



ricci & company llc

Certified Public Accountants

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

FINANCIAL REPORT

JUNE 30, 2011





**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>
Armando Amador	Southern Region
Charlene Scherrer	Central Region
Hiroshi Miyamura	Western Region
Leon Morris	Eastern Region
Donnie Kee	Northern Region

Administration

Timothy Hale	Cabinet Secretary
Alan Martinez	Deputy Secretary
Dan McCormack	Administrative Services Director/CFO

Independent Auditor's Report

Mr. Timothy Hale, Cabinet Secretary
Department of Veterans' Services and
Mr. Hector Balderas
New Mexico State Auditor
Santa Fe, New Mexico

We have audited the accompanying financial statements of the governmental 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, 2011, which collectively comprise the Department's basic financial statements as listed in the accompanying table of contents. We have also audited the financial statements of each of the Department's fiduciary funds presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 2, the financial statements of the Department are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, each major fund and the aggregate remaining fund information of the State of New Mexico that are attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2011, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Mr. Timothy Hale, Cabinet Secretary
Department of Veterans' Services and
Mr. Hector Balderas
New Mexico State Auditor
Santa Fe, New Mexico

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Department, as of June 30, 2011, and the respective changes in financial position thereof and the respective budgetary comparison for the general fund and major special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the fiduciary funds of the Department as of June 30, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2011, 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* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 4 through 12 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements, and the combining and individual fund financial statements, budgetary comparison statements and the combining statement of fiduciary net assets. The accompanying schedule of changes in assets and liabilities – agency funds and the schedule of cash and investment accounts listed as supplemental information in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Ricci & Company LLC

Albuquerque, New Mexico
December 2, 2011

NEW MEXICO DEPARTMENT OF VETERANS' SERVICES
Management's Discussion and Analysis
Year Ended June 30, 2011
(Required Supplementary Information)

The Department of Veterans' Service (Department) discussion and analysis is provided as an overview of the financial activities of the Department for the fiscal year ended June 30, 2011. The financial statements are presented in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and related GASB statements. Ricci & Company, LLC prepared the financial statements with the assistance of the Department. The requirements of GASB Statement No. 34 were developed by GASB to make annual reports more comprehensive and easier to understand and use.

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

The Basic Financial Statements

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

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

In compliance with 2.2.2 New Mexico Administrative Code (NMAC) Section 2.2.2.10A.(2)(b), the audit opinion also covers additional information consisting of:

- Combining financial statements, and
- Individual fund budget comparison statements.

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

REPORTING ON THE DEPARTMENT AS A WHOLE

Government-Wide Financial Statements

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

NEW MEXICO DEPARTMENT OF VETERANS' SERVICES
Management's Discussion and Analysis
Year Ended June 30, 2011
(Required Supplementary Information)

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

Reporting on the Department's Most Significant Funds

The Fund Financial Statements

The fund financial statements are used to report additional and detailed information. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Funds are used to ensure and demonstrate compliance with finance-related legal requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented by governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Department's near-term financing decisions. Both of the governmental funds *Balance Sheet* and the governmental funds *Statements of Revenues, Expenditures and Changes in Fund Balance* provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Department maintains its fund structure in the Statewide Human Resources, Accounting and Management Reporting (SHARE) system. The Department operates with three governmental-type funds, the 1) General Fund, 2) Armed Forces Veterans' License Special Revenue Fund and 3) the Veterans' Approval Special Revenue Fund. A fourth fund was created in FY2011 to account for federal funds received from the New Mexico Office of Recovery and Reinvestment. This Special Revenue Fund is for a Post Traumatic Stress Disorder Wellness Treatment Program. The governmental fund reporting focus is primarily on the sources, uses and balances of current financial resources and has a budgetary orientation.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to gain a full understanding of the data provided in the government-wide financial statements. The notes to the financial statements can be found on pages 24 through 47 of this report.

NEW MEXICO DEPARTMENT OF VETERANS' SERVICES
Management's Discussion and Analysis
Year Ended June 30, 2011
(Required Supplementary Information)

The Budget Comparison Statements

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

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

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

The Department as Trustee

The Department is the trustee or fiduciary for the following:

1) Veterans' Trust Fund

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

2) Cemetery Fund (Fund #12300)

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

NEW MEXICO DEPARTMENT OF VETERANS' SERVICES
Management's Discussion and Analysis
Year Ended June 30, 2011
(Required Supplementary Information)

3) National Guard Members/Family Assistance Fund (Fund #55300)

This fund is administered by the New Mexico Department of Veterans' Services and is to be used to assist National Guard members activated for service in the global war on terrorism and to their families. Funds come from the New Mexico Taxation and Revenue Department designated by taxpayers on personal income tax returns. The Statutory authority establishing the fund was HB484, Laws of 2005. During the year ended, responsibility for the fund was transferred to the Department of Military affairs and is no longer being managed by the Department.

All of the Department's fiduciary activities are reported in separate Statements of Assets and Liabilities and Changes in Fiduciary Assets and Liabilities on pages 23 and 48 through 49 of this report. We exclude these activities from the Department's other financial statements because the Department cannot use these funds to finance its operations. The Department is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE DEPARTMENT AS A WHOLE

Financial Analysis of the Department

The Department's combined net assets were increased from a year ago, by \$27,625 or 49.4%, from \$55,920 to \$83,545.

