

**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY  
AND EMERGENCY MANAGEMENT**

**Annual Financial Report  
For the Year Ended June 30, 2008**

**(With Independent Auditor's Report Thereon)**

## **INTRODUCTORY SECTION**

**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
June 30, 2008**

**TABLE OF CONTENTS**

<b>INTRODUCTORY SECTION</b>	<b><u>Page</u></b>
Table of Contents .....	ii-iii
Official Roster .....	iv

**FINANCIAL SECTION**

Independent Auditor's Report .....	v-vi
Management's Discussion and Analysis .....	vii-xiii

**Basic Financial Statements:**

**Exhibit**

**Government-Wide Financial Statements:**

Statement of Net Assets .....	A	1
Statement of Activities .....	B	2

**Governmental Funds Financial Statements:**

Balance Sheet .....	C	3
Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets .....	D	4
Statement of Revenues, Expenditures and Changes in Fund Balance .....	E	5
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities .....	F	6
Statement of Revenues and Expenditures - Budget and Actual (Budgetary Basis) Major Fund -General Fund 20050 .....	G	7
Statement of Revenues and Expenditures - Budget and Actual (Budgetary Basis) Major Special Revenue Fund Executive Orders - State Disaster Fund 20380 .....	H	8
Notes to Financial Statements .....		9-23

**Individual Fund Financial Statements**

**Major Governmental Funds:**

**Statement**

Statement of Revenues and Expenditures - Budget and Actual (Budgetary Basis) (Multi-Year) Major Fund - General Fund 20050 Lordsburg/Anthony Radio A8075359 .....	1	24
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**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
June 30, 2008**

**TABLE OF CONTENTS**

**Individual Fund Financial Statements (Cont'd)**

**Major Governmental Funds: (Cont'd)**

	<b><u>Statement</u></b>
Statement of Revenues and Expenditures - Budget and Actual (Budgetary Basis) (Multi-Year) Major Fund - General Fund 20050 DHSEM-Radio Emergency Network - A060563 .....	2 ..... 25

**SINGLE AUDIT INFORMATION**

	<b><u>Schedule</u></b>
Schedule of Expenditures of Federal Awards .....	1 ..... 26
Notes to the Schedule of Expenditures of Federal Awards .....	27
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <b>Government Auditing Standards</b> .....	28-29
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133 .....	30-31
Schedule of Findings and Questioned Costs (Single Audit-Federal Award Programs) .....	32-35
Schedule of Findings and Responses (Pertaining to Financial Statements) .....	36-41
Financial Statement Preparation and Exit Conference .....	42

**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
Official Roster  
as of June 30, 2008**

**Administrative Officials**

<b><u>Name</u></b>	<b><u>Title</u></b>
Tim Manning .....	State Executive Director
John Martinez .....	Deputy State Executive Director
Ron Segura .....	Administrative Services Director
Ben Rael .....	Chief Financial Officer

## **FINANCIAL SECTION**

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## INDEPENDENT AUDITOR'S REPORT

Mr. Tim Manning, State Executive Director  
New Mexico Department of Homeland Security  
and Emergency Management  
and

Mr. Hector H. Balderas  
New Mexico State Auditor  
Santa Fe, New Mexico

We have audited the accompanying financial statements of the governmental activities, each major fund, and the budgetary comparisons for the General Fund and major special revenue fund of the State of New Mexico, Department of Homeland Security and Emergency Management (Department) as of and for the year ended June 30, 2008, which collectively comprise the Department's basic financial statements as listed in the table of contents. We have also audited the financial statements of each of the State of New Mexico, Department of Homeland Security and Emergency Management's governmental funds presented as supplementary information in the accompanying individual fund financial statements as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the State of New Mexico, Department of Homeland Security and Emergency Management's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1.A., the financial statements of the State of New Mexico, Department of Homeland Security and Emergency Management are intended to present the financial position and changes in financial position of only that portion of the governmental activities and major funds of the State of New Mexico that is attributable to the transactions of the State of New Mexico, Department of Homeland Security and Emergency Management. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2008, and changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the State of New Mexico, Department of Homeland Security and Emergency Management, as of June 30, 2008, and the respective changes in financial position, thereof and the budgetary comparisons for the General Fund and major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the individual fund financial statements referred to above present fairly, in all material respects, the respective budgetary comparisons for the governmental funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

-v-



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In accordance with **Government Auditing Standards**, we have also issued our report dated February 9, 2009, on our consideration of the State of New Mexico, Department of Homeland Security and Emergency Management's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the basic financial statements, and the individual fund financial statements and budgetary comparisons. The accompanying schedule of expenditures of federal awards listed in the table of contents is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, **Audits of States, Local Governments, and Not-for-Profit Organizations**, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Robert J. Rivera, CPA, PC  
Santa Fe, New Mexico  
February 9, 2009



**STATE OF NEW MEXICO**  
**DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT**  
**Management's Discussion and Analysis**  
**June 30, 2008**

The Department of Homeland Security and Emergency Management's (the Department) Management's Discussion and Analysis provides the reader of the financial statements this narrative overview and analysis of the financial activities of the Department for the fiscal year ended June 30, 2008. This is the first year that the Department provides the Management's Discussion and Analysis. On July 1, 2007, the Department was created by NMSA, Section 9-28-1 through 9-28-7. Prior to July 1, 2007, the majority of the affairs of the Department were the responsibility of the New Mexico Department of Public Safety. The Department is the primary State agency responsible for all New Mexico's homeland security and emergency management efforts. The Department coordinates with federal agencies in emergency and disaster preparedness, response, recovery, and mitigation for all hazards.

Since this is the first year of the Department, information comparisons to the prior year are not presented as required by GASB #34. The comparative information will be presented with future reports.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The annual report consists of four parts – management's discussion and analysis (this section), the basic financial statements, required supplementary information, and a section that presents combining statements for non-major governmental funds. The basic financial statements include two kinds of statements that present different view of the Department.

- A. The first two statements are government-wide financial statements that provide both long-term and short-term information about the Department's overall financial status.
- B. The remaining statements are fund financial statements that focus on individual parts of the Department, reporting the Department's operations in more detail than the government-wide statements.
- C. The governmental funds statements tell how general government services (the primary functions of the Department) were financed in the short term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

### **REPORTING ON THE DEPARTMENT AS A WHOLE**

#### **Government-Wide Statements**

The government-wide statements report information about the Department as a whole using accounting methods similar to those used by private-sector companies.

The **Statement of Net Assets** presents information on all of the Department's assets and liabilities, with the difference between the two reported as net assets. Increases or decreases in net assets may serve as a useful indicator of the Department's financial position over time.

The **Statement of Activities** presents information on how the Department's net assets changed during the most recent fiscal year. Changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenues and expenses are included in this statement for some items that will result in cash flows in future fiscal periods (e.g., earned but unused vacation and uncollected accounts receivable.)

**STATE OF NEW MEXICO**  
**DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT**  
**Management's Discussion and Analysis**  
**June 30, 2008**

The two government-wide statements report the Department's net assets and how they have changed. Net assets – the difference between the Department's assets and liabilities – is one way to measure the Department's financial health or position. Over time, increases or decreases in the Department's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

The government-wide financial statements of the Department fall into the governmental activities category. State appropriations, federal grants and proceeds from severance tax bond appropriations finance these activities.

## **REPORTING ON THE DEPARTMENT'S MOST SIGNIFICANT FUNDS**

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the Department's most significant funds. Funds are accounting devices that the Department uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law. The State Legislature also establishes other funds to control and manage money for particular purposes or to show that it is properly using certain grants. The Department's funds are all governmental funds. The **Balance Sheets** and the **Statements of Revenue, Expenditures and Changes in Fund Balance** provide this information.

### **Governmental Funds –**

All of the Department's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statement provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Department's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent pages that explain the relationship (or differences) between them.

The Department maintains its fund structure in the Statewide Human Resources, Accounting and Management Reporting (SHARE) System. The Department maintains the General Fund (Fund No. 20050), and one (1) special revenue fund, Executive Orders - State Disaster Fund (Fund No. 20380)

### **Budgetary Comparisons**

The budget comparison information required by GASB #34 for the General Fund and major special revenue funds that have legally adopted budgets is presented as a part of the basic financial statements. All other budget comparisons that have legally adopted budgets are presented as required supplemental information (RSI). The budgetary comparisons present both the original and final budgets for the reporting period as well as the actual inflows, outflows, and balances on the budgetary basis, which is the modified accrual basis of accounting.

**STATE OF NEW MEXICO**  
**DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT**  
**Management's Discussion and Analysis**  
**June 30, 2008**

**Financial Analysis of the Department as a Whole**

**Statement of Net Assets**

Exhibit A summarizes the Department's net assets for the fiscal year ending June 30, 2008. Since the Department was established on July 1, 2007, there is no prior year Statement of Net Assets to compare to the current year. The following condensed financial information was derived from the entity-wide Statement of Net Assets for the current year. The comparative information will be presented with future reports.

