

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

FINANCIAL STATEMENTS

JUNE 30, 2015

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

Official Roster

Advisory Board Members

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

Administration

Jack R. Fox	Cabinet Secretary-Designate
Alan Martinez	Deputy Secretary
Sal Soto	Administrative Services Director/CFO



Independent Auditor's Report

6200 Uptown Blvd NE
Suite 400
Albuquerque, NM 87110
505.338.0800

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

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, 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, 2015, and the related notes to the financial statements which collectively comprise the Department's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the Department's fiduciary funds presented as supplementary information, as defined by the Government Accounting Standards Board, in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2015, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Department, as of June 30, 2015, and the respective changes in financial position thereof and where applicable, the respective budgetary comparisons for the general fund and major special revenue funds for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each fiduciary fund of the Department as of June 30, 2015, and the respective changes in financial position, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

As discussed in Note 2, the financial statements of the Department are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, each major fund and the aggregate remaining fund information of the State of New Mexico that are attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2015, 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statement in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United State of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Supplemental Information

Our audit was conducted for the purpose of forming opinions on the Department's basic financial statements. The other schedules required by Section 2.2.2 NMAC are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Information

The Schedule of Vendor Information as required by 2.2.2.10(A)(2)(g) NMAC, has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2015, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

Ricci & Company, LLC

Albuquerque, New Mexico
November 23, 2015

NEW MEXICO DEPARTMENT OF VETERANS' SERVICES
Management's Discussion and Analysis
Year Ended June 30, 2015
(Required Supplementary Information)

The Department of Veterans' Services (Department) discussion and analysis is provided as an overview of the financial activities of the Department for the fiscal year ended June 30, 2015. 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 – fiduciary funds, and
- Schedule of cash and investment accounts

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, 2015
(Required Supplementary Information)

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

Reporting on the Department's Most Significant Funds

The Fund Financial Statements

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

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

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

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to gain a full understanding of the data provided in the government-wide financial statements. The notes to the financial statements can be found on pages 25 through 51 of this report.

NEW MEXICO DEPARTMENT OF VETERANS' SERVICES
Management's Discussion and Analysis
Year Ended June 30, 2015
(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 five individual Statewide Human Resources Accounting and Management Reporting System (SHARE) funds. Therefore, five individual fund budget comparison statements have been included in order to demonstrate budget compliance at the SHARE fund level, and to comply with the audit scope requirements of 2.2.2 (NMAC) Section 2.2.2.10 A(2)(e).

The Department as Trustee

The Department is the trustee or fiduciary for the following:

1) Veterans' Trust Fund

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

2) Cemetery Fund (Fund #12300)

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

NEW MEXICO DEPARTMENT OF VETERANS' SERVICES
Management's Discussion and Analysis
Year Ended June 30, 2015
(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 24 and 52 through 53 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 position was increased from a year ago, by \$63,888 or 34.4%, from \$185,444 to \$249,332.

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

NEW MEXICO DEPARTMENT OF VETERANS' SERVICES
Management's Discussion and Analysis
Year Ended June 30, 2015
(Required Supplementary Information)

Net Position
Governmental Activities

	<u>FY 2015</u>	<u>FY 2014</u>	<u>Change</u>
Investment in the State Treasurer			
Fund Investment Pool	\$ 702,383	662,310	40,073
Due from Federal government	128,228	131,957	(3,729)
Due from other state agencies	117,532	11,854	105,678
Due from beneficiaries	11,818	-	11,818
Other receivables	837	145	692
Capital assets, net of depreciation	-	3,848	(3,848)
	<hr/>	<hr/>	<hr/>
Total assets	960,798	810,114	150,684
	<hr/>	<hr/>	<hr/>
Investment in the State Treasurer			
Fund Investment Pool - deficit	36,597	4,180	32,417
Accounts payable and other liabilities	300,947	147,380	153,567
Due to Federal government	4,539	-	4,539
Due to State General Fund	248,362	374,677	(126,315)
Compensated absences – current	90,766	73,825	16,941
Compensated absences – long term	30,255	24,608	5,647
	<hr/>	<hr/>	<hr/>
Total liabilities	711,466	624,670	86,796
	<hr/>	<hr/>	<hr/>
Net position, invested in capital assets	-	3,848	(3,848)
Net position, restricted	370,353	181,596	188,757
Net position, unrestricted (deficit)	(121,021)	-	(121,021)
	<hr/>	<hr/>	<hr/>
Total net position	\$ 249,332	185,444	63,888

Total assets increased by \$150,684 or 18.6% from a year ago, and total liabilities increased by \$86,796 or 13.9% from a year ago.

Accounts payable and other liabilities increased by \$153,567, from \$147,380 to \$300,947.

Total liabilities of \$711,466 constitute 74.0% of total assets.

The Department's net position is reported in the following three categories of net position; (1) invested in capital assets; (2) restricted; and (3) unrestricted. The invested in capital assets balance is zero, the restricted balance is positive and the unrestricted balance is negative.

NEW MEXICO DEPARTMENT OF VETERANS' SERVICES
Management's Discussion and Analysis
Year Ended June 30, 2015
(Required Supplementary Information)

The Department's capital assets balance at year end was \$0, 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 position of \$370,353 will be used to expand services to rural areas of the State including Native American communities and senior citizen centers. The Department's net position increased by \$63,888 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 position by \$63,888 during the year.