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

NEW MEXICO DEPARTMENT OF VETERANS' SERVICES
Management's Discussion and Analysis
Year Ended June 30, 2011
(Required Supplementary Information)

Net Assets
Governmental Activities

	<u>FY 2011</u>	<u>FY 2010</u>	<u>Change</u>
Investment in the State Treasurer			
Fund Investment Pool	\$ 337,653	993,007	(655,354)
Due from other state agencies	178,698	3,880	174,818
Capital assets, net of depreciation	<u>20,292</u>	<u>29,040</u>	<u>(8,748)</u>
 Total assets	 <u>536,643</u>	 <u>1,025,927</u>	 <u>(489,284)</u>
 Accounts payable and other liabilities	 111,608	 322,493	 (210,885)
Due to local governments	2,776	-	2,776
Due to State General Fund	256,386	546,508	(290,122)
Compensated absences – current	62,734	76,967	(14,233)
Compensated absences – long term	<u>19,594</u>	<u>24,039</u>	<u>(4,445)</u>
 Total liabilities	 <u>453,098</u>	 <u>970,007</u>	 <u>(516,909)</u>
 Net assets, invested in capital assets	 20,292	 29,040	 (8,748)
Net assets, restricted	<u>63,253</u>	<u>26,880</u>	<u>36,373</u>
 Total net assets	 <u>\$ 83,545</u>	 <u>55,920</u>	 <u>27,625</u>

Total assets decreased by \$489,284 or 47.7% from a year ago, and total liabilities decreased by \$516,909 or 53.3% from a year ago. Both decreases can be attributed to prior year reversions that were paid in the current year.

Accounts payable decreased by \$210,885, from \$322,493 to \$111,608.

Total liabilities of \$453,098 constitute 84.4% of total assets.

The Department's net assets are reported in the following two categories of net assets; (1) invested in capital assets; and (2) restricted. The invested in capital assets balance is positive and the restricted balance is also positive. The Department has no balance in restricted net assets.

NEW MEXICO DEPARTMENT OF VETERANS' SERVICES
Management's Discussion and Analysis
Year Ended June 30, 2011
(Required Supplementary Information)

The Department's capital assets balance at year end was \$20,292, net of accumulated depreciation. The Department uses the capital assets to provide its services; consequently, these assets are not available for future spending.

The remaining balance of restricted net assets of \$63,253 will be used to expand services to rural areas of the State including Native American communities and senior citizen centers. The Department's net assets increased by \$27,625 during the current fiscal year.

Statement of Activities – Changes in Net Assets

The statement below shows the components that increased, in the aggregate, the Department's net assets by \$27,625 during the year.

	<u>FY 2011</u>	<u>FY 2010</u>	<u>Change</u>
<u>Changes in Net Assets</u>			
<u>Governmental Activities</u>			
Program revenues:			
Operating grants – Federal	\$ 325,935	218,835	107,100
Charges for services	<u>58,196</u>	<u>47,774</u>	<u>10,422</u>
Total program revenues	<u>384,131</u>	<u>266,609</u>	<u>117,522</u>
General revenues:			
State general fund appropriation	2,858,404	3,291,300	(432,896)
Reversions to the State General Fund	(243,448)	(513,285)	269,837
Miscellaneous	<u>773</u>	<u>125</u>	<u>648</u>
Total general revenues	<u>2,615,729</u>	<u>2,778,140</u>	<u>(162,411)</u>
Expenses			
Welfare and education	2,963,487	3,079,829	(116,342)
Depreciation	<u>8,748</u>	<u>9,297</u>	<u>(549)</u>
Total general expenses	<u>2,972,235</u>	<u>3,089,126</u>	<u>(116,891)</u>
Change in net assets	27,625	(44,377)	72,002
Beginning net assets	<u>55,920</u>	<u>100,297</u>	<u>(44,377)</u>
Ending net assets	<u>\$ 83,545</u>	<u>55,920</u>	<u>27,625</u>

NEW MEXICO DEPARTMENT OF VETERANS' SERVICES
Management's Discussion and Analysis
Year Ended June 30, 2011
(Required Supplementary Information)

The Department's governmental activities program revenue increased by \$117,522, or 44.1%. This was the result of federal operating grant revenue having increased by \$107,100.

The Department's governmental activities general revenue decreased by \$162,411, or (5.9%). This was the result of decreased general fund appropriations from a year ago and a decrease in reversions to the State General Fund.

The cost of governmental activities this year was \$2,972,235 compared to \$3,089,126 last year, or a decrease of \$116,891 (3.8%). This was the result of a general decrease in contractual and other costs to carry out State appropriations.

The Department's Funds

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

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

	<u>FY 2011</u>	<u>FY 2010</u>	<u>Change</u>
Unreserved – designated for subsequent year's expenditures	\$ -	16,927	(16,927)
Restricted	<u>145,581</u>	<u>110,959</u>	<u>34,622</u>
Total fund balance	<u>\$ 145,581</u>	<u>127,886</u>	<u>17,695</u>

The governmental funds (as presented in the balance sheet on page 15) reported a fund balance of \$145,581 which is up from last year's total of \$127,886. The increase of \$17,695 13.8% is mainly attributable to the excess of revenues over expenditures in the Armed Forces Veterans' License Fund.

NEW MEXICO DEPARTMENT OF VETERANS' SERVICES
Management's Discussion and Analysis
Year Ended June 30, 2011
(Required Supplementary Information)

General Fund Budgetary Highlights

There was a 3.2% reduction in the total original budgeted expenditure of the Department's General Fund after the fiscal year began. The reduction was applied equally to each expenditure category.

The Department recognized vacancy savings in the Personal Services and Employee Benefits portion of the budget as the result of the hiring and pay freeze implemented in November 2008 and increased employee contributions to the Public Employee Retirement Association implemented in July 2010. The Department executed four Budget Adjustment Requests (BAR) during the year to decrease the Contractual Services budget by a combined total of \$245,000 and increase the Personal Services budget by \$115,000 and increase the Other Costs budget by \$130,000.

Capital Assets

The Department's investment in capital assets, net of accumulated depreciation is \$20,292. There is no debt related to these capital assets. There were \$0 in additions to capital assets for the year. Depreciation expense for the year totaled \$8,748. The investment in capital assets, net of accumulated depreciation changed from \$29,040 to \$20,292 for a decrease of \$8,748.

Long-Term Debt

The Department's long-term debt is made up entirely of the long-term portion of the compensated absence liability, which was \$19,594 at June 30, 2011.

Next Year's Budget

The Department will experience a minimum decrease of 7.3% in budget of the State General Fund Appropriations between FY 2011 and FY 2010, from \$2,858,404 to \$2,650,300, which is significant. Additional budget reductions could be ordered as the fiscal year progresses.