**Statement of Net Assets**  
**June 30, 2008**

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Due from other state agencies	\$ 7,079,090
Due from State General Fund	3,356,650
Due from federal government	10,707,748
Capital assets (net of accumulated depreciation)	4,138,046
Total assets	25,281,534
<b>LIABILITIES</b>	
Investment in the State Treasurer General Fund Investment Pool (deficit)	9,494,876
Accounts payable	228,619
Accrued payroll payable	96,082
Payroll taxes payable	39,940
Payroll benefits payable	63,722
Due to State General Fund	90,071
Compensated absences - current	136,764
Compensated absences - long-term	72,246
Total liabilities	10,222,320
<b>NET ASSETS</b>	
Invested in capital assets	4,138,046
Restricted for subsequent year's expenditure by enabling legislation	11,130,178
Unrestricted	(209,010)
Total net assets	\$ 15,059,214

**STATE OF NEW MEXICO**  
**DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT**  
**Management's Discussion and Analysis**  
**June 30, 2008**

**Changes in Net Assets**

Exhibit B summarizes the Department's changes net assets for the fiscal year ending June 30, 2008. Since the Department was established on July 1, 2007, there is no prior year Statement of Activities (changes in net assets) to compare to the current year. The following condensed financial information was derived from the entity-wide Statement of Activities for the current year. The comparative information will be presented with future reports.

	<u>Governmental Activities</u>
<b>Expenses:</b>	
Governmental activities:	
Public safety	\$ 38,537,183
Depreciation	484,041
Total expenses	<u>39,021,224</u>
<b>Program revenue:</b>	
Intergovernmental:	
Federal grants - operating	31,777,805
Charges for services:	
Other filing fees	53,825
Other claims	10,760
Total program revenue	<u>31,842,390</u>
Net program (expenses) revenue	<u>(7,178,834)</u>
<b>General revenues and transfers:</b>	
<b>General revenue:</b>	
Miscellaneous revenue	13,995
<b>Transfers:</b>	
State General Fund appropriation	11,090,650
Severance tax bond appropriation	192,237
Other appropriations - compensation package	74,100
Operating transfers - in	6,599,561
Transfer of capital assets from other state agencies	4,357,576
Reversions to State General Fund-FY 2008	(90,071)
Total general revenues and transfers	<u>22,238,048</u>
Change in net assets	15,059,214
Net assets, beginning	-
Net assets, ending	<u>\$ 15,059,214</u>

**STATE OF NEW MEXICO**  
**DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT**  
**Management's Discussion and Analysis**  
**June 30, 2008**

**THE DEPARTMENT'S FUNDS**

**Governmental Funds**

The focus of the Department's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. As mentioned previously, funds are used by the Department to keep track of specific sources of funding and spending for a particular purpose.

For the current year, the Department had two governmental funds. The Department's general fund is used to account for State General Fund appropriations and federal grants. The Department's Executive Orders-State Disaster Fund is used to account for State General Fund appropriations designated for use in disaster assistance. Funds are utilized in rendering aid in emergency situations.

As the Department completed the year, its governmental funds (as presented in the balance sheet on page 3, Exhibit C) reported a combined fund balance of \$11,130,178. The fund balance is entirely attributable to the Department's Executive Orders-State Disaster Fund.

The General Fund of the Department reflects a fund balance of \$ 0. Since the General Fund is a "reverting" fund, only balances appropriated into future fiscal years may be retained by the Department. The Department reverted \$90,071 to the State General Fund from unused State General Fund appropriations.

Since the Department was established on July 1, 2007, there is no prior year Governmental Funds Balance Sheet or Statement of Revenues, Expenditures, and Changes in Fund Balance to compare to the current year. The comparative information will be presented with future reports.

**General Fund Budgetary Highlights**

The State Legislature makes annual appropriations to the Department. Adjustments to the budget require approval by the Budget Division of the Department of Finance and Administration. Over the course of the year, the Department revised its budget. These budget adjustments fall into two categories:

1. Within Department budget transfer of appropriations to prevent budget overruns.
2. Budget increases for funds made available during the year.

With these adjustments, actual expenditures were \$24,389,715 below budget amounts. However, this amount includes \$23,460,461 in federal grant funds authorized for use in subsequent fiscal years. All budgeted State General Fund appropriation were drawn and utilized for current operations, except for \$90,071, which is being reverted to the State General Fund.

**Analysis of Significant Budget Variations**

The original Department's General Fund No. 20050 budget was \$40,509,000. Budget increases of \$19,147,366 occurred in FY 2008 for the purpose of 1) budgeting \$2,406,368 for Fire Management Assistance Grant Program-FM-2636 Ojo Feliz Fire; 2) budgeting \$2,901,190 for Public Assistance Program-Presidential Declaration FEMA-1659-DR-NM; 3) budgeting \$113,353 for Fire Management Assistance Grant Program-FM-2644-Malpais Fire; 4) budgeting \$2,718,247 for Fire Management Assistance Grant Program-FM-2647-Rivera Mesa Fire; 5) budgeting \$8,953,467 for Public Assistance Program-Presidential Declaration FEMA-1659-DR-NM; 6) budgeting \$1,185,000 for Department of Homeland Security-2007 Operation Stonegarden, Supplemental Program; 6) budgeting \$869,741 for Public Assistance Program-Presidential Declaration FEMA-1659-DR-NM.

**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
Management's Discussion and Analysis  
June 30, 2008**

The expenditure budget categories were adjusted to reflect the \$19,147,366 increase. Additionally, budget adjustments were made between expenditure categories. All budget increases and budget adjustments were approved by the State Budget Division of the Department of Finance and Administration.

The original and final budget for the Executive Orders-State Disaster Fund was \$9,966,647. The budget is increased during the year based on Executive Order Declarations made by the Governor of the State of New Mexico.

**Capital Assets and Debt Administration**

**Capital Assets**

The Department's investments in capital assets for its governmental activities as June 30, 2008, amounts to \$4,138,046 (net of accumulated depreciation). This investment in capital assets consists mainly of buildings, equipment and automobiles. As of July 1, 2007, the New Mexico Department of Public Safety transferred capital assets to the Department totaling \$1,331,449 (net of accumulated depreciation). In addition, the New Mexico Department of Public Safety transferred capital assets totaling \$3,026,128 during the fiscal year. There were additions of \$264,510 which were purchased by the Department during the fiscal year. There were no deletions of capital assets during the fiscal year. There was no debt related with capital assets at year end.

**Infrastructure Assets**

The Department does not own any infrastructure assets.

**Long-Term Debt**

At the end of the current fiscal year, the Department had total long-term debt outstanding of \$209,010, comprising accumulated balances for terminal and sick leave eligible for payment to employees upon termination of their employment from the department. Employees can receive compensation for a maximum of 240 hours upon severance.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The Department's could be affected in State General Fund appropriations in the future because of the decrease in gas and oil revenues for the entire State. Federal grant funds could be steadily increased by additional focus on homeland security due to national security efforts in the country.

The following is a comparison of the FY2008 and FY2009 budgets:

	<u>FY08</u>	<u>FY 09</u>	<u>Increase (Decrease)</u>
General Fund	\$59,656,366	\$38,616,300	\$(21,040,066)
Executive Orders-State Disasters Fund	\$9,966,647	\$9,326,743	\$(639,904)

**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
Management's Discussion and Analysis  
June 30, 2008**

**Contacting the Department's Financial Management**

This financial report is designed to provide our citizens and taxpayers with a general overview of the Department's finances and to demonstrate the Department's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Department.

**Department of Homeland Security and Emergency Management  
Tim Manning, State Executive Director  
13 Bataan Blvd.  
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or  
P.O. Box 27111  
Santa Fe, NM 87502  
(505)476-9600**

## **BASIC FINANCIAL STATEMENTS**



**STATE OF NEW MEXICO**  
**DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT**  
**Statement of Net Assets**  
**June 30, 2008**

<b>ASSETS</b>	<b>Governmental Activities</b>
Investment in the State Treasurer General Fund Investment Pool	\$ -
Due from other state agencies	7,079,090
Due from State General Fund	3,356,650
Due from federal government	10,707,748
Capital assets (net of accumulated depreciation)	<u>4,138,046</u>
Total assets	<u>25,281,534</u>
 <b>LIABILITIES</b>	
Investment in the State Treasurer General Fund Investment Pool (deficit)	9,494,876
Accounts payable	228,619
Accrued payroll payable	96,082
Payroll taxes payable	39,940
Payroll benefits payable	63,722
Due to State General Fund	90,071
Compensated absences - current	136,764
Compensated absences - long-term	<u>72,246</u>
Total liabilities	<u>10,222,320</u>
 <b>NET ASSETS</b>	
Invested in capital assets	4,138,046
Restricted for subsequent year's expenditure by enabling legislation	11,130,178
Unrestricted	<u>(209,010)</u>
Total net assets	<u>\$ 15,059,214</u>

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

**STATE OF NEW MEXICO**  
**DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT**  
**Statement of Activities**  
**For the Year Ended June 30, 2008**