<u>Changes in Net Position</u>			
<u>Governmental Activities</u>			
	<u>FY 2015</u>	<u>FY 2014</u>	<u>Change</u>
Program revenues:			
Operating grants – federal	\$ 446,941	350,855	96,086
Charges for services - fees	144,716	133,559	11,157
	<hr/>	<hr/>	<hr/>
Total program revenues	591,657	484,414	107,243
General revenues and transfers:			
State General Fund appropriations	3,319,700	3,160,800	158,900
Reversions to the State General Fund	(248,212)	(374,527)	126,315
Transfer in: Severance tax appropriation	105,163	-	105,163
Miscellaneous	47,918	20,347	27,571
	<hr/>	<hr/>	<hr/>
Total general revenues and transfers	3,224,569	2,806,620	417,949
Expenses			
Welfare and education	3,748,490	3,276,204	472,286
Depreciation	3,848	3,848	-
	<hr/>	<hr/>	<hr/>
Total general expenses	3,752,338	3,280,052	472,286
Change in net position	63,888	10,982	52,906
Beginning net position	<hr/>	<hr/>	<hr/>
Ending net position	\$ 249,332	185,444	63,888

NEW MEXICO DEPARTMENT OF VETERANS' SERVICES
Management's Discussion and Analysis
Year Ended June 30, 2015
(Required Supplementary Information)

The Department's governmental activities program revenue increased by \$107,243, or 22.1%. This was the result of both charges for services and federal operating grant revenues increased.

The Department's governmental activities general revenue increased by \$417,949 or 14.9%. This was the result of increased general fund appropriations from a year ago as well as increased miscellaneous revenues, and a decrease in reversions to the State General Fund.

The cost of governmental activities this year was \$3,752,338 compared to \$3,280,052 last year, or an increase of \$472,286 or 14.4%. This was the result of a general increase 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), SHARE Fund 78400 (Veterans' License Fund), SHARE Fund 20490 (Veterans' Enterprise Fund), and SHARE Fund 89200 (Veterans' National Cemetery 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 2015</u>	<u>FY 2014</u>	<u>Change</u>
Unreserved – designated for subsequent year's expenditures	\$ -	-	-
Restricted	370,353	280,029	90,324
 Total fund balance	 <u>\$ 370,353</u>	 <u>280,029</u>	 <u>90,324</u>

The governmental funds (as presented in the balance sheet on page 16) reported a fund balance of \$370,353 which is up from last year's total of \$280,029. The increase of \$90,324 or 32.3% is attributable to the excess of revenues over expenditures in the Veterans' Approval Fund, Armed Forces Veterans' License Fund, and Veterans' Enterprise Fund results.

NEW MEXICO DEPARTMENT OF VETERANS' SERVICES
Management's Discussion and Analysis
Year Ended June 30, 2015
(Required Supplementary Information)

General Fund Budgetary Highlights

The Department executed nine Budget Adjustment Requests (BAR) during the year which increased the budget overall by \$1,084,500, increasing Federal grants by \$1,082,000, and increasing personal services by \$420,000 and increasing the Contractual Services budget by \$73,000 and increasing the Other Costs budget by \$591,500.

Capital Assets

The Department's investment in capital assets, net of accumulated depreciation is \$0. There is no debt related to these capital assets. There were no additions or deletions to capital assets for the year. Depreciation expense for the year totaled \$3,848. The investment in capital assets, net of accumulated depreciation changed from \$3,848 to \$0 for a decrease of \$3,848.

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 \$30,255 at June 30, 2015.

Next Year's Budget

The Department will experience an increase of 37% in budget of the State General Fund Appropriations between FY 2016 and FY 2015, from \$3,360,000 to \$4,624,800. Budget reductions could be ordered as the fiscal year progresses.

The Department will experience a 38% increase in funding in the Armed Forces Veterans' License Fund between FY 2016 and FY 2015, from \$71,900 to \$99,000, which is significant, attributed to increased fund balance availability as a result of increased revenues from license plate sales.

NEW MEXICO DEPARTMENT OF VETERANS' SERVICES
Management's Discussion and Analysis
Year Ended June 30, 2015
(Required Supplementary Information)

FY 2016 Operating Budget

General Fund 06500

Personal Services/Employee Benefits	\$ 2,928,900
Contractual Services	961,600
Other Operating Costs	<u>734,300</u>
Total General Fund 06500	<u>\$ 4,624,800</u>

Armed Forces Veterans' License Fund 78400

Other Costs	<u>\$ 99,000</u>
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The budgets for the FY 2016 are not expected to have a significant effect on financial position (net position) or results of operations of the Department for FY 2016.

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 POSITION
June 30, 2015**

	Governmental Activities
ASSETS	
Current Assets	
Investment in State Treasurer General Fund Investment Pool	\$ 702,383
Due from Federal government	128,228
Due from other state agencies	117,532
Due from beneficiaries	11,818
Other receivables	837
	<hr/>
Total current assets	960,798
Capital Assets, net of accumulated depreciation of \$132,206	-
	<hr/>
Total assets	<u>960,798</u>
LIABILITIES	
Current Liabilities	
Investment in State Treasurer General Fund Investment Pool - deficit	36,597
Accounts payable	231,519
Accrued salaries payable	31,335
Payroll taxes and benefits payable	38,093
Due to Federal government	4,539
Due to State General Fund	248,362
Compensated absences payable	90,766
	<hr/>
Total current liabilities	681,211
Long-term Liabilities	
Compensated absences payable	30,255
	<hr/>
Total liabilities	<u>711,466</u>
NET POSITION	
Net investment in capital assets	-
Restricted	370,353
Unrestricted (deficit)	(121,021)
	<hr/>
Total net position	<u>\$ 249,332</u>

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, 2015

	Governmental Activities
Expenditures	
Veterans' welfare	\$ 3,752,338
Program Revenues	
Charges for services - fees	144,716
Operating grants - federal	446,941
Total program revenues	591,657
Net program expense	(3,160,681)
General Revenues	
State General Fund appropriations	3,319,700
Miscellaneous	5,118
Transfers	
Other financing sources	42,800
Transfer in: Severance Tax Appropriation	105,163
Reversions to the State General Fund	(248,212)
Total general revenues and transfers	3,224,569
Change in net position	63,888
Net position, beginning	185,444
Net position, ending	\$ 249,332