The Department will experience a 141% increase in funding in the Armed Forces Veterans' License Fund between FY 2011 and FY 2012, from \$58,228 to \$140,373, which is significant but attributed to fund balance availability as a result of increased revenue from license plate sales.

The Department's mission to perform Veterans Approval for education benefits was transferred to the New Mexico Department of Higher Education in January 2010, and will no longer be part of the department's budget.

NEW MEXICO DEPARTMENT OF VETERANS' SERVICES
Management's Discussion and Analysis
Year Ended June 30, 2011
(Required Supplementary Information)

FY 2012 Operating Budget

General Fund 06500

Personal Services/Employee Benefits	\$ 1,582,100
Contractual Services	797,400
Other Operating Costs	<u>270,800</u>
Total General Fund 06500	<u>\$ 2,650,300</u>

Armed Forces Veterans' License Fund 78400

Other Costs	<u>\$ 100,000</u>
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The budgets for the FY 2012 are not expected to have a significant effect on financial position (net assets) or results of operations of the Department for FY 2012.

Requests for Information

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

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

BASIC FINANCIAL STATEMENTS

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2011**

	Governmental Activities
ASSETS	
Current Assets	
Investment in State Treasurer General Fund Investment Pool	\$ 337,653
Due from other state agencies	178,698
	<hr/>
Total current assets	516,351
Capital Assets, net of accumulated depreciation of \$113,014	20,292
	<hr/>
Total assets	536,643
	<hr/>
LIABILITIES	
Current Liabilities	
Accounts payable	46,927
Accrued salaries payable	49,686
Payroll taxes and benefits payable	14,995
Due to local governments	2,776
Due to State General Fund	256,386
Compensated absences payable	62,734
	<hr/>
Total current liabilities	433,504
Long-term Liabilities	
Compensated absences payable	19,594
	<hr/>
Total liabilities	453,098
	<hr/>
NET ASSETS	
Investment in capital assets	20,292
Restricted	63,253
	<hr/>
Total net assets	\$ 83,545
	<hr/> <hr/>

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

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year Ended June 30, 2011**

	Governmental Activities
Expenditures	
Veterans' welfare	\$ 2,972,235
Program Revenues	
Charges for services - fees	58,196
Operating grants - federal	325,935
Total program revenues	384,131
Net program expense	(2,588,104)
General Revenues	
State General Fund appropriations	2,858,404
Miscellaneous	773
Transfers	
Reversions to the State General Fund	(243,448)
Total general revenues and transfers	2,615,729
Change in net assets	27,625
Net assets, beginning	55,920
Net assets, ending	\$ 83,545

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

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011**

	General Fund	Veterans' Approval	Armed Forces Veterans' License	PTSD Wellness Treatment Program	Total
ASSETS					
Investment in State Treasurer General Fund					
Investment Pool	\$ 194,504	2,776	140,373	-	337,653
Due from other funds	172,666	-	-	-	172,666
Due from other state agencies	-	-	6,032	172,666	178,698
Total assets	\$ 367,170	2,776	146,405	172,666	689,017
LIABILITIES AND FUND BALANCE					
Liabilities					
Accounts payable	\$ 46,103	-	824	-	46,927
Accrued salaries payable	49,686	-	-	-	49,686
Payroll taxes and benefits payable	14,995	-	-	-	14,995
Due to other funds (Government Funds)	-	-	-	172,666	172,666
Due to local governments	-	2,776	-	-	2,776
Due to State General Fund	256,386	-	-	-	256,386
Total liabilities	367,170	2,776	824	172,666	543,436
Fund Balance					
Restricted					
Special purposes	-	-	145,581	-	145,581
Total fund balance	-	-	145,581	-	145,581
Total liabilities and fund balance	\$ 367,170	2,776	146,405	172,666	689,017

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

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
RECONCILIATION OF THE GOVERNMENTAL ACTIVITIES BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
June 30, 2011

Total fund balance for the governmental fund (Balance Sheet)	\$ 145,581
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources, and therefore are not reported in the funds.	20,292
Long-term liabilities, including compensated absences payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(82,328)</u>
Net assets of governmental activities (Statement of Net Assets)	<u><u>\$ 83,545</u></u>

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

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
Year Ended June 30, 2011**

	General Fund	Veterans' Approval	Armed Forces Veterans' License	PTSD Wellness Treatment Program	Total
Revenues					
Charges for services	\$ -	-	58,196	-	58,196
Intergovernment - federal grant revenue	140,576	12,693	-	172,666	325,935
Miscellaneous	741	-	32	-	773
Total revenues	141,317	12,693	58,228	172,666	384,904
Expenditures					
Welfare and assistance					
Current:					
Personal services and employee benefits	1,874,206	-	-	-	1,874,206
Contractual services	525,757	-	-	172,666	698,423
Other costs	373,237	-	36,299	-	409,536
Total expenditures	2,773,200	-	36,299	172,666	2,982,165
Excess of revenues over expenditures	(2,631,883)	12,693	21,929	-	(2,597,261)
Other Financing Sources (Uses)					
State General Fund appropriations	2,858,404	-	-	-	2,858,404
Reversions to State General Fund	(243,448)	-	-	-	(243,448)
Total other financing sources	2,614,956	-	-	-	2,614,956
Net change in fund balance	(16,927)	12,693	21,929	-	17,695
Fund balance, beginning of year	16,927	(12,693)	123,652	-	127,886
Fund balance, end of year	\$ -	-	145,581	-	145,581

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

**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, 2011**

Net change in fund balance - Governmental Fund
(Statement of Revenues, Expenditures and Changes in Fund Balance) **\$ 17,695**

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

Capital outlays are reported as expenditures in governmental funds.
However, in the Statement of Activities, the cost of capital assets
is allocated over their estimated useful lives as depreciation expense.
In the current period, these amounts are:

Capital outlay	\$	-	
Depreciation expense		(8,748)	
Excess depreciation expense over capital outlay		<u>(8,748)</u>	(8,748)