	<b>Governmental Activities</b>
<b>Expenses:</b>	
Governmental activities:	
Public safety	\$ 38,537,183
Depreciation	484,041
	39,021,224
Total expenses	
<b>Program revenue:</b>	
Intergovernmental:	
Federal grants - operating	31,777,805
Charges for services:	
Other filing fees	53,825
Other claims	10,760
	31,842,390
Total program revenue	
Net program (expenses) revenue	(7,178,834)
<b>General revenues and transfers:</b>	
<b>General revenue:</b>	
Miscellaneous revenue	13,995
<b>Transfers:</b>	
State General Fund appropriation	11,090,650
Severance tax bond appropriation	192,237
Other appropriations - compensation package	74,100
Operating transfers - in	6,599,561
Transfer of capital assets from other state agencies	4,357,576
Reversions to State General Fund-FY 2008	(90,071)
	22,238,048
Total general revenues and transfers	
Change in net assets	15,059,214
Net assets, beginning	-
Net assets, ending	\$ 15,059,214

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

**STATE OF NEW MEXICO**  
**DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2008**

	<b>Major Funds</b>		
	<b>General Fund 20050</b>	<b>Executive Orders State Disasters Fund 20380</b>	<b>Total Govern- mental Funds</b>
<b>ASSETS</b>			
Investment in the State Treasurer			
General Fund Investment Pool	\$ -	\$ 1,173,967	\$ 1,173,967
Due from other state agencies	479,529	6,599,561	7,079,090
Due from State General Fund	-	3,356,650	3,356,650
Due from federal government	10,707,748	-	10,707,748
	<u>10,707,748</u>	<u>-</u>	<u>10,707,748</u>
Total assets	\$ <u>11,187,277</u>	\$ <u>11,130,178</u>	\$ <u>22,317,455</u>
<b>LIABILITIES</b>			
Investment in the State Treasurer			
General Fund Investment Pool (Deficit)	\$ 10,668,843	\$ -	\$ 10,668,843
Accounts payable	228,619	-	228,619
Accrued salaries payable	96,082	-	96,082
Payroll taxes payable	39,940	-	39,940
Payroll benefits payable	63,722	-	63,722
Due to State General Fund	90,071	-	90,071
	<u>11,187,277</u>	<u>-</u>	<u>11,187,277</u>
Total liabilities	11,187,277	-	11,187,277
<b>FUND BALANCES</b>			
Fund balances:			
Reserved for subsequent year's expenditures	-	-	-
Unreserved-undesignated			
Reported in:			
Special Revenue Funds	-	11,130,178	11,130,178
	<u>-</u>	<u>11,130,178</u>	<u>11,130,178</u>
Total fund balances	-	11,130,178	11,130,178
	<u>-</u>	<u>11,130,178</u>	<u>11,130,178</u>
Total liabilities and fund balances	\$ <u>11,187,277</u>	\$ <u>11,130,178</u>	\$ <u>22,317,455</u>

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

**STATE OF NEW MEXICO**  
**DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT**  
**Reconciliation of the Governmental Funds Balance Sheet to the**  
**Government-Wide Statement of Net Assets**  
**June 30, 2008**

<b>Total fund balance for the governmental funds (balance sheet)</b>		<b>\$ 11,130,178</b>
<b>Exhibit C</b>		
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, excluded from the governmental funds.		
These assets consist of:		
Capital assets	\$ 6,118,023	
Accumulated depreciation	<u>(1,979,977)</u>	4,138,046
Compensated absences accrued in the government-wide financial statements and not budgeted in the current period, therefore, excluded from the governmental funds current portion of compensated absences.		
		<u>(209,010)</u>
<b>Net assets of governmental activities (statement of net assets)</b>		<b>\$ <u>15,059,214</u></b>
<b>Exhibit A</b>		

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

**STATE OF NEW MEXICO**  
**DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Governmental Funds**  
**For the Year Ended June 30, 2008**

	Major Funds		Total Govern- mental Funds
	General Fund 20050	Executive Orders State Disasters Fund 20380	
<b>Revenues:</b>			
Intergovernmental:			
Federal grants-operating	\$ 31,777,805	\$ -	\$ 31,777,805
Charges for services:			
Other filing fees	53,825	-	53,825
Other claims	10,760	-	10,760
	<u>31,842,390</u>	<u>-</u>	<u>31,842,390</u>
<b>Expenditures:</b>			
Public safety:			
Current:			
Personal services	\$ 4,051,313	\$ 6,584	\$ 4,057,897
Contractual services	1,060,281	53,372	1,113,653
Other costs	29,736,858	3,266,077	33,002,935
Capital outlay	418,199	-	418,199
Total expenditures	<u>35,266,651</u>	<u>3,326,033</u>	<u>38,592,684</u>
Excess (deficiency) of revenues over expenditures	<u>(3,424,261)</u>	<u>(3,326,033)</u>	<u>(6,750,294)</u>
<b>Other financing sources (uses):</b>			
Transfers in (out):			
State General Fund appropriation	3,234,000	7,856,650	11,090,650
Severance tax bond appropriation	192,237	-	192,237
Other appropriations - compensation package	74,100	-	74,100
Operating transfers- in	-	6,599,561	6,599,561
Reversion to State General Fund-FY 2008	(90,071)	-	(90,071)
Other:			
Miscellaneous revenue	13,995	-	13,995
Total other financing sources (uses)	<u>3,424,261</u>	<u>14,456,211</u>	<u>17,880,472</u>
Net change in fund balance	-	11,130,178	11,130,178
<b>Fund balances:</b>			
Fund balance, beginning	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, ending	<u>\$ -</u>	<u>\$ 11,130,178</u>	<u>\$ 11,130,178</u>

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

**STATE OF NEW MEXICO**  
**DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Changes in Fund Balance of Governmental Funds**  
**to the Statement of Activities**  
**For the Year Ended June 30, 2008**

<b>Net change in fund balance - Governmental Funds</b> <b>(Statement of Revenues, Expenditures and Changes in Fund Balance)</b> <b>Exhibit E</b>	\$ 11,130,178		
Amounts reported for governmental activities in the Statement of Activities are different because:			
Increase in compensated absences	(209,010)		
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. This is the amount by which capital asset purchases exceeded depreciation expense in the current period.			
Capital asset purchases	\$ 264,510		
Capital assets transferred from Department of Public Safety at 7/31/2007	1,331,449		
Capital assets transferred from Department of Public Safety during FY2008	3,026,128		
Current period depreciation	(484,041)		
	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="border-top: 1px solid black; width: 60%;"></td> <td style="border-top: 1px solid black; text-align: right;">4,138,046</td> </tr> </table>		4,138,046
	4,138,046		
<b>Change in net assets of governmental activities (Statement of Activities)</b> <b>Exhibit B</b>	<b>\$ <u>15,059,214</u></b>		

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

**STATE OF NEW MEXICO**  
**DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT**  
**Statement of Revenues and Expenditures**  
**Budget and Actual**  
**General Fund 20050**  
**For the Year Ended June 30, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Budget Basis</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
State General Fund:				
General Fund appropriation	\$ 3,234,000	\$ 3,234,000	\$ 3,234,000	\$ -
Federal funds:				
Intra-state federal grants	36,090,900	55,238,266	31,777,805	(23,460,461)
Other funds:				
Other	10,000	10,000	78,580	68,580
Other financing sources-compensation	74,100	74,100	74,100	-
Other financing sources	600,000	600,000	-	(600,000)
Severance tax bond appropriation	500,000	500,000	192,237	(307,763)
 Total revenues	 40,509,000	 59,656,366	 \$ <u>35,356,722</u>	 \$ <u>(24,299,644)</u>
 Prior-year cash	 -	 -		
 Total revenues budgeted	 \$ <u>40,509,000</u>	 \$ <u>59,656,366</u>		
 <b>Expenditures:</b>				
Public Safety:				
Personal services and employee benefits	\$ 4,104,600	\$ 4,200,677	\$ 4,051,313	\$ 149,364
Contractual services	3,228,000	3,183,000	1,060,281	2,122,719
Other costs	33,176,400	51,672,689	30,155,057	21,517,632
Other financing uses	-	600,000	-	600,000
 Total expenditures	 \$ <u>40,509,000</u>	 \$ <u>59,656,366</u>	 \$ <u>35,266,651</u>	 \$ <u>24,389,715</u>
 Reconciliation of GAAP basis to budgetary basis revenue:				
GAAP basis revenue			\$ 35,356,722	
Adjustments:				
None			-	
 Budget basis revenue			 \$ <u>35,356,722</u>	
 Reconciliation of GAAP basis to budgetary basis expenditures:				
GAAP basis expenditures			\$ 35,266,651	
Adjustments:				
None			-	
 Budget basis expenditures			 \$ <u>35,266,651</u>	

**Note:**

The actual expenditures on the budgetary basis do not include any accounts payable that required a request to pay prior-year bills out of the FY 2009 budget.