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, 2015

	Special Revenue Funds				Capital Project Fund	Total
	General Fund	Veterans' Approval	Armed Forces Veterans' License	Veterans' Enterprise Fund	Veterans' National Cemetery Fund	
ASSETS						
Investment in State Treasurer General Fund						
Investment Pool	\$ 383,136	9,485	200,437	109,325	-	702,383
Due from Federal government	82,972	45,256	-	-	-	128,228
Due from other state agencies	-	-	7,928	4,441	105,163	117,532
Due from beneficiaries	11,818	-	-	-	-	11,818
Other receivables	837	-	-	-	-	837
Total assets	\$ 478,763	54,741	208,365	113,766	105,163	960,798
LIABILITIES AND FUND BALANCE						
Liabilities						
Investment in State Treasurer General Fund						
Investment Pool - deficit	\$ -	-	-	-	36,597	36,597
Accounts payable	159,814	3,139	-	-	68,566	231,519
Accrued salaries payable	29,403	1,932	-	-	-	31,335
Payroll taxes and benefits payable	36,645	1,448	-	-	-	38,093
Due to other state agencies	4,539	-	-	-	-	4,539
Due to State General Fund	248,362	-	-	-	-	248,362
Total liabilities	478,763	6,519	-	-	105,163	590,445
Fund Balance						
Restricted						
Special purposes	-	48,222	208,365	113,766	-	370,353
Unassigned	-	-	-	-	-	-
Total fund balance	-	48,222	208,365	113,766	-	370,353
Total liabilities and fund balance	\$ 478,763	54,741	208,365	113,766	105,163	960,798

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 POSITION
GOVERNMENTAL FUNDS
June 30, 2015

Total fund balance for the governmental fund (Balance Sheet)	\$ 370,353
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>	
<p>Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources, and therefore are not reported in the funds.</p>	-
<p>Long-term liabilities, including both current and long-term compensated absences payable, are not due and payable in the current period and, therefore are not reported in the funds.</p>	(121,021)
Net position of governmental activities (Statement of Net Position)	<u>\$ 249,332</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, 2015

	Special Revenue Funds				Capital Project Fund	Total
	General Fund	Veterans' Approval	Armed Forces Veterans' License	Veterans' Enterprise Fund	Veterans' National Cemetery Fund	
Revenues						
Charges for services	\$ -	-	95,424	49,292	-	144,716
Intergovernment - federal grant revenue	297,950	148,991	-	-	-	446,941
Miscellaneous	70	-	25	5,023	-	5,118
Total revenues	298,020	148,991	95,449	54,315	-	596,775
Expenditures						
Welfare and assistance						
Current:						
Personal services and employee benefits	2,039,269	125,057	-	-	-	2,164,326
Contractual services	835,554	-	-	-	105,163	940,717
Other costs	537,485	11,474	71,900	-	-	620,859
Total expenditures	3,412,308	136,531	71,900	-	105,163	3,725,902
Excess (deficiency) of revenues over expenditures	(3,114,288)	12,460	23,549	54,315	(105,163)	(3,129,127)
Other Financing Sources (Uses)						
State General Fund Appropriations	3,319,700	-	-	-	-	3,319,700
Transfer in: Severance Tax Appropriation	-	-	-	-	105,163	105,163
Other financing sources	42,800	-	-	-	-	42,800
Reversions to State General Fund	(248,212)	-	-	-	-	(248,212)
Total other financing sources	3,114,288	-	-	-	105,163	3,219,451
Net change in fund balances	-	12,460	23,549	54,315	-	90,324
Fund balance, beginning of year	-	35,762	184,816	59,451	-	280,029
Fund balance, end of year	\$ -	48,222	208,365	113,766	-	370,353

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, 2015**

Net change in fund balance - Governmental Fund
(Statement of Revenues, Expenditures and Changes in Fund Balance) \$ 90,324

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	(3,848)	
Excess depreciation expense over capital outlay	(3,848)	(3,848)

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	(22,588)	
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Change in net position of governmental activities (Statement of Activities)	\$ 63,888	
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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, 2015

	Original Budget	Final Budget	Actual Budget Basis	Variance Favorable (Unfavorable)
Revenues				
State General Fund appropriations	\$ 3,319,700	3,319,700	3,319,700	-
Federal grants - operating	150,000	1,232,000	214,978	(1,017,022)
Other financing sources	40,300	42,800	42,800	-
Total revenues	\$ 3,510,000	4,594,500	3,577,478	(1,017,022)
Expenditures				
Current:				
Personal services and employee benefits	\$ 2,216,300	2,636,300	2,039,269	597,031
Contractual services	991,500	1,064,500	847,372	217,128
Other costs	302,200	893,700	537,485	356,215
Total expenditures	\$ 3,510,000	4,594,500	3,424,126	1,170,374

Reconciliation of GAAP basis to budget basis revenues:

Revenue - GAAP basis	\$ 3,660,520
Miscellaneous revenue not included in budget	(70)
Federal contract receivable not included in budget	(82,972)
Revenue - budget basis	\$ 3,577,478
Expenditures - GAAP basis	\$ 3,412,308
Refund due from beneficiaries not included in budget	11,818
Expenditures - budget basis	\$ 3,424,126

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 2016 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, 2015

	Original Budget	Final Budget	Actual Budget Basis	Variance Favorable (Unfavorable)
Revenues				
Federal grants - operating	\$ 168,000	168,000	148,991	(19,009)
Total revenues	<u>\$ 168,000</u>	<u>168,000</u>	<u>148,991</u>	<u>(19,009)</u>
Expenditures				
Current:				
Personal services and employee benefits	\$ 133,500	133,500	125,057	8,443
Contractual services	-	-	-	-
Other costs	34,500	34,500	11,474	23,026
Total expenditures	<u>\$ 168,000</u>	<u>168,000</u>	<u>136,531</u>	<u>31,469</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 2016 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
ARMED FORCES VETERANS' LICENSE SPECIAL REVENUE FUND (Fund 78400)
Year Ended June 30, 2015

	Original Budget	Final Budget	Actual Budget Basis	Variance Favorable (Unfavorable)
Revenues				
Miscellaneous and other	\$ 71,900	71,900	95,424	23,524
	<hr/>			
Total revenues	\$ 71,900	71,900	95,424	23,524
	<hr/> <hr/>			
Expenditures				
Current:				
Other costs	\$ 71,900	71,900	71,900	-
	<hr/>			
Total expenditures	\$ 71,900	71,900	71,900	-
	<hr/> <hr/>			