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>18,678</u>	
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Change in net assets of governmental activities (Statement of Net Assets) **\$ 27,625**

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

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
STATEMENT OF REVENUES, EXPENDITURES AND ENCUMBRANCES
BUDGET AND ACTUAL - MAJOR GOVERNMENTAL FUNDS
GENERAL FUND (Fund 06500)
Year Ended June 30, 2011

	Original Budget	Final Budget	Actual Budget Basis	Variance Favorable (Unfavorable)
Revenues				
State General Fund appropriations	\$ 2,836,700	2,858,404	2,858,404	-
Total revenues	<u>\$ 2,836,700</u>	<u>2,858,404</u>	<u>2,858,404</u>	<u>-</u>
Expenditures				
Current:				
Personal services and employee benefits	\$ 1,826,900	1,903,904	1,874,206	29,698
Contractual services	821,300	549,700	525,757	23,943
Other costs	283,500	404,400	373,237	31,163
Total expenditures	<u>\$ 2,931,700</u>	<u>2,858,004</u>	<u>2,773,200</u>	<u>84,804</u>

Reconciliation of GAAP basis to budget basis revenues:

Revenue - GAAP basis	\$ 2,999,721
Miscellaneous revenue not included in budget	<u>(141,317)</u>
Revenue - budget basis	<u>\$ 2,858,404</u>

Note:

The actual expenditures on the budget basis do not include any accounts payable that required a request to pay prior year bills out of the FY 2011 budget.

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

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
STATEMENT OF REVENUES, EXPENDITURES AND ENCUMBRANCES
BUDGET AND ACTUAL - MAJOR GOVERNMENTAL FUNDS
VETERANS' APPROVAL SPECIAL REVENUE FUND (Fund 89600)
Year Ended June 30, 2011

	Original Budget	Final Budget	Actual Budget Basis	Variance Favorable (Unfavorable)
Revenues				
Federal grants - operating	\$ -	-	12,693	12,693
Total revenues	\$ -	-	12,693	12,693
Expenditures				
Current:				
Personal services and employee benefits	\$ -	-	-	-
Contractual services			-	-
Other costs	-	-	-	-
Total expenditures	\$ -	-	-	-

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

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
STATEMENT OF REVENUES, EXPENDITURES AND ENCUMBRANCES
BUDGET AND ACTUAL - MAJOR GOVERNMENTAL FUNDS
ARMED FORCES VETERANS' LICENSE SPECIAL REVENUE FUND (Fund 78400)
Year Ended June 30, 2011

	Original Budget	Final Budget	Actual Budget Basis	Variance Favorable (Unfavorable)
Revenues				
Miscellaneous and other	\$ 40,000	40,000	58,196	18,196
Total revenues	\$ 40,000	40,000	58,196	18,196
Expenditures				
Current:				
Other costs	\$ 40,000	40,000	36,299	3,701
Total expenditures	\$ 40,000	40,000	36,299	3,701

Reconciliation of GAAP basis to budget basis revenues:

Revenue - GAAP basis	\$ 58,228
Misc revenue not included in budget	<u>(32)</u>
Revenue - budget basis	<u>\$ 58,196</u>

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

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
STATEMENT OF REVENUES, EXPENDITURES AND ENCUMBRANCES
BUDGET AND ACTUAL - MAJOR GOVERNMENTAL FUNDS
PTSD WELLNESS TREATMENT PROGRAM SPECIAL REVENUE FUND (Fund 89000)
Year Ended June 30, 2011

	Original Budget	Final Budget	Actual Budget Basis	Variance Favorable (Unfavorable)
Revenues				
Federal grants - operating	\$ -	350,000	172,666	(177,334)
Total revenues	\$ -	350,000	172,666	(177,334)
Expenditures				
Current:				
Personal services and employee benefits	\$ -	-	-	-
Contractual services	-	350,000	172,666	177,334
Other costs	-	-	-	-
Total expenditures	\$ -	350,000	172,666	177,334

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

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
June 30, 2011**

Assets

Investment in the State Treasurer General Fund Investment Pool	\$	137,865
Cash on deposit in banks		485,648
Investments and other property		<u>11,013,612</u>

Total assets \$ 11,637,125

Liabilities

Assets held for others	\$	<u>11,637,125</u>
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Total liabilities \$ 11,637,125

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

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 1. ORGANIZATION

1. History and Functions

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

The Department is responsible for:

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

The Department includes the following divisions:

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Department of Veterans' Service (Department) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. In addition, applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, apply unless they conflict with GASB pronouncements. They are applied to the government-wide financial statements. 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, 2011**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Reporting Entity and Component Units

The Department is a department of the primary government, 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.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements, statement of net assets and statement of activities, report information on all of the nonfiduciary activities. The Department also has fiduciary activities. When applicable, the effect of inter-fund activity is eliminated from the statement of net assets in order to avoid a grossing-up effect on the assets and liabilities within the statement. 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.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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 assets) 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 assets. 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 assets, such long-term amounts are not recognized as governmental fund type expenditures.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

89600 Veterans' Approval Fund – There 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. This fund was transferred to the Department of Higher Education and as of June 30, 2011, the Department was no longer managing this fund.

89000 Post Traumatic Stress Disorder Wellness Treatment Program – As part of the American Recovery and Reinvestment Act, funds were received by the Department to implement a program aimed at supporting Veterans that were suffering from Post Traumatic Stress Disorder, and the veteran's significant other. The funds were handled by the New Mexico Office of Recovery and Reinvestment, and DVS contacted Veterans within the state to participate in the program. The fund was originally budgeted at \$350,000 and will be fully spent over two fiscal years beginning in fiscal year 2011 and ending during fiscal year 2012.