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

**STATE OF NEW MEXICO**  
**DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT**  
**Statement of Revenues and Expenditures**  
**Budget and Actual (Budgetary Basis)**  
**Major Special Revenue Fund-Executive Orders-State Disaster Fund 20380**  
**For the Year Ended June 30, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Budget Basis</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
State General Fund:				
General fund appropriation	\$ 7,856,650	\$ 7,856,650	\$ 7,856,650	\$ -
Total revenues	7,856,650	7,856,650	<u>\$ 7,856,650</u>	<u>\$ -</u>
Prior-year fund balance	<u>2,109,997</u>	<u>2,109,997</u>		
Total revenues budgeted	<u>\$ 9,966,647</u>	<u>\$ 9,966,647</u>		
<b>Expenditures:</b>				
Public Safety:				
Personal services and employee benefits	\$ 71,056	\$ 71,056	\$ 6,584	\$ 64,472
Contractual services	3,000	56,372	53,372	3,000
Other costs	<u>9,892,591</u>	<u>9,839,219</u>	<u>3,266,077</u>	<u>\$ 6,573,142</u>
Total expenditures	<u>\$ 9,966,647</u>	<u>\$ 9,966,647</u>	<u>\$ 3,326,033</u>	<u>\$ 6,640,614</u>
Reconciliation of GAAP basis to budget basis revenue:				
GAAP basis revenue			\$ 7,856,650	
Adjustments:				
None			<u>-</u>	
Budget basis revenue			<u>\$ 7,856,650</u>	
Reconciliation of GAAP basis to budget basis expenditures:				
GAAP basis expenditures			\$ 3,326,033	
Adjustments:				
None			<u>-</u>	
Budget basis expenditures			<u>\$ 3,326,033</u>	

**Note:**

The actual expenditures on the budgetary basis do not include any accounts payable that required a request to pay prior-year bills out of the FY 2009 budget.

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



**STATE OF NEW MEXICO**  
**DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT**  
**Notes to the Financial Statements**  
**June 30, 2008**

**1. History and Functions**

On July 1, 2007, the Department of Homeland Security and Emergency Management (DHSEM) was created by NMSA, Section 9-28-1 through 9-28-7 in 2007. The Department of Homeland Security and Emergency Management includes the following programs:

1. Recovery and Response
2. Preparedness
3. Intelligence
4. Administrative Services
5. Director

The Department of Homeland Security and Emergency Management is the primary State agency responsible for all of New Mexico's Homeland Security and Emergency Management efforts. The agency coordinates with federal agencies in emergency and disaster preparedness, response, recovery, and mitigation for all hazards.

The Department is the central coordination point for the State of New Mexico in preventing and preparing for, responding to, mitigating against, and recovering from emergencies and disasters. The Department provides technical assistance to the private sector, local jurisdictions and State agencies in all areas of homeland security and emergency management.

The accounting policies of the Department of Homeland Security and Emergency Management conform to accounting principles generally accepted in the United States of America as applicable to governmental units.

**2. Summary of Significant Account Policies**

The financial statements of the Department of Homeland Security and Emergency Management have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Department applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 to the government-wide financial statements, unless they conflict with GASB pronouncements. The more significant of the Department's accounting policies are described below:

**A. Reporting Entity and Component Units**

The chief executive of the Department is the State Executive Director, who is appointed by the Governor of the State of New Mexico and is a member of the Governor's cabinet. The Department is a component unit to the executive branch and these financial statements include all funds, programs and activities of operations of only those *Statewide Human Resources, Accounting and Management Reporting System* (SHARE) funds over which the Department State Executive Director has oversight responsibility.

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 governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial independency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of the governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to

**STATE OF NEW MEXICO**  
**DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT**  
**Notes to the Financial Statements**  
**June 30, 2008**

**2. Summary of Significant Accounting Policies (Cont'd)**

**A. Reporting Entity and Component Units (Cont'd)**

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.

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). Even though the Department's State Executive Director is appointed by the Governor, the Department's State Executive Director has decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability of fiscal matters.

The Department is a user organization of the Statewide Human Resource, Accounting, and Management Reporting System. The service organization is the Department of Finance and Administration (DFA).

**B. Basic Financial Statements - Government-Wide Statements**

The Department's basic financial statements include both government-wide (based on the Department as a whole) and fund financial statements. Both the government-wide and fund financial statements (within the basic statement) categorize primary activities as either governmental or business type, excluding fiduciary funds or component units that are fiduciary in nature. The Department is a single purpose government entity and has no business type activities. In the government-wide Statement of Net Assets, the governmental activities are presented on a consolidated basis and are reflected on the full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. The Department's net assets are reported in three parts; invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety), which are otherwise supported by general government revenues. The Statement of Activities reduces gross expense (including depreciation expense on capital assets) by related program revenues, operating and capital grants. Program revenue must be directly associated with the function (public safety). Program revenue must be directly associated with the function (public safety).

The net cost by function is normally covered by general revenue. Since the Department only has one program, it does not employ indirect cost allocation. Program revenue consist of federal and state grants and fines and fees.

The appropriation from the State General Fund not included among program revenues is reported instead as transfers. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB 33. The revenue recognition policy for grants is when the eligibility requirements have been met, and costs have been incurred.

**STATE OF NEW MEXICO**  
**DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT**  
**Notes to the Financial Statements**  
**June 30, 2008**

**2. Summary of Significant Accounting Policies (Cont'd)**

**B. Basic Financial Statements - Government-Wide Statements (Cont'd)**

The net cost by function is normally covered by general revenue.

The government-wide focus is more on the sustainability of the Department as an entity and the change in the Department's net assets resulting from the current year's activities.

Restricted net assets are those with constraints placed on their use by either: 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. All net assets not otherwise classified as restricted, are shown as unrestricted. Generally, the Department would first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**C. Basic Financial Statements - Fund Financial Statements**

Emphasis is on the major funds of the governmental category. Non-major funds are summarized into a single column. The Department's major funds are its General Fund and Executive Order Fund (State Disaster Funds).

The governmental funds in the financial statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is deemed more appropriate to demonstrate legal and covenant compliance, to demonstrate the source and use of liquid resources and to demonstrate how the Department's actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements governmental column, a reconciliation is presented on the page following each statement, which briefly explains the adjustment necessary to transform the fund based financial statements into the governmental column of the government-wide presentation.

The focus is on the Department as a whole and the fund financial statements, including the major individual funds of the governmental 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 which spending activities are controlled.

The following fund types are used by the Department:

**GOVERNMENTAL FUND TYPES**

All governmental fund types are accounted for on a spending or financial flow measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of available spendable resources. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are

**STATE OF NEW MEXICO**  
**DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT**  
**Notes to the Financial Statements**  
**June 30, 2008**

**2. Summary of Significant Accounting Policies (Cont'd)**

**C. Basic Financial Statements - Fund Financial Statements (Cont'd)**

said to present a summary of sources and uses of available spendable resources during a period. Revenues are recognized as soon as they are both measurable and available. Due to their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures of fund liabilities.

**General Fund** - The General Fund is the general operating fund of the Department. 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 SHARE fund.

**General Operating (SHARE Fund No. 20050)** - The operating account for the Department. Except for special appropriations which may extend into subsequent fiscal years, and federal grant funds, 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:

**Executive Order Fund (State Disaster Funds) (SHARE Fund No. 20380)** - The Executive Order Fund (State Disaster Funds) was established in accordance with Section 6-7-3 NMSA 1978 Compilation to account for funds designated for use in disaster assistance. Funds are utilized in rendering aid in emergency situations. Unexpended funds revert at the end of the authorization period.

**D. Non-Current Governmental Assets/Liabilities**

Such information is incorporated into the governmental column in the government-wide Statement of Net Assets.

**E. Basis of Accounting**

Basis of accounting refers to the point at which revenues or expenditures are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide financial statements are prepared using the "economic resources" measurement focus and the accrual basis of accounting. The Department has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. The governmental funds in the fund financial statements are presented on a modified accrual basis. Under the accrual method of accounting, revenues are recognized when earned and expenditures are recognized when incurred.

All governmental funds utilize the modified accrual basis of accounting. Under this method, revenues and other governmental fund financial resource increments are recognized in the accounting period

**STATE OF NEW MEXICO**  
**DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT**  
**Notes to the Financial Statements**  
**June 30, 2008**

**2. Summary of Significant Accounting Policies (Cont'd)**

**E. Basis of Accounting (Cont'd)**

in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the current fiscal period; available meaning collectible within the current period or soon enough thereafter, 60 days, to be used to pay liabilities of the current period.

Revenues from grants that are restricted for specific uses are recognized as revenues and as receivables when the related costs are incurred. Contributions and other monies held by other state and local agencies are recorded, as a receivable at the time the money is made available to the specific fund. All other revenues are recognized when they are received and are not susceptible to accrual.

Expenditures are recorded as liabilities when incurred. An exception to this general rule is that accumulated unpaid annual, compensatory and certain sick leave are not accrued as current liabilities, but as non-current liabilities. However, in the government-wide financial statements, both current and long-term are accrued. Expenditures charged to federal programs are recorded utilizing the cost principles described by the various funding sources.

In applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to GASB Statement No. 33, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenues when the applicable eligibility requirements including time, requirements, are met. Resources transmitted before the eligibility requirement are met, under most circumstances, should be reported as advances by the provider and deferred revenue by the recipient.

**F. Budgets and Budgetary Accounting**

The State Legislature makes annual appropriations to the Department which lapse at fiscal year end. Legal compliance is monitored through the establishment of a budget and a financial control system, which permits a budget-to-actual expenditure comparison. Expenditures may not legally exceed appropriations for each budget at the appropriation unit level.