Reconciliation of GAAP basis to budget basis revenues:

Revenue - GAAP basis	\$ 95,449
Misc revenue not included in budget	<u>(25)</u>
Revenue - budget basis	<u><u>\$ 95,424</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 ENCUMBRANCES
BUDGET AND ACTUAL - MAJOR GOVERNMENTAL FUNDS
VETERAN'S ENTERPRISE SPECIAL REVENUE FUND (Fund 20490)
Year Ended June 30, 2015

	Original Budget	Final Budget	Actual Budget Basis	Variance Favorable (Unfavorable)
Revenues				
Federal grants - operating	\$ -	-	49,292	49,292
Miscellaneous	-	-	5,023	5,023
	<hr/>			
Total revenues	\$ -	-	54,315	54,315
	<hr/> <hr/>			
Expenditures				
Current:				
Personal services and employee benefits	\$ -	-	-	-
Contractual services	-	-	-	-
Other costs	-	-	-	-
	<hr/>			
Total expenditures	\$ -	-	-	-
	<hr/> <hr/>			

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, 2015**

Assets

Investment in the State Treasurer General Fund	
Investment pool	\$ 10,207
Cash on deposit in banks	-
Investments and other property	<u>8,168,804</u>
Total assets	<u><u>\$ 8,179,011</u></u>

Liabilities

Investment in the State Treasurer General Fund	
Investment pool	\$ -
Assets held for others	<u>8,179,011</u>
Total liabilities	<u><u>\$ 8,179,011</u></u>

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, 2015**

NOTE 1. ORGANIZATION

1. History and Functions

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

The Department is responsible for:

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

The Department includes the following divisions:

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2015**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Reporting Entity and Component Units

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

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

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

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

B. Government-Wide and Fund Financial Statements

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

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2015**

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, Veterans' Enterprise Fund, and the cemetery fund have been classified as major funds. The General Fund is the Department's operating fund and includes all financial transactions conducted to fulfill its general government function. It accounts for all financial resources of the Department. There were no nonmajor funds.

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

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

The financial transactions of the Department are recorded in individual funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, expenditures or expenses and other financing sources or uses. Government resources are allocated to, and accounted for in individual funds based upon the purpose for which they are to be spent and the means by spending activities are controlled.

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

The following fund types are used by the Department:

Governmental Fund Types

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

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

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:

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

78400 Armed Forces Veterans' License 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 – This is created within the New Mexico Veterans' Service Department the 'Veterans Approval Agency' to carry out the state obligation under provision of 38 USC Section 1771, Article 13 Section 28-13-13. (Former Sub-chapter VII of Chapter 17 was renumbered Sub-chapter IV of Chapter 20. Section 1771 was renumbered Section 3671.) The purpose of this fund is to collect administrative monies from the U.S. Department of Veterans' Affairs. These monies are used for administrative costs of the Veterans' Approval Agency which is now supervised by the director of the New Mexico Department of Veterans' Services. The fund is non-reverting to the State General Fund pursuant to the above cited sections of the U.S. Code. This fund was transferred to the Department of Higher Education and as of June 30, 2012, the Department was no longer managing this fund. Per further developments, this fund was transferred back to the Department, and was managed by the Department beginning in fiscal year 2013.

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

89200 Veterans' National Cemetery Fund – Enacted by the Legislature of the State of New Mexico under Chapter 7, Article 2 NMSA 1978. This fund consists of appropriations, gifts, grants, donations and pursuant to Section 7-2-28 NMSA 1978, amounts designated through income tax refund contribution for the purpose of building veterans' cemeteries in different parts of the State. This fund is non-reverting to the State General Fund per Section 7-2-28.1, NMSA 1978.

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. Effective February 9, 2015, Senate Bill 368 was passed relating to this fund which, changed the name from the Veterans' National Cemetery Fund to the Veterans' State Cemetery Fund, removed a requirement that certain excess amounts in the fund be distributed to the substance abuse education fund, and repealed Section 7-2-27 NMSA 1978 to increase the size of the national veterans cemetery in Santa Fe. Effective with the passing of the bill, the new purpose of the fund is to administer new state operated veterans' cemeteries offsetting future costs to the general fund. Donations come from citizens and via designation on their New Mexico income tax returns.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2015**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2015**

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, 2015**

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 2016 budget. At June 30, 2015, 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, 2015**

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 and for each major special revenue fund have been included as part of the basic financial statements.

G. Accrued Compensated Absences

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

Where applicable, the compensated absence liability is presented in two parts in the government-wide financial statements, a current portion and long-term portion. The current portion is the amount expected to be expended during fiscal year 2016. It is an estimate management determined by comparing the amount actually paid out during fiscal year 2015 compared to the liability balance at June 30, 2015.

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, 2015**

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.

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, 2015. 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, 2015**

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 over draw of cash (advances) in excess of modified accrual basis expenditures. Generally, receivable or deferred revenue balances caused by differences in the timing of cash reimbursements and expenditures are returned to the grantor in the remaining grant period.

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

J. Net Position/Fund Equity

In the government-wide financial statements, net position consists of three components: net investment in capital assets; 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 government-wide statement of net position reports \$370,353 of restricted net position as stipulated by resource providers (grantor, contributor, other government enabling legislation) that the funds would be used for a specific purpose, of which \$322,131 is restricted by enabling legislation. The government-wide statement of net position also reports an unrestricted deficit net position of \$121,021 which relates to the liability for compensated absences (not considered in the reversion calculation for amounts due to State General Fund). Generally, the Department would first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net positions are available.

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, 2015**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Net Position/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 constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. Intent should be expressed by (a) the governing body itself or (b) a body (a budget or finance committee, for example) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes
5. *Unassigned* - fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.