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Fiduciary Fund Types

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

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

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

Cemetery Fund (Fund #12300) – This fund is administered by the New Mexico Department of Veterans' Services and is to be used to increase the size of the Santa Fe National Cemetery. Donations come from citizens and via designation on their New Mexico income tax returns. The funds will be remitted to the City of Santa Fe.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

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. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like 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 *Accounting and Financial Reporting for Nonexchange Transactions*, which was adopted by the Department as of July 1, 2000. The Department's program revenues consist of federal grants. Revenue from federal grants is recognized when all eligibility requirements have been met on a "reimbursement basis." 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.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Capital assets of the Department include data processing equipment, furniture and fixtures, and equipment. The Department does not have any infrastructure. 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. The Department has adopted this change in an accounting estimate, per Accounting Principles Board (APB) 20. Old inventory items that do not meet the new capitalization threshold will remain on the inventory list and continue to be depreciated. Any items received after July 1, 2005 will be added to the inventory only if they meet the new capitalization policy. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. Computer software which is purchased with computer equipment is included as part of the capitalized computer equipment in accordance with 2.20.1.9 C (5) NMAC. The Department does not develop computer software. The cost of maintenance and repairs that do not add to the asset value or materially extend assets lives are not capitalized. The Department does not undertake major capital projects involving interest costs during the construction phase. There is no debt related to the capital assets. Capital assets of the Department are depreciated using zero salvage value and the straight-line method over the following estimated useful lives:

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

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, 2011**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Budgets and Budgetary Accounting

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

1. No later than September 1st, the Department prepares a budget request by appropriation unit to be presented to the next Legislature.
2. The appropriation request is submitted to the Department of Finance and Administrations Budget Division (DFA) and to the Legislative Finance Committee (LFC).
3. DFA makes recommendations and adjustments to the appropriation request which become the Governor's proposal to the Legislature.
4. LFC holds hearings on the appropriation request, also submitting recommendations and adjustments before presentation to the Legislature.
5. Both the DFA and LFC recommended appropriation proposals are presented to the Legislature for approval of the final budget plan.
6. Budgetary control is exercised by the Department at the appropriation unit level. Budget Adjustment Requests (BARs) are approved by the DFA Budget Division.
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 FY 2011 budget. At June 30, 2011, there were accounts payable that would need to be paid as prior year bills.
8. The original budget differs from the final budget presented in the budget comparison statements of SHARE Fund #06500 by amendments made during the fiscal year.
9. Appropriations lapse at the end of the fiscal year.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Budgets and Budgetary Accounting (Continued)

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 has been included as part of the basic financial statements.

G. Accrued Compensated Absences

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

Where applicable, the compensated absence liability is presented in two parts in the government-wide financial statements, a current portion and long-term portion. The current portion is the amount expected to be expended during fiscal year 2011. It is an estimate management determined by comparing the amount actually paid out during fiscal year 2010 compared to the liability balance at June 30, 2011.

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.

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.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Accrued Compensated Absences (Continued)

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. At June 30, 2011, there was \$18,365 compensation time owed to employees.

In accordance with GASB 16, accrued compensated absences consist of accumulated annual leave, sick leave between 600 and 720 hours, compensatory leave for employees, including the related employers' matching FICA and Medicare payroll taxes.

H. Reversions

Any unexpended balance remaining in SHARE Fund #06500 is generally reverted to the State General Fund. The General Appropriations Act of 2004, Section 3, Subsection N, states that "for the purpose of administration of the General Appropriations Act of 2005, the State of New Mexico shall follow the modified accrual basis of accounting for governmental funds in accordance with the manual of model accounting practices issued by the Department of Finance and Administration." In accordance with the Department of Finance and Administration's "Basis of Accounting-Modified Accrual and the Budgetary Basis," the Office has accrued as payables amounts owed for goods and services received by June 30, 2011. 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 nonreverting per Section 66-3-419F, NMSA 1978. Fund 89600 Veterans' Approval Fund is nonreverting per 38 USC Section 1771, Article 13, Section 28-13-13 of the U.S. Code.

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

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Federal Grants Receivable (Deferred Revenue)

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

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

J. Net Assets /Fund Equity

In the government-wide financial statements, net assets consist of three components: invested in capital assets, net of related debt; restricted; and unrestricted. The Department has no debt related to capital assets; therefore, net assets invested in capital assets equal the capital assets, net of related accumulated depreciation. The Department's financial statement does not show any net assets restricted because it does not have any resources remaining in the net assets that were received or earned with the explicit understanding between the Department and the resource provider (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 assets are available. Therefore, all remaining net assets that are not related to capital assets are shown as unrestricted.

In the fund financial statements, the Department has adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement is intended to enhance the usefulness of fund balance information by providing clearer fund balance classifications and clarifying the existing fund balance definitions.

GASB 54 requires the fund balance amounts to be properly 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.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Net Assets/Fund Equity (Continued)

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 classification intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed.
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 Department would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

K. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 3. CASH – INVESTMENTS AND COLLATERAL

A. Investment in the State Treasurer General Fund Investment Pool

Cash accounts of the Department with the New Mexico State Treasurer depository at June 30, 2011 are as follows:

Account Name	Agency Number	SHARE Fund	Balance per Depository	Reconciling Items	Balance per Books
NM Veterans' Service	67000	06500	\$ 194,504	-	194,504
Armed Forces Veterans' License Fund	67000	78400	140,373	-	140,373
Veterans' Approval Fund	67000	89600	<u>2,776</u>	-	<u>2,776</u>
Total government funds			<u>337,653</u>	-	<u>337,653</u>
Cemetery Agency Fund	67000	12300	<u>137,865</u>	-	<u>137,865</u>
Total cash accounts			<u>\$ 475,518</u>	-	<u>475,518</u>

Cash accounts on deposit with the New Mexico State Treasurer do not require collateral to be pledged because they are deposits with another governmental entity. The Department is not authorized to make investments of funds on deposit with the New Mexico State Treasurer.