Budgeted appropriation unit amounts may be amended upon approval from the Budget Division of the State of New Mexico, Department of Finance and Administration, within the limitations as specified in the General Appropriation Act. The budget amounts shown in the financial statements are the original and final authorized amounts as legally revised during the year.

The General Appropriations Act of 2004 established 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 as the budgetary basis of accounting for the State of New Mexico. The change in policy resulted in the recognition of budgetary control from a fiscal year to an appropriation period. Under the budgetary basis, prior year encumbrances allowed for money to be expended in one fiscal year, while charging the expenditure to another year's budget. Under the new policy, as long as the appropriation period has not lapsed, and a budget has been approved by the Department of Finance and Administration, an encumbrance can be charged against the budget. However, when the appropriation period has lapsed, so does the authority for the budget.

The General Fund and Special Revenue Funds budgetary legal authorization to incur obligations is on a basis that differs from the basis of accounting required by generally accepted accounting principles (GAAP). The budget is prepared on a modified accrual basis and may include encumbrances for

**STATE OF NEW MEXICO**  
**DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT**  
**Notes to the Financial Statements**  
**June 30, 2008**

**2. Summary of Significant Accounting Policies (Cont'd)**

**F. Budgets and Budgetary Accounting (Cont'd)**

multiple year appropriations in fund expenditures (commitments for the expenditure of monies relating to unperformed contracts of orders for goods and services). GAAP includes accrued expenditures but does not include encumbrances in fund expenditures.

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

1. No later than September 1, the Department submits to the Legislative Finance Committee (LFC) and the Budget Division of the Department of Finance and Administration (DFA) an appropriation request for the fiscal year commencing the following July 1. The appropriation request includes proposed expenditures and the means of financing them.
2. Budget hearings are scheduled before the New Mexico House of Appropriations and Senate Finance Committees. The final outcome of those hearings are incorporated into the state's General Appropriations Act.
3. The Act is signed into law by the Governor of the State of New Mexico within the legally prescribed time limit, at which time the approved budget becomes a legally binding document.
4. No later than May 1, the Department submits to DFA an annual operating budget by appropriation unit and object code based upon the appropriation made by the Legislature. The DFA Budget Division reviews and approves the operating budget which becomes effective on July 1.

All subsequent budgetary adjustments must be approved by the Director of the DFA Budget Division and by the LFC.

5. Formal budgetary integration is employed as a management control device during the fiscal year for the General Fund and Special Revenue Funds.
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 (General Appropriations Act, Laws of 2007, Chapter , Section 3, Subsections O and N) except for accounts payable accrued at the end of the fiscal year that do not get paid by the statutory deadline (Section 6-10-4 NMSA 1978) that must be paid out of next year's budget. A reconciliation of budgetary basis to GAAP basis will be necessary if any accounts payable at the end of the fiscal year are not paid by the statutory deadline. The Department has not included such reconciliation for fiscal year 2008 as all payables were paid by the statutory deadline.
8. The original budgets differ from the final budgets presented in the budget comparison statements by amendments made during the fiscal year.
9. Appropriations lapse at the end of the fiscal year except for those amounts related to unexpended valid encumbrances for multi-year appropriations.

**STATE OF NEW MEXICO**  
**DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT**  
**Notes to the Financial Statements**  
**June 30, 2008**

**2. Summary of Significant Accounting Policies (Cont'd)**

**F. Budgets and Budgetary Accounting (Cont'd)**

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 statements for major funds have been included as part of the basic financial statements.

**G. Encumbrances**

Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budget integration in the governmental funds. Encumbrances outstanding at year-end are reported as reservations of fund balance and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent fiscal year. Unused and excess encumbrances are adjusted in the year that the appropriation lapses.

**H. Cash**

Cash is deposited by the Department into its accounts with the State Treasurer which are pooled and invested by the State Treasurer at various financial institutions.

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

Various 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 at fiscal year-end represent an excess of modified accrual basis expenditures over cash reimbursements received to date. Conversely, deferred revenue balances represent an overdraw of cash (advances) in excess of modified accrual basis expenditures. Generally, receivable or deferred balances caused by differences in the timing of cash reimbursements and expenditures will be reversed or 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.

Certain federal program funds are passed through the Department to subgrantee organizations.

**J. Capital Assets**

Capital assets purchased or acquired at a value of \$5,000 or greater are capitalized. In some cases, assets acquired at a value of \$5,000 or less are capitalized. Assets are carried at historical costs or estimated historical cost. Contributed assets are recorded at estimated fair market value at the date of received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed when incurred. There is no debt related to the capital assets. Depreciation on all assets is provided on the straight-line basis over the following estimated useful life with no salvage value.

**STATE OF NEW MEXICO**  
**DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT**  
**Notes to the Financial Statements**  
**June 30, 2008**

**2. Summary of Significant Accounting Policies (Cont'd)**

**J. Capital Assets (Cont'd)**

	<u>Years</u>
Furniture/Fixtures	10
Equipment and machinery	5
Automobiles	4
Data Processing Equipment	3

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.

**K. Accrued Compensated Absences - Annual and Sick Leave**

Qualified employees accumulate annual leave as follows:

<u>Years of Service</u>	<u>Hours Earned Per Month</u>	<u>Days Earned Per Month</u>	<u>Days of Maximum Accrual</u>
1-3	6.67	.83	30
4-6	8.00	1.00	30
7-10	9.99	1.25	30
11-14	12.00	1.50	30
15 <sup>th</sup> /Beyond	13.33	1.67	30

Thirty (30) days of accrued annual leave may be carried forward into the beginning of the next calendar year and any excess is forfeited. When employees terminate, they are compensated for accumulated annual leave as of the date of termination, up to a maximum of thirty (30) days. Accrued annual leave is recorded as a non-current liability in the government-wide financial statements.

Employees who have over 600 hours of accumulated sick leave can receive payment for hours over 600, up to 120 hours on July 1 or January 1 of each year. However, sick leave is paid at fifty percent of the employee's regular hourly wage. At retirement, employees can receive fifty percent payment for up to 400 hours for the hours over 600 hours of accumulated sick leave. Therefore, the only leave which has been accrued represents the hours earned at June 30, 2008, over 600 hours up to 120 hours per employee. Expenditures for accumulated sick pay for hours under 600 hours will be recognized as employees take such absences. Accrued vested sick pay is recorded as a non-current liability in the government-wide financial statements.

Fair Labor Standards Act (FLSA) nonexempt employees accumulate compensation time at the 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 could not carry forward unused compensation time into January of the 2004 calendar year. Overtime must be pre-approved by management. Payment of this liability can be made by compensated leave time or cash payment.



**STATE OF NEW MEXICO**  
**DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT**  
**Notes to the Financial Statements**  
**June 30, 2008**

**2. Summary of Significant Accounting Policies (Cont'd)**

**K. Accrued Compensated Absences - Annual and Sick Leave (Cont'd)**

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

**L. Reservations and Designations - Fund Balance**

Reservations of fund balance in the governmental fund statements are created to either (1) satisfy legal covenants that require that a portion of the fund balance be segregated or (2) identify the portion of the fund balance that is appropriated for future expenditures. Specific reservations of fund balance accounts are summarized below:

**Reserved for Subsequent Year's Expenditures** - This reserve was created to represent appropriation made for special projects that extend beyond the current fiscal year.

**M. Net Assets**

The government-wide financial statements utilize a net asset presentation. Net assets are categorized as investments in capital assets (net of related debt), restricted and unrestricted.

*Investment in Capital Assets* - is intended to reflect the portion of net assets which are associated with non-liquid, capital assets less outstanding capital asset related debt. The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost.

*Restricted Assets* - are liquid assets (generated from revenues and not bond proceeds appropriations), which have third-party (statutory enabling legislation or granting agency) limitation on their use, and which are legally enforceable as to their use.

*Unrestricted Assets* - represent unrestricted liquid assets.

The Department allocates expenses to restricted or unrestricted resources based on the budgeted source of funds. It is the Department's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**N. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of American 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.