The Department has reviewed each of the classifications and has determined that the Armed Forces Veterans' License fund balance is restricted for the purpose of expanding services to rural areas of the State, including Native American communities and senior citizen centers in compliance with 66-3-419.F, NMSA 1978; The Veterans Approval fund is restricted for administrative costs of the Veterans' Approval Agency to carry out the state obligation under provision of 38 USC Section 1771, Article 13 Section 28-13-13; and the Veterans' Enterprise Fund is restricted to carry out the Department programs, duties or services, or as restricted by donors or grant agreements. Balances held in the Armed Forces License fund and the Veterans Enterprise fund, totaling \$322,131, are restricted by enabling legislation.

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

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, 2015

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Implementation of New Accounting Standards

During fiscal year 2015, the Department adopted the following GASB Statements:

- GASB 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statements No. 27*, this Statement addresses accounting and financial reporting for pension that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts.
- GASB 69, *Government Combinations and Disposals of Government Operations*, which distinguishes between a government merger and a government acquisition and establishes accounting and financial reporting standards related to government combinations and disposals of government operations. This statement did not apply to the Department.
- GASB 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date (Amendment to GASB 68)*, which improves accounting and financial reporting by addressing an issue in Statement No. 68, *Accounting and Financial Reporting for Pensions*, concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement by employers and nonemployer contributing entities.

Subsequent accounting standards that the Department is currently reviewing for applicability and potential impact on the financial statements include:

- GASB 72, *Fair Value Measurement and Application*, this Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This Statement will be effective for the year ended June 30, 2016.
- GASB 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, the objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement will be effective for the year ended June 30, 2016.

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Implementation of New Accounting Standards (Continued)

- GASB 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, the objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement will be effective for the year ended June 30, 2017.
- GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, the primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement will be effective for the year ended June 30, 2018.
- GASB 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement will be effective for the year ended June 30, 2016.
- GASB 77, *Tax Abatement Disclosures*, this Statement requires governments that enter into tax abatement agreements to disclose certain information about the agreements. This Statement will be effective for the year ended June 30, 2017.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2015**

NOTE 3. CASH – INVESTMENTS AND COLLATERAL

A. Interest in the General Fund Investment Pool

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

General Fund Investment Pool Not Reconciled

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

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

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

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2015**

NOTE 3. CASH – INVESTMENTS AND COLLATERAL (CONTINUED)

A. Interest (Deficit) in the General Fund Investment Pool (Continued)

As stated above and communicated in prior letters and memoranda, recorded agency claims against the SGFIP and fiduciary resources held at the State Treasurer's Office (STO) to fulfill those claims were not reconciled from the inception of SHARE, in July 2006 through January 2013. A late 2014 effort to reconcile transactions which occurred during this period, also referred to as the Historical Cash Reconciliation Project, was unsuccessful in part due to incomplete data sets. The absence of all required data suggests that future efforts would be equally inconclusive and therefore not meriting additional energy.

While the results of the Historical Cash Reconciliation Project did not yield the hope for closure, significant progress was made in the overall reconciliation process and the Financial Control Division (FCD) now has an operational model that effectively compares statewide claims against the SGFIP and resources held at the State Treasurer's Office. The process has been operational since March 2015. As a result, FCD is able to make the following representations:

1. The established allowance recorded within the General Operating Reserve Fund is sufficient to accommodate the current calculated difference between resources held in the SGFIP and agency claims;
2. The calculated difference between resources maintained by STO and the agency claims has remained stable during the time in which the process was employed;
3. The entirety of any adjustment will be applied against the allowance established in the General Operating Reserve Fund. No portion of the adjustment shall be allocated to any specific business unit that participates in the SGFIP.

The Board has established procedures and internal controls to mitigate the statewide cash reconciliation issue described above by performing cash reconciliations on a monthly basis.

State law (Section 8-6-3 NMSA 1978) requires the Department's cash be managed by the New Mexico State Treasurer's Office. Accordingly, the investments of the Department consist of an interest in the General Fund Investment Pool managed by the New Mexico State Treasurer's Office *Investment (Overdraft) Accounts with State Treasurer*. At June 30, 2015, the Department had the following invested in the General Fund Investment Pool:

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2015**

NOTE 3. CASH – INVESTMENTS AND COLLATERAL (CONTINUED)

A. Interest (Deficit) in the General Fund Investment Pool (Continued)

Account Name	Agency Number	SHARE Fund	Balance per SHARE
NM Veterans' Service	67000	06500	\$ 383,136
Armed Forces Veterans' License Fund	67000	78400	200,437
Veterans' Enterprise Fund	67000	29040	109,325
Veterans' Approval Fund	67000	89600	9,485
Veterans' Approval Fund	67000	89200	<u>(36,597)</u>
Total government funds			<u>665,786</u>
Cemetery Agency Fund	67000	12300	<u>10,207</u>
Total cash and investments in SGFIP			<u><u>\$ 675,993</u></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 Administration is not authorized to make investments of funds on deposit with the New Mexico State Treasurer. The Department reconciles actual activity to revenues and expenditures posted in the SHARE system, which mitigates the risk that the Department's cash balances would be misstated due to the General Fund Investment Pool not being reconciled as previously mentioned.

Interest Rate Risk

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

Credit Risk

The New Mexico State Treasurer pools are not rated. For additional GASB 40 disclosure information regarding cash held by the New Mexico State Treasurer, the reader should see the separate audit report for the New Mexico State Treasurer's Office for the current fiscal year ended.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2015**

NOTE 3. CASH – INVESTMENTS AND COLLATERAL (CONTINUED)

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 \$0 cash balance as of June 30, 2015.
2. Burial savings accounts of \$10,792 with the First National Bank of Santa Fe – Trust Department at June 30, 2015 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 and other property.