The State Treasurer has the power to invest money held in demand deposits and not immediately needed for the operation of state government in securities in accordance with Sections 6-10-10 I through P, NMSA 1978, as amended. The State Treasurer with the advice and consent of the State Board of Finance can invest money held in demand deposits and investments not immediately needed for the operation of state government in:

- (a) Securities issued by the United States (U.S.) Government or by its department or agencies and direct obligations of the U.S. or are backed by the full faith and credit of the U.S. government or agencies sponsored by the U.S. Government;

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 3. CASH – INVESTMENTS AND COLLATERAL (CONTINUED)

A. Investment in the State Treasurer General Fund Investment Pool (Continued)

- (b) Contracts for the present purchase and resale at a specified time in the future, not to exceed one year or, in case of bond proceeds, not to exceed three years, of specific securities at specified prices at a price difference representing the interest income to be earned by the State. No such contract shall be invested in unless the contract is fully secured by obligations of the United States or other securities backed by the United States having a market value of at least one hundred two percent of the amount of the contract;
- (c) Contracts for the temporary exchange of state-owned securities for the use of broker-dealers, banks or other recognized institutional investors in securities, for periods not to exceed one year for a specified fee rate. No such contract shall be invested in unless the contract is fully secured by exchange of an irrevocable letter of credit running to the State, cash or equivalent collateral of at least 102% of the market value of the securities plus accrued interest temporarily exchanged. The collateral required for either of the forms of investment in sections (b) and (c) shall be delivered to the fiscal agent of New Mexico or its designee contemporaneously with the transfer of funds or delivery of the securities at the earliest time industry practice permits, but in all cases, settlement shall be on the same-day basis. Neither of the contracts in (b) or (c) shall be invested in unless the contracting bank, brokerage firm or recognized institutional investor has a net worth in excess of five hundred million dollars;
- (d) Any of the following investments in an amount not to exceed forty percent of any fund that the State Treasurer invests: (1) commercial paper rated “prime” quality by a national rating services, issued by corporations organized and operating within the U.S.; (2) medium-term notes and corporate notes with a maturity not exceeding five years that are rated A or its equivalent or better by a nationally recognized rating service and that are issued by a corporation organized and operating in the U.S.; or (3) an asset-backed obligation with a maturity obligation with a maturity not exceeding five years that is rated AAA or its equivalent by a nationally recognized rating service;
- (e) Shares of a diversified investment company registered pursuant to the Federal Investment Company Act of 1940 that invests in U.S. fixed income securities or debt instruments authorized pursuant to (a), (b) and (d) above provided that the investment company has total assets under management of at least one billion dollars and the investments made by the State Treasurer pursuant to this paragraph are less than five percent of the assets of the investment company; or

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 3. CASH – INVESTMENTS AND COLLATERAL (CONTINUED)

A. Investment in the State Treasurer General Fund Investment Pool (Continued)

- (f) Individual, common or collective trust funds of banks or trust companies that invest in U.S. fixed income securities or debt instruments authorized pursuant to (a), (b) and (d) above provided that the investment manager has assets under management of at least one billion dollars and the investments made by the State Treasurer pursuant to this paragraph are less than five percent of the assets of the individual, common or collective trust fund.

No public funds can be invested in negotiable securities or loans to financial institutions fully secured by negotiable securities at current market value shall be paid out unless there is a contemporaneous transfer of the securities at the earliest time industry practice permits, but in all cases, settlement shall be on a same-day basis either by physical delivery or, in the case of uncertified securities, by appropriate book entry on the books of the issuer, to the purchaser or to a reputable third party safekeeping financial institution acting as agent or trustee for the purchaser, which agent or trustee shall furnish timely confirmation to the purchaser.

Credit Risk and Interest Rate Risk

Credit risk is the risk that an issuer or other counter-party to an investment will not fulfill its obligations. The State Treasurer General Fund Investment Pool is not rated for credit risk.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The agency does not have an investment policy that limits interest rate risk.

For additional GASB 40 disclosure information regarding cash held by the State Treasurer, the reader should see the separate audit reports for the State Treasurer's Office for the fiscal year ended June 30, 2011.

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

1. Cash on deposit with the First National Bank of Santa Fe Trust Department represents fiduciary funds held in trust as conservator or personal representative of estates of certain wards presented in the Veterans' Trust Fund. Since these deposits are held at the bank as individual trusts, they are insured by the Federal Deposit Insurance Corporation and the individual accounts are not exposed to custodial credit risk. This amount is included as a part of cash. There was a \$485,648 cash balance as of June 30, 2011.
2. Burial savings accounts of \$14,068 with the First National Bank of Santa Fe – Trust Department at June 30, 2011 represent fiduciary funds held in trust as conservator or personal representative of estates of certain wards presented in the Veterans' Trust Fund. These deposits are insured by the Federal Deposit Insurance Corporation and are not exposed to custodial credit risk. This amount is included as a part of investments.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 3. CASH – INVESTMENTS AND COLLATERAL

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

Credit Risk, Custodial Credit Risk and Interest Rate Risk

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

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

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 3. CASH – INVESTMENTS AND COLLATERAL (CONTINUED)

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

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

The Department's investments in the Veterans' Trust Fund at June 30, 2011 included the following:

Investment	Maturities	Carrying Amount	Fair Value
U.S. Savings Bonds Series EE	Various through 9/1/22	\$ 200	476
U.S. Federal Home Loan Bank Bonds and debentures	Various through 3/24/16	5,395,100	5,440,080
Federal Government – Money market fund	N/A	<u>3,696,440</u>	<u>3,696,440</u>
Total investments		<u>9,091,740</u>	<u>9,136,996</u>
Other Property			
Automobiles, mobile homes and other	N/A	1,868,650	1,862,548
Burial savings accounts	N/A	<u>14,068</u>	<u>14,068</u>
Total other property		<u>1,882,718</u>	<u>1,876,616</u>
Total investments and other property		<u>\$ 10,974,458</u>	<u>11,013,612</u>

Credit Risk

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

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 3. CASH – INVESTMENTS AND COLLATERAL (CONTINUED)