**3. Cash (Investment in the State Treasurer General Fund Investment Pool)**

*Investment in the State Treasurer General Fund Investment Pool.* All funds allotted to the Department are held by the New Mexico State Treasurer. Deposits are non-interest bearing. Money deposited by the Department with the State Treasurer is pooled and invested by the State Treasurer. The State Treasurer deposits monies with New Mexico financial institutions in denominations which generally are in excess of the \$100,000 in insurance coverage provided by federal agencies. Accordingly, the State Treasurer requires that

**STATE OF NEW MEXICO**  
**DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT**  
**Notes to the Financial Statements**  
**June 30, 2008**

**3. Cash (Investment in the State Treasurer General Fund Investment Pool) (Cont'd)**

depository financial institutions provide additional collateral for such investments. The collateral generally is in the form of marketable debt securities and is required in amounts ranging from 50% to 102% of the par value of the investment dependent upon the institutions operating results and capital. Collateral for the fiscal account is required in amounts equal to 50% of the average investment balance. Separate financial statements of the State Treasurer indicate collateral categories of risk and market value of purchased investments. All collateral is held in third-party safekeeping. A supplemental schedule of cash that the Department held as of June 30, 2008 is presented in the financial statements as supplemental information. Cash on deposit with the State Treasurer in the General Fund Investment Pool consists of the following:

Name of Depository	Account Name	SHARE		Type of Account	Interest Bearing	Depository Balance at 06/30/2008	Reconciled Balance at 6/30/2008
		Agency Number	Fund Number				
<b>State Treasurer General Fund Investment Pool:</b>							
NM State Treasurer	Homeland Security & Emergency Management General Fund	79500	20050	State Treasury	No	(\$8,429,301)	(\$10,668,843)
NM State Treasurer	Executive Orders- State Disaster Special Revenue Fund	79500	20380	State Treasury	No	1,173,967	1,173,967
<b>Total Governmental Fund Types</b>						<b><u>(\$7,255,334)</u></b>	<b><u>(\$9,494,876)</u></b>

Cash accounts on deposit with the New Mexico State Treasurer do not require collateral to be pledged because they are deposits with another governmental entity. The Department is not authorized to make investments. However, certain cash accounts are authorized to earn interest and are deposited by DFA into the New Mexico State Treasurer's Office Interest Bearing Pool. The pool invests in repurchase agreements secured at 102% by U. S. Treasury notes and bills, certificates of deposit and other interest bearing instruments. Because all monies are held by another governmental entity, Governmental Accounting Standards Board Statement #3, "Deposit with Financial Institutions Investments (Including Repurchase Agreements)," and "Reverse Purchase Agreements" is not applicable. Deposits do not have to be classified according to custodial credit risk.

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

- (a) Securities issued by the United States (U.S.) government or by its departments or agencies and direct obligations of the U.S. or are backed by the full faith and credit of the U.S. government or agencies sponsored by the U.S. government;
- (b) Contracts for the present purchase and resale at a specified time in the future, not to exceed one year or, in the case of bond proceeds appropriations, not to exceed three years, of specific securities at specified prices at a price differential representing the interest income to be earned by the state. No such contract shall be invested in unless the contract is fully secured by obligations of the United States of other securities backed by the United States having a market value of at least one hundred two percent of the amount of the contract;

**STATE OF NEW MEXICO**  
**DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT**  
**Notes to the Financial Statements**  
**June 30, 2008**

**3. Cash (Investment in the State Treasurer General Fund Investment Pool) (Cont'd)**

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

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

For additional GASB 40 disclosure information regarding cash held by the State Treasurer, the reader should see the separate audit report for the State Treasurer's Office for the fiscal year ended June 30, 2008.

**4. Due from Other State Agencies**

The following are short-term amounts owed between other state agencies and are classified as due from other state agencies:

**STATE OF NEW MEXICO**  
**DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT**  
**Notes to the Financial Statements**  
**June 30, 2008**

**4. Due from Other State Agencies (Cont'd)**

	<u>Purpose</u>	<u>Due From</u>	<u>Due To</u>
<u>Fund 20050-General Fund</u>			
Due from Department of Finance and Admin.	Payroll liability overpayment	\$ 2,490	\$ -
Due from State Board of Finance	Severance tax bond appropriations - capital projects	477,039	-
		<u>479,529</u>	<u>-</u>
<u>Fund 20380- Executive Orders-State Disaster Fund</u>			
Due from Department of Public Safety	June 30, 2007 Fund Balance to transferred to DHSEM	6,599,561	-
		<u>\$ 7,079,090</u>	<u>\$ -</u>

**5. Capital Assets**

The capital asset activity for the governmental activities for the year ended June 30, 2008, is as follows:

	<u>Governmental Activities</u>				<u>Ending Balance 06/30/2008</u>
	<u>Beginning Balance 06/30/2007</u>	<u>Transfers in from DPS Additions- 07/01/2007</u>	<u>Additions</u>	<u>Deletions</u>	
<u>Cost</u>					
Buildings	\$ -	\$ 1,700,000	\$ 2,300,000	\$ -	\$ 4,000,000
Data processing equipment	-	108,456	23,635	-	132,091
Furniture and fixtures	-	-	-	-	-
Equipment and machinery	-	195,431	375,160	-	570,591
Automobile	-	823,498	591,843	-	1,415,341
Total capital assets	<u>-</u>	<u>2,827,385</u>	<u>3,290,638</u>	<u>-</u>	<u>6,118,023</u>
<u>Accumulated Depreciation</u>					
Buildings	-	942,083	180,833	-	1,122,916
Data processing equipment	-	51,940	17,066	-	69,006
Furniture and fixtures	-	-	-	-	-
Equipment and machinery	-	118,672	85,449	-	204,121
Automobile	-	383,241	200,693	-	583,934
Total accumulated depreciation	<u>-</u>	<u>1,495,936</u>	<u>484,041</u>	<u>-</u>	<u>1,979,977</u>
<u>Net Capital Assets</u>					
Buildings	-	757,917	2,119,167	-	2,877,084
Data processing equipment	-	56,516	6,569	-	63,085
Furniture and fixtures	-	-	-	-	-
Equipment and machinery	-	76,759	289,711	-	366,470
Automobile	-	440,257	391,150	-	831,407
Net capital assets	<u>\$ -</u>	<u>\$ 1,331,449</u>	<u>\$ 2,806,597</u>	<u>\$ -</u>	<u>\$ 4,138,046</u>

The Department does not have any debt related to capital assets. Depreciation expense for the year was \$484,041 and is considered a public safety expense.

**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
Notes to the Financial Statements  
June 30, 2008**

**6. Accrued Payroll Payable**

Accrued payroll payable at June 30, 2008 amounted to \$96,082. This amount represents 100% of the total payroll paid on July 3, 2008, for the pay period ended June 27, 2008, and 10% of the total payroll paid on July 17, 2008, for the pay period ended July 11, 2008.

**7. Compensated Absences Payable**

Employees are entitled to accumulate annual leave at a graduated rate based on years of service. A maximum of 240 hours can be carried forward at calendar year end. The Department has recognized a liability of \$209,010 in the Statement of Net Assets for annual leave based on current pay rates and hours accumulated at June 30, 2008. The General Fund is typically used to liquidate compensated absences.

A summary of changes in the compensated absences payable for the year ended June 30, 2008, is as follows:

	<u>Balance 06/30/2007</u>	<u>Transfers in- Additions</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 06/30/2008</u>	<u>Current Portion</u>
Current compensated absences payable	\$ -	\$ 177,111	\$ 170,562	\$ (138,663)	\$ 209,010	\$ 136,764

**8. Due to State General Fund (Reversions)**

Unexpended cash balances at year end of State General Fund monies appropriated to the Department are reverted to the State General Fund, unless otherwise specified in the appropriation language.

The General Fund (SHARE Fund No. 20050) receives a State General Fund appropriation annually. Any unexpended funds at the end of the year revert to the State General Fund. In 2008, the Department was appropriated \$3,234,000 from the state general fund, and an addition \$74,100 for compensation adjustments. Unexpended balances remaining 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.

Unexpended balances of FY 2008 State General Fund appropriations at June 30, 2008 is due to the State General Fund computed as follows:

Cash balance, June 30, 2008 (as adjusted)	\$ (10,668,843)
Add:	
Due from federal government, 6/30/2008	10,707,748
Due from other state agencies (DFA-Central Payroll), 6/30/2008	2,490
Due from State Board of Finance, 6/30/2008 (Severance Tax Capital Projects)	<u>477,039</u>
Amount available (all state cash)	518,433
Less:	
Accounts payable, 6/30/08	(228,619)
Accrued salaries payable, 6/30/08	(96,082)
Payroll taxes payable, 6/30/2008	(39,940)
Payroll benefits payable, 6/30/2008	<u>(63,721)</u>
<b>Due To State General Fund, June 30, 2008</b>	<b>\$ <u>90,071</u></b>

STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
Notes to the Financial Statements  
June 30, 2008

**9. Pension Plan - Public Employees Retirement Association**

**Plan Description.** Substantially all of the Department's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 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](http://www.pera.state.nm.us).

**Funding Policy.** Plan members are required to contribute 7.42% of their gross salary. The Department is required to contribute 16.59% of the gross covered salary. The contribution requirements of plan members and the Department's 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 contribution to PERA for the fiscal year ending June 30, 2008 was \$493,789. (The Department is a new Department effective July 1, 2007.) The amount equals the amount of the required contributions for the fiscal year.

**10. Post Employment Benefits - State Retiree Health Care Plan**

**Plan Description.** The Department contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized 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 the event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the postemployment healthcare plan. 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 healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at [www.nmrhca.state.nm.us](http://www.nmrhca.state.nm.us).

**STATE OF NEW MEXICO**  
**DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT**  
**Notes to the Financial Statements**  
**June 30, 2008**

**10. Post Employment Benefits - State Retiree Health Care Plan (Cont'd)**

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. The statute requires each participating employer to contribute 1.3% of each participating employee's annual salary; each participating employee is required to contribute .65% of their salary. Employers joining the program after January 1, 1998, are also required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

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

The Department's contributions to the RHCA for the year ended June 30, 2008 was \$33,439. (The Department is a new Department effective July 1, 2007.) The amount equals the required contributions for the fiscal year.