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

Credit Risk, Custodial Credit Risk and Interest Rate Risk

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

The trustee shall develop a general plan or plans for investment, not less than once a year. The trustee shall invest property and income in accordance with the plan. The compensation to the trustee is 1% per annum of the total value of the managed trust estate and the trustee shall create and manage an "individual account" on behalf of each of the wards for whom the 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, 2015**

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, 2015 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	3/24/16	50,000	51,158
Mutual Funds	N/A	6,686,298	6,617,524
Federal Government – Money market fund	N/A	<u>607,529</u>	<u>607,529</u>
Total investments		<u>7,344,027</u>	<u>7,276,687</u>
Other Property			
Automobiles, mobile homes, real estate and other	N/A	887,427	881,325
Burial savings accounts	N/A	<u>10,792</u>	<u>10,792</u>
Total other property		<u>898,219</u>	<u>892,117</u>
Total investments and other property		<u>\$ 8,242,246</u>	<u>8,168,804</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. Investments in Mutual funds are subject to market fluctuations.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2015**

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, 2015**

NOTE 5. CAPITAL ASSETS

Summaries of changes in capital assets and related depreciation for the year ended June 30, 2015, follows:

	Balance 6/30/14	Additions	Deletions	Balance 6/30/15
Capital Assets				
Information and technology equipment	\$ 58,291	-	-	58,291
Furniture and fixtures	23,507	-	-	23,507
Machinery and equipment	50,408	-	-	50,408
Total capital assets	<u>\$ 132,206</u>	-	-	<u>132,206</u>
Accumulated Depreciation				
Information and technology equipment	\$ 54,443	3,848	-	58,291
Furniture and fixtures	23,507	-	-	23,507
Machinery and equipment	50,408	-	-	50,408
Total accumulated depreciation	<u>\$ 128,358</u>	<u>3,848</u>	-	<u>132,206</u>
Capital Assets, net of Accumulated Depreciation				
Information and technology equipment	\$ 3,848	(3,848)	-	-
Furniture and fixtures	-	-	-	-
Machinery and equipment	-	-	-	-
Net capital assets	<u>\$ 3,848</u>	<u>(3,848)</u>	-	-

The Department does not have any debt related to capital assets. Depreciation expense for the year was \$3,848.

NOTE 6. COMPENSATED ABSENCES PAYABLE

The Department has recognized a liability of \$121,021 in the statement of net position for annual leave and compensated absences based on current pay rates and hours accumulated at June 30, 2015. Compensated absences are paid with General Fund appropriations out of SHARE Fund 06500.

	Balance 6/30/14	Increase	Decrease	Balance 6/30/15
Current				
Compensated absences payable	\$ 73,825	97,776	(80,835)	90,766
Long-term				
Compensated absences payable	24,608	32,592	(26,945)	30,255
Total compensated absences payable	<u>\$ 98,433</u>	<u>130,368</u>	<u>(107,780)</u>	<u>121,021</u>

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2015**

NOTE 7. REVERSIONS – DUE TO STATE GENERAL FUND

The General Fund receives a State General Fund appropriation annually. Any unexpended funds at the end of the year revert to the State General Fund. In addition, any other revenue received in the fund which is not specifically appropriated by the Legislature also reverts to the State General Fund. Federal grant funds which are commingled in the Department's General Fund, are accounted for separately, and do not revert to the State General Fund. The Department of Veterans' Services was appropriated \$3,322,200 for fiscal year 2015. Special appropriations totaled \$0 for fiscal year 2015.

General Fund

Fund balance, July 1, 2014	\$	-
Revenue		3,765,683
Expenditures		(3,517,471)
Reversions		<u>-</u>
Fund balance, June 30, 2015		248,212
Due to State General Fund for 2015 appropriations	\$	<u>248,212</u>
Composition of amount due to General Fund by fiscal year appropriation:		
2015 Fiscal Year	\$	248,212
2014 Fiscal Year		<u>150</u>
Total due to State General Fund, June 30, 2015	\$	<u>248,362</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, 2015**

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 16.99% of the gross covered salary. The contribution requirements of plan members and the Department are established in State statute under Chapter 10, Article 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, 2015, 2014, and 2013 were \$250,617, \$233,553, and \$211,161, respectively, which equal the amount of the required contributions for each fiscal year.

NOTE 10. ACCOUNTING AND FINANCIAL REPORTING FOR PENSIONS

Compliant with the requirements of GASB No. 68, accounting and Financial Reporting for Pensions, the State of New Mexico has implemented the standard for the fiscal year ending June 30, 2015.

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

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

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2015**

NOTE 11. POST-EMPLOYMENT BENEFITS-STATE RETIREE HEALTH CARE PLAN

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

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

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

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

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

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2015**

**NOTE 11. POST-EMPLOYMENT BENEFITS-STATE RETIREE HEALTHCARE PLAN
(CONTINUED)**

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2015, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2015, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The Department's contributions to the RHCA for the years ended June 30, 2015, 2014, and 2013 were \$29,512, \$28,204, and \$28,003, respectively, which equal the required contributions for each year.

NOTE 12. 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, 2015 amounted to \$78,708. As of fiscal year 2015, all leases are on a month-to-month basis.

Federal Grants

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

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2015**

NOTE 13. DUE FROM/DUE TO OTHER STATE AGENCIES

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

	Due From	Due To
<i>Due from other state agencies:</i>		
Department of Finance & Administration (Agency No. 34100)	\$ 105,163	
Department's General Fund (Agency No. 67000, Fund No. 06500)		\$ 105,163
Purpose: MVD distributions, Sec. 9-22-1		
State of New Mexico, Taxation and Revenue Department (Agency No. 82600)	\$ 7,928	
Department's Armed Forces Veterans' License Fund (Agency No. 67000, Fund No. 78400)		\$ 7,928
Purpose: MVD distributions, Sec. 66-6-23		
State of New Mexico, Taxation and Revenue Department (Agency No. 82600)	\$ 4,441	
Department's Veterans' Enterprise Special Revenue Fund (Agency No. 67000, Fund No. 20490)		\$ 4,441
Purpose: MVD distributions, Sec. 9-22-1		
<i>Due to other state agencies:</i>		
Department's General Fund (Agency No. 67000, Fund No. 06500)	\$ 2,845	
State of New Mexico, Department of Military Affairs (Agency No. 70500)		\$ 2,845
Purpose: Salary and benefits		
Department's General Fund (Agency No. 67000, Fund No. 06500)	\$ 1,694	
State of New Mexico, Human Services Department (Agency No. 63000)		\$ 1,694
Purpose: Office lease		