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

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

Custodial Credit Risk

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

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

Interest Rate Risk

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

NOTE 4. RISK MANAGEMENT

The Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions and natural disasters for which the government carries commercial insurance. The Department maintains commercial insurance through the Risk Management Division for coverage for workers compensation, auto liability, general liability, civil rights, property and contents, and fidelity bonds. Management believes that any potential loss would be adequately covered by insurance and would not result in any material adverse effect on the financial condition of the Department. During the past three years, the Department has not had any significant reduction in insurance coverage of settlements exceeding insurance coverage.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 5. CAPITAL ASSETS

Summaries of changes in capital assets and related depreciation for the year ended June 30, 2011, follows:

	Balance 6/30/10	Additions	Deletions	Balance 6/30/11
Capital Assets				
Information and technology equipment	\$ 59,391	-	-	59,391
Furniture and fixtures	23,507	-	-	23,507
Machinery and equipment	50,408	-	-	50,408
Total capital assets	<u>\$ 133,306</u>	-	-	<u>133,306</u>
Accumulated Depreciation				
Information and technology equipment	\$ 40,151	3,848	-	43,999
Furniture and fixtures	23,507	-	-	23,507
Machinery and equipment	40,608	4,900	-	45,508
Total accumulated depreciation	<u>\$ 104,266</u>	<u>8,748</u>	-	<u>113,014</u>
Capital Assets, net of Accumulated Depreciation				
Information and technology equipment	\$ 19,240	(3,848)	-	15,392
Furniture and fixtures	-	-	-	-
Machinery and equipment	9,800	(4,900)	-	4,900
Net capital assets	<u>\$ 29,040</u>	<u>(8,748)</u>	-	<u>20,292</u>

The Department does not have any debt related to capital assets. Depreciation expense for the year was \$8,748.

NOTE 6. COMPENSATED ABSENCES PAYABLE

The Department has recognized a liability of \$82,328 in the statement of net assets for annual leave and compensated absences based on current pay rates and hours accumulated at June 30, 2011. Compensated absences are paid with General Fund appropriations out of SHARE Fund 06500.

	Balance 6/30/10	Increase	Decrease	Balance 6/30/11
Current				
Compensated absences payable	\$ 76,967	62,734	76,967	62,734
Long-term				
Compensated absences payable	24,039	19,594	24,039	19,594
Total compensated absences payable	<u>\$ 101,006</u>	<u>82,328</u>	<u>101,006</u>	<u>82,328</u>

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 7. REVERSIONS – DUE TO STATE GENERAL FUND

The General Fund receives a State General Fund appropriation annually. Any unexpected funds at the end of the year revert to the State General Fund. In addition, any other revenue received in the fund which is not specifically appropriated by the Legislature also reverts to the State General Fund. Federal grant funds which are commingled in the Department’s General Fund, are accounted for separately, and do not revert to the State General Fund. The Department of Veterans’ Services was appropriated \$2,858,404 for fiscal year 2011. Special appropriations totaled \$0 for fiscal year 2011.

General Fund	
Fund balance, July 1, 2010	\$ 16,927
Revenue	2,999,721
Expenditures	(2,773,200)
Reversions	<u>-</u>
Fund balance, June 30, 2011	243,448
Reserved Fund Balance	<u>-</u>
Due to State General Fund for 2011 appropriations	<u>\$ 243,448</u>
Composition of amount due to General Fund by fiscal year appropriation:	
2011 Fiscal Year	\$ 243,448
Stale dated warrants	<u>12,938</u>
Total due to State General Fund, June 30, 2011	<u><u>\$ 256,386</u></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.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 9. PERA PENSION PLAN

Plan Description. Substantially all of the Department's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, NM 87504-2123. The report is also available on PERA's website at www.pera.state.nm.us.

Funding Policy. Plan members are required to contribute 8.92% of their gross salary. The Department is required to contribute 15.09% of the gross covered salary. The contribution requirements of plan members and the Department are established in State statute under Chapter 10, Article 11, 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, 2011, 2010, and 2009 were \$208,257, \$183,497, and \$223,877, respectively, which equal the amount of the required contributions for each fiscal year.

NOTE 10. POST-EMPLOYMENT BENEFITS

Plan Description. Department of Veterans' Services contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment health care plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the health care plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf unless that person retires before the employer's RHCA effective date, in which event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 10. POST-EMPLOYMENT BENEFITS (CONTINUED)

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the post-employment health care plan. That report and further information can be obtained by writing to the Retiree Health Care Authority at 4308 Carlisle NE, Suite 104, Albuquerque, NM 87107.

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

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

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
FY12	1.834%	.917%
FY13	2.000%	1.000%

Also, employers joining the program after 1/1/98 are required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

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

The Department's contributions to the RHCA for the years ended June 30, 2011, 2010, and 2009 were \$22,969, \$15,784, and \$16,634, respectively, which equal the required contributions for each year.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 11. COMMITMENTS AND CONTINGENCIES

Operating Lease Obligations

The Department of Veterans' Services is committed under several leases for Department office space, grounds 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. Lease expenditures for the year ended June 30, 2011, amounted to \$88,205. As of fiscal year 2011, 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.

NOTE 12. DUE FROM/DUE TO OTHER STATE AGENCIES

	Due From	Due To	Purpose
<u>Fund 89000 – Special Revenues Fund</u>			
NM Office of Recovery and Reinvestment	\$ 172,666	-	Post Traumatic Stress Wellness Treatment Program

NOTE 13. TRANSFERS TO/FROM OTHER AGENCIES

	Fund No.	Transfers		Purpose
		To	From	
<u>Fund 06500 – General Fund</u>				
Department of Finance and Administration		\$ -	2,836,700	General Fund appropriation FY 2011
Department of Finance and Administration		-	21,704	Special appropriation – Native American Tax Refund
		<u>\$ -</u>	<u>2,858,404</u>	

Fund 78400 – Armed Forces Veterans' License Fund

Taxation & Revenue Dept.	33300	\$ -	58,196	MVD distributions, Sec. 66-6-23
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**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 14. STATE GENERAL FUND APPROPRIATIONS