**11. Insurance Coverage - Risk Management**

The Department obtains coverage through Risk Management Division of the State of New Mexico General Services Department. This coverage includes liability and civil rights, property, vehicle, employer bond, workers' compensation, group insurance and state unemployment. These coverages are designed to satisfy the requirements of the State Tort Claims Act. All employees of the Department are covered by blanket fidelity bond up to \$5,000,000 with a \$1,000 deductible per occurrence by the State of New Mexico for the period July 1, 2007, through June 30, 2008.

**12. Transfers To/From Other Agencies**

From Agency/Fund		To Agency/Fund		Purpose	Amount	Outstanding at 06/30/2008
36900/85300	DFA	79500/20050	DHSEM	State General Fund appropriation	\$ 3,234,000	No
34100/62000	DFA	79500/20050	DHSEM	Appropriation-compensation package	74,100	No
79500/20050	DHSEM	36900/85300	DFA	Reversion to State General Fund - FY 2008	(90,071)	Yes
34100/01900	DFA, BOF	79500/20050	DHSEM	Bond proceeds appropriation - Severance Tax Bonding Projects	192,237	Yes
36900/85300	DFA	79500/20050	DHSEM	Due from DFA Central Payroll Account for payroll liability overpayment	2,490	Yes
36900/85300	DFA	79500/20380	DHSEM	State General Fund appropriation	4,500,000	No
36900/85300	DFA	79500/20380	DHSEM	State General Fund appropriation	3,356,650	Yes
79000/85500	DPS	79500/20380	DHSEM	Transfer of fund balance to DHSEM - Executive Orders - State Disaster Fund	6,599,561	Yes

**INDIVIDUAL FUND FINANCIAL STATEMENTS**



STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
Statement of Revenues and Expenditures  
Budget and Actual (Budgetary Basis) (Multi-Year)  
Major Fund - General Fund 20050  
Lordsburg/Anthony Radio A8075359  
(Appropriation End Date: June 30, 2009)  
For the Year Ended June 30, 2008

	Budgeted Amounts		Project to Date Actual Budget Basis	Variance Favorable (Unfavorable)	Current Year
	Original	Final			
<b>Revenues:</b>					
Other funds:					
Other financing sources	\$ 600,000	\$ 600,000	\$ -	\$ -	\$ -
Total revenues	600,000	600,000	\$ -	\$ -	\$ -
Prior-year fund balance	-	-			
Total revenues budgeted	\$ 600,000	\$ 600,000			
<b>Expenditures:</b>					
General government:					
Other costs	\$ 600,000	\$ 600,000	\$ -	\$ 600,000	\$ -
Total expenditures	\$ 600,000	\$ 600,000	\$ -	\$ 600,000	\$ -
Reconciliation of GAAP basis to budget basis revenue:					
GAAP basis revenue					\$
Adjustments:					
Revenue recognition of capital project appropriations at the time eligibility requirements have been met					
Budget basis revenue					\$ -
Reconciliation of GAAP basis to budget basis expenditures:					
GAAP basis expenditures					\$ -
Adjustments:					
None					-
Budget basis expenditures					\$ -

## Note:

The actual expenditures on the budgetary basis do not include any accounts payable that required a request to pay prior-year bills out of the FY 2009 budget.

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

STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
Statement of Revenues and Expenditures  
Budget and Actual (Budgetary Basis) (Multi-Year)  
Major Fund - General Fund 20050  
DHSEM-Radio Emergency Network A060563  
(Appropriation End Date: June 30, 2009)  
For the Year Ended June 30, 2008

	<u>Budgeted Amounts</u>		Project to Date Actual Budget Basis	Variance Favorable (Unfavorable)	Current Year
	<u>Original</u>	<u>Final</u>			
<b>Revenues:</b>					
Other funds:					
Severance tax bond appropriations	\$ 500,000	\$ 500,000	\$ 192,237	\$ 307,763	\$ 192,237
Total revenues	500,000	500,000	<u>\$ 192,237</u>	<u>\$ 307,763</u>	<u>\$ 192,237</u>
Prior-year fund balance	-	-			
Total revenues budgeted	<u>\$ 500,000</u>	<u>\$ 500,000</u>			
<b>Expenditures:</b>					
General government:					
Other costs	\$ 500,000	\$ 500,000	\$ 192,237	\$ 307,763	\$ 192,237
Total expenditures	<u>\$ 500,000</u>	<u>\$ 500,000</u>	<u>\$ 192,237</u>	<u>\$ 307,763</u>	<u>\$ 192,237</u>
Reconciliation of GAAP basis to budget basis revenue:					
GAAP basis revenue				\$ -	
Adjustments:					
Revenue recognition of capital project appropriations at the time eligibility requirements have been met				-	
Budget basis revenue				<u>\$ -</u>	
Reconciliation of GAAP basis to budget basis expenditures:					
GAAP basis expenditures				\$ -	
Adjustments:					
None				-	
Budget basis expenditures				<u>\$ -</u>	

**Note:**

The actual expenditures on the budgetary basis do not include any accounts payable that required a request to pay prior-year bills out of the FY 2009 budget.