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2015**

NOTE 14. TRANSFERS TO / FROM OTHER STATE AGENCIES

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

	Transfer From	Transfer To
Department of Finance & Administration (Agency No. 34100)	\$ 3,319,700	
Department's General Fund (Agency No. 67000, Fund No. 06500)		\$ 3,319,700
Purpose: General Fund appropriation FY 2015		
State of New Mexico, Taxation and Revenue Department (Agency No. 82600)	\$ 95,424	
Department's Armed Forces Veterans' License Fund (Agency No. 67000, Fund No. 78400)		\$ 95,424
Purpose: MVD distributions, Sec. 66-6-23		
State of New Mexico, Taxation and Revenue Department (Agency No. 82600)	\$ 49,292	
Department's Veterans' Enterprise Special Revenue Fund (Agency No. 67000, Fund No. 20490)		\$ 49,292
Purpose: MVD distributions, Sec. 9-22-1		

NOTE 15. 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	\$ 3,319,700	7/1/14 to 6/30/15	\$ 3,071,488	-	248,212

NOTE 16. SEVERANCE TAX BOND APPROPRIATIONS

	Original Appropriation	Appropriation Period	Expenditures to Date	Outstanding Encumbrances	Unencumbered Balance
Severance Tax Bonds, Series 2014A STB14A 14-2152	\$ 600,000	2/19/14 to 6/30/18	\$ 105,163	-	494,837

SUPPLEMENTAL INFORMATION

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
STATEMENT OF REVENUES, EXPENDITURES AND ENCUMBRANCES
MULTI-YEAR BUDGET AND ACTUAL - CAPITAL PROJECTS FUND
VETERANS' NATIONAL CEMETARY CAPITAL PROJECT FUND (Fund 89200)
Year Ended June 30, 2015

	Original Budget	Final Budget	Actual Budget Basis	Variance Favorable (Unfavorable)
Other Financing Sources (Uses)				
Transfer in: Severance Tax Appropriation	\$ 600,000	600,000	105,163	(494,837)
Miscellaneous	-	-	-	-
Total revenues	\$ 600,000	600,000	105,163	(494,837)
Expenditures				
Current:				
Personal services and employee benefits	\$ -	-	-	-
Contractual services	600,000	600,000	105,163	494,837
Other costs	-	-	-	-
Total expenditures	\$ 600,000	600,000	105,163	494,837

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

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
June 30, 2015

	Veterans' Trust Fund	Cemetery Fund	Total Agency Funds
ASSETS			
Investment in State Treasurer General Fund			
Investment Pool	\$ -	10,207	10,207
Cash on deposit in banks	-	-	-
Investments and other property	8,168,804	-	8,168,804
	<hr/>		
Total assets	\$ 8,168,804	10,207	8,179,011
	<hr/> <hr/>		
LIABILITIES			
Assets held for others	\$ 8,168,804	10,207	8,179,011
	<hr/>		
Total liabilities	\$ 8,168,804	10,207	8,179,011
	<hr/> <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, 2015

	Balance June 30, 2014	Additions	Deductions	Balance June 30, 2015
<u>Veterans' Trust Fund</u>				
ASSETS				
Cash on deposit in banks	\$ 233,647	-	(233,647)	-
Investments and other property	8,901,826	-	(733,022)	8,168,804
Total assets	\$ 9,135,473	-	(966,669)	8,168,804
LIABILITIES				
Assets held for others	\$ 9,135,473	-	(966,669)	8,168,804
Total liabilities	\$ 9,135,473	-	(966,669)	8,168,804
<u>Cemetery Fund</u>				
ASSETS				
Investment in the State Treasurer General Fund Investment Pool	\$ 664	12,343	(2,800)	10,207
Total assets	\$ 664	12,343	(2,800)	10,207
LIABILITIES				
Assets held for others	\$ 664	12,343	(2,800)	10,207
Total liabilities	\$ 664	12,343	(2,800)	10,207
<u>TOTAL - ALL AGENCY FUNDS</u>				
ASSETS				
Investment in the State Treasurer General Fund Investment Pool	\$ 664	12,343	(2,800)	10,207
Cash on deposit in banks	233,647	-	(233,647)	-
Investments and other property	8,901,826	-	(733,022)	8,168,804
Total assets	\$ 9,136,137	12,343	(969,469)	8,179,011
LIABILITIES				
Assets held for others	\$ 9,136,137	12,343	(969,469)	8,179,011
Total liabilities	\$ 9,136,137	12,343	(969,469)	8,179,011

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
SCHEDULE OF CASH AND INVESTMENT ACCOUNTS
June 30, 2015

<u>Account Name</u>	SHARE Fund No. Account Number	Balance Per Depository	Reconciling Items <u>Outstanding Warrants</u>	Reconciled Balance June 30, 2015
Cash:				
Investment in the State Treasurer General				
Fund Investment Pool				
General Fund	06500	\$ 383,136	-	383,136
Special Revenue Funds				
Veterans' Approval Fund	89600	9,485	-	9,485
Armed Forces Veterans' License	78400	200,437	-	200,437
Veterans' Enterprise Fund	20490	-	-	-
Total special revenue funds		<u>209,922</u>	-	209,922
Total governmental funds		<u>593,058</u>	-	593,058
Agency Funds				
Cemetery Fund	12300	10,207	-	10,207
Total State Treasurer cash accounts		<u>603,265</u>	-	603,265
First National Bank of Santa Fe:				
Agency Funds				
Veterans' Trust Funds	N/A	-	-	-
Total cash on deposit		<u>\$ 603,265</u>	-	603,265
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.		50,000	51,158	
Mutual Funds		6,686,298	6,617,524	
Money market funds		607,529	607,529	
Total investments		<u>7,344,027</u>	<u>7,276,687</u>	
Other Property:				
First National Bank of Santa Fe				
Agency Funds - Veterans' Trust Fund:				
Automobiles, mobile homes, real estate and other		887,427	881,325	
Burial savings accounts		10,792	10,792	
Total other property		<u>898,219</u>	<u>892,117</u>	
Total investments and other property		<u>\$ 8,242,246</u>	<u>8,168,804</u>	