	Original Appropriation	Appropriation Period	Expenditures & Reversions to Date	<u>Balance of Appropriation</u> Designated for Subsequent Year Expenditure	Due to State General Fund
General Fund					
Appropriation Laws					
2008, Chap. 109, Sec 3	\$ 2,836,700	7/1/10 to 6/30/11	\$ 2,593,252	-	243,448
Special Appropriation –					
Native American Tax Refund					
Laws 2009, Ch.124, Sec. 5	<u>21,704</u>	7/1/10 to 6/30/11	<u>21,704</u>	-	-
	<u>\$ 2,858,404</u>		<u>\$ 2,614,956</u>	-	<u>243,448</u>

SUPPLEMENTAL INFORMATION

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
June 30, 2011

	Veterans' Trust Fund	Cemetery Fund	Total Agency Funds
ASSETS			
Investment in State Treasurer General Fund			
Investment Pool	\$ -	137,865	137,865
Cash on deposit in banks	485,648	-	485,648
Investments and other property	11,013,612	-	11,013,612
	<hr/>		
Total assets	\$ 11,499,260	137,865	11,637,125
	<hr/>		
LIABILITIES			
Assets held for others	\$ 11,499,260	137,865	11,637,125
	<hr/>		
Total liabilities	\$ 11,499,260	137,865	11,637,125
	<hr/>		

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

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
COMBINING SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
Year Ended June 30, 2011

	Balance June 30, 2010	Additions	Deductions	Balance June 30, 2011
<u>Veterans' Trust Fund</u>				
ASSETS				
Cash on deposit in banks	\$ -	485,648	-	485,648
Investments and other property	12,338,806	-	(1,325,194)	11,013,612
Total assets	\$ 12,338,806	485,648	(1,325,194)	11,499,260
LIABILITIES				
Assets held for others	\$ 12,338,806	485,648	(1,325,194)	11,499,260
Total liabilities	\$ 12,338,806	485,648	(1,325,194)	11,499,260
<u>Cemetery Fund</u>				
ASSETS				
Investment in the State Treasurer General Fund Investment Pool	\$ 121,662	16,203	-	137,865
Total assets	\$ 121,662	16,203	-	137,865
LIABILITIES				
Assets held for others	\$ 121,662	16,203	-	137,865
Total liabilities	\$ 121,662	16,203	-	137,865
<u>TOTAL - ALL AGENCY FUNDS</u>				
ASSETS				
Investment in the State Treasurer General Fund Investment Pool	\$ 121,662	16,203	-	137,865
Investments and other property	12,338,806	-	(1,325,194)	11,013,612
Total assets	\$ 12,460,468	501,851	(1,325,194)	11,637,125
LIABILITIES				
Assets held for others	\$ 12,460,468	501,851	(1,325,194)	11,637,125
Total liabilities	\$ 12,460,468	501,851	(1,325,194)	11,637,125

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
SCHEDULE OF CASH AND INVESTMENT ACCOUNTS
June 30, 2011

<u>Account Name</u>	SHARE Fund No. Account Number	Balance Per Depository	Reconciling Items <u>Outstanding Warrants</u>	Reconciled Balance June 30, 2011
Cash:				
Investment in the State Treasurer General				
Fund Investment Pool				
General Fund	06500	\$ 194,504	-	<u>194,504</u>
Special Revenue Funds				
Veterans' Approval Fund	89600	2,776	-	2,776
Armed Forces Veterans' License	78400	140,373	-	<u>140,373</u>
Total special revenue funds		<u>143,149</u>	-	<u>143,149</u>
Total governmental funds		<u>337,653</u>	-	<u>337,653</u>
Agency Funds				
Cemetery Fund	12300	137,865	-	<u>137,865</u>
Total State Treasurer cash accounts		<u>475,518</u>	-	<u>475,518</u>
First National Bank of Santa Fe:				
Agency Funds				
Veterans' Trust Funds	12300	485,648	-	<u>485,648</u>
Total cash on deposit		<u>\$ 961,166</u>	-	<u>961,166</u>
			Book Carrying Value	Market Value
Investments:				
First National Bank of Santa Fe				
Agency Funds - Veterans' Trust Fund:				
US savings bonds - Series EE			\$ 200	476
Federal Home Loan Bank cons. & deb.			5,395,100	5,440,080
Money market funds			3,696,440	3,696,440
Total investments			<u>9,091,740</u>	<u>9,136,996</u>
Other Property:				
First National Bank of Santa Fe				
Agency Funds - Veterans' Trust Fund:				
Automobiles, mobile homes and other			1,868,650	1,862,548
Burial savings accounts			14,068	14,068
Total other property			<u>1,882,718</u>	<u>1,876,616</u>
Total investments and other property			<u>\$ 10,974,458</u>	<u>11,013,612</u>

Ricci & Company LLC

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

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*

Mr. Timothy Hale, Cabinet Secretary
Department of Veterans' Services and
Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

We have audited the financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons for the General Fund and major Special Revenue Fund, and the combining and individual funds and related budgetary comparison presented as supplemental information of the Department of Veterans' Services (the Department) as of and for the year ended June 30, 2011, and have issued our report thereon dated December 2, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Mr. Timothy Hale, Cabinet Secretary
Department of Veterans' Services and
Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

Compliance and Other Matters

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

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

Ricci & Company LLC

Albuquerque, New Mexico
December 2, 2011

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2011**

08-04	Reversion to the State General Fund	Resolved
10-01	Negative Fund Balance	Resolved

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
EXIT CONFERENCE
Year Ended June 30, 2011**

Exit Conference

An exit conference was held on November 21, 2011 to discuss the annual financial report. Attending were the following:

Representing the Department of Veterans' Services:

Timothy Hale, Cabinet Secretary
Alan Martinez, Deputy Secretary
Dan McCormack, Chief Financial Officer
Lisa Towles, Accountant and Auditor
Patrick Martinez, Accountant and Auditor
Terrie Romero, Business Operations Specialist

Representing the Independent Auditor:

Shawn Mortensen, CPA, Manager
Herman Chavez, CPA, Manager

Note: Management is responsible for the context of the report, even though the financial statements were prepared substantially by the independent auditor.