,626,649 101,466
Education Service (SAA)	64.U01	N/A	<u>222,775</u>
Total US Department of Veterans Affairs			<u>4,950,890</u>
Total Expenditures of Federal Awards			\$ <u><u>5,639,858</u></u>

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019**

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, 2019. 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 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***

Ms. Judy M. Griego, Cabinet Secretary
Department of Veterans' Services and
Mr. Brian S. Colón
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, 2019, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements and have issued our report thereon dated January 24, 2020.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-002 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2019-001, 2019-002, and 2019-003.

Department's Response to Findings

The Department's response to the findings 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 the financial statements and, accordingly, we express no opinion on it.

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
January 24, 2020

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

Ms. Judy Griego, Cabinet Secretary
Department of Veterans Services and
Mr. Brian S. Colón
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, 2019. 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, 2019.

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
January 24, 2020

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Schedule of Findings and Questioned Costs
Year Ended June 30, 2019**

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

CFDA No. ***Name of Federal Program or Cluster***

64.203 Veterans Cemetery Grants Program

Type of Opinion

Unmodified

Dollar threshold used to distinguish between Type A and Type B programs

\$ 750,000

Auditee qualified as low-risk auditee?

Yes No

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Schedule of Findings and Questioned Costs
Year Ended June 30, 2019**

SECTION II - FINANCIAL STATEMENT FINDINGS

2018-002 Financial Close and Reporting – (Significant Deficiency) – Repeated/Modified

Condition: During our testwork over the financial close and reporting process it was noted that the Department has not implemented an effective financial close and reporting process for the year ended June 30, 2019. We noted multiple accounts within the trial balance were not reconciled prior to the beginning of the audit, which required significant modifications by management. The Department did not make progress on this finding.

- The Department had several VA home bank accounts that were not reconciled to the general ledger at year end, in the amount of \$264,213.
- The Department is improperly maintaining capital assets at year end.
- Revenues, receivables and the annual inventory for the VA home were not reconciled to the general ledger by year end.

Criteria: 6-5-2C NMSA 1978 states that an entity shall implement internal accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters.

Effect: Lack of proper financial close can lead to unreliable account balances and material misstatement to the financial statements. In addition, inadequate segregation of duties increases the risk that errors or fraud could occur and not be discovered timely.

Cause: Management has not completed a basic risk assessment to identify critical duties that should be segregated to reduce the risk of errors and fraud

Auditor's Recommendation: Management should review the current assignment of accounting functions and where feasible, duties should be segregated or mitigating controls implemented that will reduce the risk of errors or fraud. We recommend that the Department develop and implement policies and procedures to ensure that all reconciliations are completed in a timely matter of bank accounts, inventory, and federal drawdowns. Other review procedures should be implemented to strengthen the Department's internal control.

Management's Response: In May, the agency discovered that monthly Accounts Receivable journal entries were not being recorded correctly to the general ledger specific to the Veterans' Home. Capital Assets related to the Veterans home were indeed conducted in concert with the Department of Health relative to transfer of responsibility.

Current status/Plan of Action: The Agency conducted a clearing entry through the audit to remediate the incorrect AR balances related to the Veteran's Home.

Person Responsible: ASD Director and Chief Financial Officer

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Schedule of Findings and Questioned Costs
Year Ended June 30, 2019**

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

2019-001 Late Audit Report – (Other Non-Compliance)

Condition: The Department's audit report for the year ended June 30, 2019 was not submitted to the State Auditor by the required due date, November 1, 2019.

Criteria: Audit reports not received on or before the due date, November 1, are considered to be in non-compliance with requirements of Section 2.2.2.9.A of the State Audit Rule.

Effect: The result was the late submission of the Department's audit report for the year ended June 30, 2019. The users of the audited financial statements and the Department's management do not have timely information. In addition, untimely financial statements may affect federal and state funding.

Cause: The Department was unable to provide supporting documentation in a timely manner needed to complete the audit. As such, it takes more time for the auditors to test final balances.

Auditor's Recommendation: We recommend that the Department works with the auditors to ensure timely submission of the audit report.

Management's Response: The agency has experienced attrition which affected the Administrative Services Division relative to the movement of the Veterans Home to the Department of Health at the end of the fiscal year. The Administrative Services Division worked as diligently as possible to complete necessary audit items with the limited staff available.

Current status/Plan of Action: The agency will work throughout FY20 to ensure that necessary audit items are readily available in time to successfully complete audit.

Person Responsible: Chief Financial Officer

2019-002 Internal Controls Over Fuel Cards – (Other Non-Compliance)

Condition: Based on our review of fuel card expenditures, the Department failed to provide supporting documentation for 1 out of 5 samples tested for the amount of \$45.95.

Criteria: NMAC 1.5.4.9 provides criteria and controls as to fuel cards purchases.

Effect: The Department is in violation of New Mexico Statutes and their own fuel card purchases policy.

Cause: Department personnel did not follow established procurement policies of the State.

Auditor's Recommendation: We recommend that the Department establish procedures to ensure personnel are aware of the current fuel card available per NMAC.

Management's Response: The Agency concurs with this finding.

Current status/Plan of Action: As of June 30, 2019, the Agency has designated a Fleet Coordinator who will ensure to retain relevant monthly supporting documentation.

Person Responsible: Administrative Services Director and Chief Financial Officer

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Schedule of Findings and Questioned Costs
Year Ended June 30, 2019**

2019-003 Budget Over-Expenditure – (Other Non-Compliance)

Condition: The Department exceeded budgeted expenditures for the New Mexico Veteran's Home in the amount of \$1,294,939.

Criteria: All funds, with the exception of agency funds, are to be budgeted by the local governing body and submitted to the State of New Mexico Department of Finance and Administration for approval. Once adopted, any claims or warrants in excess of budget are a violation of NMAC 6-6-6, 1978 Compilation.

Effect: Without the final budget entered correctly, the Department over expended the budget, leading to a violation of state statutes.

Cause: The Department did not identify the over-expenditure as a result of their final budget adjustment process.

Auditor's Recommendation: We recommend the Department monitor their budgets for over-expenditure and propose the necessary budget adjustments.

Management's Response: The Agency concurs with this finding. The Agency failed to budget for recurring balances related to uncollectible revenues.

Current status/Plan of Action: No action needed. The New Mexico Veteran's Home currently resides with the Department of Health.

Person Responsible: Chief Financial Officer

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Schedule of Findings and Questioned Costs
Year Ended June 30, 2019**

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Status of Prior Years Findings
Year Ended June 30, 2019**

- 2018-001 Travel and Per Diem - (Other Non-Compliance) – Resolved
- 2018-002 Finance Close and Reporting – (Significant Deficiency) - Repeated/Modified
- 2018-003 Restatement - (Significant Deficiency) – Resolved
- 2018-004 Improve IT General controls – (Findings that do not rise to the level of a Significant Deficiency) – Resolved

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Exit Conference
Year Ended June 30, 2019**

EXIT CONFERENCE

An exit conference was held on November 26, 2019 to discuss the annual financial report. Attending were the following:

Representing the Department of Veterans' Services:

Judy M. Griego, Cabinet Secretary
Richard Torrence, DFA CAFR Analyst
Bryan Osterhage, Deputy
Monica F. Maestas, Chief Financial Officer

Representing the Independent Auditor Axiom CPAs:

Jaime Rumbaoa, Partner