Department of Veterans' Services
 SCHEDULE OF VENDOR INFORMATION for Purchases Exceeding \$60,000 (excluding GRT)
 For the Year Ended June 30, 2015

Prepared by Agency Staff Name: Lisa Towles Title: Administrative Services Deputy Director Date: 10/29/2015

<i>RFB#/RFP#</i>	<i>Type of Procurement</i>	<i>Awarded Vendor</i>	<i>\$ Amount of Awarded Contract</i>	<i>\$ Amount of Amended Contract</i>	<i>Name and Physical Address per the procurement documentation, of ALL Vendor(s) that responded</i>	<i>In-State/Out-of-State Vendor (Y or N) (Based on Statutory Definition)</i>	<i>Was the vendor in-state and chose Veteran's preference (Y or N) For federal funds answer N/A</i>	<i>Brief Description of the Scope of Work</i>
N/A	Sole Source	VIC	\$ 212,000.00	N/A	N/A	Y	N	Assist homeless Veterans Cell service, Internet access fee, Annual DOIT assessment fee, EM Blackberry, EA hosting fee
N/A	Sole Source	DOIT	\$ 66,504.62	N/A	N/A	Y	N	ABQ Eagle Rock Office Rent
N/A	Sole Source	Elite Interest	\$ 75,678.84	N/A	N/A	Y	N	Implementation of a Veterans PTSD pilot project
N/A	MOU	WNMV	\$ 75,000.00	N/A	N/A	Y	N	

Ricci & Company LLC

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

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, the aggregate remaining fund information, the budgetary comparisons of the general fund and major special revenue funds, of the Department of Veterans' Services (the Department) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and the combining and individual funds, presented as supplementary information, and have issued our report thereon dated November 23, 2015.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompany schedule of audit findings and responses as item 2015-001.

The Department's Responses to Findings

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

Purpose of this Report

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

Ricci & Company, LLC

Albuquerque, New Mexico
November 23, 2015

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2015**

SECTION I – FINANCIAL STATEMENT FINDINGS

**2015-001 Active Veteran Conservatorship/Guardianship List and Untimely Termination –
Other Noncompliance**

CONDITION

The Department maintains an "Active Veterans List" as part of reconciling and administering the Veterans' Trust Fund Agency Fund. The "Active Veterans List" effective June 30, 2015 reflects 12 of 63 Department files where the Department Conservatorship/Guardianship veteran is deceased and the Conservatorships/Guardianships need to be therefore terminated. Additionally, these files also show that DVS still has some fiduciary funds on account at DVS for such deceased veterans that have never been distributed to a Personal Representative, or that no Personal Representative has ever been identified. Furthermore 9 out of 63 Department Conservatorship/Guardianship veterans included on the list are permanently relocated to other jurisdictions. Lastly, in some cases, the Department Conservator/Guardian files are missing altogether. All trust accounts mentioned above are open with amounts as high as \$181,680 and as low as \$537.

CRITERIA

The Department, as Conservator/Guardian, assumes the role of caring for the "protected person" by law, and that responsibility is not discharged until a competent court of jurisdiction terminates the Conservatorship/Guardianship, as per NMSA 1978 Section 45-5-407 and Section 45-5-415, especially in the case of death of the "protected person".

CAUSE

Department fiduciary account staff, or supervisory staff, may have misunderstood the fundamental nature of the legal requirements inherent in the Department becoming a Conservator/Guardian of a veteran's well-being. This situation is believed to be a long-standing administrative organizational oversight at the Department.

EFFECT

The Department is delinquent in the proper processing to terminate the Conservatorships/Guardianships in a timely manner. The failure to distribute fiduciary funds to heirs by the Department could lead to legal exposure, for negligent care of the fiduciary accounts, as a breach of fiduciary duty.

RECOMMENDATION

The Department should follow the recommendations of General Council to properly terminate or transfer and distribute fiduciary funds of Conservatorships/Guardianships in accordance with legal requirements.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2015**

SECTION I – FINANCIAL STATEMENT FINDINGS (CONTINUED)

**2015-001 Active Veteran Conservatorship/Guardianship List and Untimely Termination –
Other Noncompliance (Continued)**

MANAGEMENT'S RESPONSE

Our remedial plan as of 11/18/2015 is as follows:

Department of Veterans' Services (DVS) is working with the VA to find new fiduciary managers for veterans who no longer reside in New Mexico as District Courts believe they do not have jurisdiction over the Guardianships/Conservatorships. DVS is placing veterans with VA approved managers in New Mexico and other states as expeditiously as possible.

Regarding deceased veterans that we still have open accounts for with no next of kin or personal representative appointed, we have a plan to work with a private investigative vendor to locate/contact any possible relative who will be willing to be the personal representative of the estate. If none are found, we will escheat the monies to the state.

Our long term goal as an agency is to remove DVS from the fiduciary business and attrition down. Our current plan will reduce the number of fiduciary accounts to only 33 Guardianships/Conservatorships that are active.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2015**

SECTION II – SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

There were no findings to be reported from the prior year.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
EXIT CONFERENCE
Year Ended June 30, 2015**

A. Exit Conference

An exit conference was held on November 23, 2015 to discuss the annual financial report. Attending were the following:

Representing the Department of Veterans' Services:

Jack R. Fox, Cabinet Secretary
Alan Martinez, Deputy Secretary
Sal Soto, Administrative Services Director/Chief Financial Officer
Terrie Romero, Business Operations Specialist
Carl Sutter, Fiduciary Fund Manager

Representing the Independent Auditor:

Shawn Mortensen, CPA, Manager

B. Auditor Prepared Financial Statements

Management is responsible for the context of the report, even though the financial statements were prepared substantially by the independent auditor. It would be preferred and desirable for the Department to prepare its own financial statements and footnotes; although the Department is capable, with guidance, of preparing, reviewing, and approving the financial statements and footnotes, it is felt the Department's personnel do not have time to prepare them.