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

**SUPPLEMENTAL SECTION**

STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
June 30, 2008

Schedule 1

Federal Grantor/Agency Program Title	FEDERAL		Grant Period		Federal Award Amt.	A/R 06/30/2007	Received by DPS	Received by DHSEM	Federal Expenditures	A/R 06/30/2008
	CFDA #	Grant Number	From	To						
<b>US DEPARTMENT OF HOMELAND SECURITY</b>										
<b>Homeland Security Cluster</b>										
03 DHS SHSGP	97.004	2003-TE-TX-0193	04/01/2003	12/31/2007	6,401,000	\$ (4,682)	\$ (4,682)	\$ 32,189	\$ 842,932	\$ 810,742
04 DHS SHSGP	97.004	2004-GE-T4-0005	12/01/2003	06/30/2008	24,946,000	3,727,723	3,727,723	4,541,887	5,609,214	1,067,327
06 DHS EMPG	97.042	2006-EM-E60015	10/01/2005	09/30/2007	2,003,853	-	-	-	55,000	55,000
07 DHS EMPG	97.042	2007-EM-E7-0035	10/01/2006	09/30/2008	2,188,210	53,589	53,589	794,951	1,972,874	1,177,923
08 DHS EMPG	97.042	2008-EM-E8-0034	10/01/2007	09/30/2009	3,310,547	-	-	-	23,448	23,448
03 DHS SHSGP	97.067	2003-MU-T3-0047	05/01/2003	12/31/2007	16,956,000	292,791	292,791	708,310	715,224	6,914
05 DHS SHSGP	97.067	2005-GE-T5-0012	07/01/2006	09/30/2008	16,766,029	1,467,856	1,467,856	5,249,683	6,545,461	1,295,779
06 DHS SHSGP	97.067	2006-GE-T6-0064	07/01/2006	06/30/2008	8,270,273	386,949	386,949	-	3,442,553	3,442,553
07 DHS SHSGP	97.067	2007-GE-T7-0023	07/01/2007	06/30/2010	6,973,253	-	-	-	78,517	78,517
07 DHS Stonegarden Supp	97.067	2007-SG-N6-0005	11/01/2006	09/30/2008	1,185,000	-	-	-	248,446	248,446
07 DHS Stonegarden	97.067	2007-SG-N6-0001	11/01/2006	10/31/2008	1,580,258	-	-	-	957,082	957,082
05 DHS EMPG	97.067	2005-EM-E5-	07/01/2006	09/30/2008	1,960,687	-	-	29,128	29,128	-
05-DHS BZZP	97.078	2005-GR-T5-0029	04/01/2005	09/30/2007	500,000	-	-	142,620	221,199	78,579
06 DHS BZZP	97.078	2006-BZT-60036	10/01/2006	09/30/2008	189,000	-	-	-	-	-
07-DHS PSIC	11.555	2007-GS-HT-0045	10/01/2007	09/30/2010	8,288,725	-	-	-	-	-
<b>Total Homeland Security Cluster</b>						<b>5,924,226</b>	<b>5,924,226</b>	<b>11,498,768</b>	<b>20,741,078</b>	<b>9,242,310</b>
<b>US DEPARTMENT OF TRANSPORTATION</b>										
07 DOT HMEP	20.703	HMENM 7056140	09/30/2007	09/30/2008	150,123	-	-	-	49,208	49,208
<b>Total US Department of Transportation</b>						<b>-</b>	<b>-</b>	<b>-</b>	<b>49,208</b>	<b>49,208</b>
<b>FEDERAL EMERGENCY MANAGEMENT AGENCY</b>										
03 FEMA PDM	97.017	EMT2003-GR-0024	07/01/2003	06/30/2006	130,000	-	-	85,417	85,417	-
04 FEMA PDM	97.017	FEMA 2004	04/08/2004	06/30/2008	29,250	-	-	-	-	-
07 FEMA PDM	97.017	FEMA 2006	09/17/2007	09/16/2010	322,511	-	-	-	-	-
08 FEMA CAP-SSSE	97.023	EMT-2008-GR-0004	10/01/2007	09/30/2008	75,000	-	-	-	18,085	18,085
07 FEMA CAP-SSSE	97.023	EMT-2007-GR-0005	10/01/2006	09/30/2007	126,487	26,904	26,904	33,001	49,211	16,210
06 FEMA CAP-SSSE	97.023	EMT-2006-GR-0004	10/01/2005	09/30/2006	-	5,825	5,825	-	-	-
04 FEMA US&R	97.025	EMW-2004-CA-0458	09/01/2004	08/30/2008	973,035	-	-	-	40,878	40,878
05 FEMA US&R	97.025	EMW-2005-CA-0284	03/01/2005	06/30/2008	892,000	37,636	37,636	-	22,705	22,705
08 FEMA US&R	97.025	EMW-2006-CA-0225	04/01/2006	06/30/2008	592,915	131,298	131,298	108,826	200,499	91,673
07 FEMA US&R	97.025	EMW-2007-CA-0171	12/31/2007	07/30/2008	769,500	-	-	395,723	662,460	266,736
FEMA-1659-Crisis Counseling	97.032	FEMA-1329-ISCC-NM	09/30/2006	On-going	58,961	-	-	54,022	54,022	-
FEMA-1514-DRNM	97.036	FEMA-1514-PA	04/29/2004	On-going	4,499,777	577,362	577,362	-	-	-
FEMA-3229-EMNMP-000000001	97.036	FEMA-3229-EMNMP	08/29/2005	On-going	1,067,175	718,162	718,162	-	-	-
FEMA-1301	97.039	FEMA-1301-DRHM	09/22/1999	On-going	305,320	-	-	-	-	-
FEMA-1329-DR (Cerro Grande)	97.039	FEMA-1329-DR-NM	06/26/2000	On-going	1,740,259	-	-	-	89,058	89,058
FEMA-1329-HMGP	97.039	FEMA-1329-HMPG	05/13/2000	On-going	1,740,259	-	-	-	-	-
FEMA-1659-PA	97.039	FEMA-1329-DR-NM	09/30/2006	On-going	31,054,570	15,466,140	15,466,140	4,372,307	4,945,353	573,047
FEMA-2600-FM (SE NM Fire)	97.046	FEMA-2600-DR-NM	N/A	N/A	107,390	97,053	97,053	-	10,337	10,337
FEMA-2636-FM (Ojo Feliz Fire)	97.046	FEMA-2636-DR-NM	N/A	N/A	2,406,369	-	-	2,406,369	2,406,369	-
FEMA-2644-FM (Mailpais Fire)	97.046	FEMA-2644-DR-NM	N/A	N/A	113,353	-	-	113,353	113,353	-
FEMA-2647-FM (Rivera Mesa Fire)	97.046	FEMA-2647-DR-NM	N/A	N/A	2,718,548	-	-	2,718,248	2,718,248	-
FEMA-2682-FM (Belen Fire)	97.046	FEMA-2682-DR-NM	N/A	N/A	89,839	-	-	-	89,839	89,839
FEMA-2741-GM (Ojo Peak Fire)	97.046	FEMA-2741-DR-NM	N/A	N/A	17,440	-	-	-	17,440	17,440
FEMA-2631-FM	97.046	FEMA-2631-DR-NM	N/A	N/A	262,647	262,647	262,647	-	-	-
<b>Total Federal Emergency Management Agency</b>						<b>17,323,026</b>	<b>17,323,026</b>	<b>10,287,266</b>	<b>11,523,275</b>	<b>1,236,009</b>
<b>US DEPARTMENT OF ENERGY</b>										
<b>NM ENERGY &amp; MINERALS DEPARTMENT-PASS THROUGH</b>										
08 EMNRD WIPP	81.106	DE-FC29-88AL53813	07/01/2004	On-going	436,091	-	-	-	168,220	168,220
WIPP INDIRECT	81.106	DE-FC29-88AL53813	07/01/2004	On-going	-	-	-	-	12,000	12,000
<b>Total US Department of Energy</b>						<b>-</b>	<b>-</b>	<b>-</b>	<b>180,220</b>	<b>180,220</b>
<b>TOTAL ALL FEDERAL AWARDS</b>						<b>\$ 23,247,251</b>	<b>\$ 23,247,251</b>	<b>\$ 21,786,034</b>	<b>\$ 32,493,781</b>	<b>\$ 10,707,748</b>

**STATE OF NEW MEXICO**  
**DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**June 30, 2008**

**1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Department of Homeland Security and Emergency Management (Department) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of states, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented, or used in the preparation of the basic financial statements.

**2. Reconciliation of Schedule to Basic Financial Statements**

Expenditures per Schedule of Expenditures of Federal Awards	\$ 32,493,781
Less: Prior-year Accounts Payable of DPS paid by DHSEM and reimbursed by Federal government during FY 2008	<u>(715,976)</u>
Federal revenues per the Fund Financial Statements	<u>\$ 31,777,805</u>

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

Mr. Tim Manning, State Executive Director  
Department of Homeland Security  
and Emergency Management  
and  
Mr. Hector H. Balderas  
New Mexico State Auditor  
Santa Fe, New Mexico

We have audited the financial statements of the governmental activities, each major fund, the budgetary comparisons for the general fund and major special revenue fund, and the individual governmental funds and the budgetary comparisons presented as supplemental information of the State of New Mexico, Department of Homeland Security and Emergency Management, (Department) as of and for the year ended June 30, 2008, and have issued our report thereon dated February 9, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Department's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the State of New Mexico, Department of Homeland Security and Emergency Management's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses (2008-1, 2008-2, 2008-3 and 2008-4) to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the State of New Mexico, Department of Homeland Security and Emergency Management's internal control.



Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 2008-2 to be a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the State of New Mexico, Department of Homeland Security and Emergency Management's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under **Government Auditing Standards**.

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

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



Robert J. Rivera, CPA, PC  
Santa Fe, New Mexico  
February 9, 2009

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## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Mr. Tim Manning, State Executive Director  
Department of Homeland Security  
and Emergency Management  
and

Mr. Hector H. Balderas  
New Mexico State Auditor  
Santa Fe, New Mexico

### Compliance

We have audited the compliance of the State of New Mexico, Department of Homeland Security and Emergency Management (Department) with the types of compliance requirements described in the **U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement** that are applicable to each of its major federal programs for the year ended June 30, 2008. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States; and (OMB) Circular A-133, **Audits of States, Local Governments and Non-Profit Organizations**. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Department's compliance with those requirements.

In our opinion, the State of New Mexico, Department of Homeland Security and Emergency Management complied, in all material respects, with the requirements referred to above that are applicable to each of its major programs for the year ended June 30, 2008.

### Internal Control Over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with the requirements that could have a direct and material effect on a major federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly we do not express an opinion on the effectiveness of the Department's internal control over compliance.





Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in internal control over compliance described in the accompanying schedule of findings and questioned costs as finding 2008-2 to be a significant deficiency.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider finding 2008-2 to be a material weakness.

The Department's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Department's response and, accordingly, we express no opinion on it.

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



Robert J. Rivera, CPA, PC  
Santa Fe, New Mexico  
February 9, 2009

**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
Schedule of Findings and Questioned Costs (Single Audit-Federal Award Programs)  
Year Ended June 30, 2008**

**I. SUMMARY OF AUDIT RESULTS**

1. The auditor's report expresses an unqualified opinion on the basic financial statements and the individual fund financial statements of the State of New Mexico, Department of Homeland Security and Emergency Management.
2. There were four significant deficiencies disclosed during the audit of the financial statements of the State of New Mexico, Department of Homeland Security and Emergency Management. One of the deficiencies is reported as a material weakness.
3. No instances of noncompliance material to the financial statements of the State of New Mexico, Department of Homeland Security and Emergency Management which would be required to be reported in accordance with **Government Auditing Standards**, were disclosed during the audit.
4. One significant deficiency in internal control over major federal award programs disclosed during the audit is reported in the audit of the State of New Mexico, Department of Homeland Security and Emergency Management. The deficiency is also reported as a material weakness in internal control over major programs.
5. The auditor's report on compliance for the major federal award programs for the State of New Mexico, Department of Homeland Security and Emergency Management expresses an unqualified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The programs tested as major programs including the following:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
<b>US Department of Homeland Security</b>	
97.042	Emergency Management Performance Grant Program
97.067	Homeland Security Grant Program
<b>Federal Emergency Management Program</b>	
97.046	Fire Management Assistance Grant Program

8. The threshold for distinguishing between Types A and B programs was \$955,000.
9. The Department of Homeland Security and Emergency Management does not qualify as a low-risk auditee.

**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
Schedule of Findings and Questioned Costs (Single Audit-Federal Award Programs)  
Year Ended June 30, 2008**

**II. FINDINGS and QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT**

	<b>Questioned Costs</b>
<b>US DEPARTMENT OF HOMELAND SECURITY</b>	
Finding 2008-2 CFDA 97.042 Emergency Management Performance Grant	\$ -
Finding 2008-2 CFDA 97.067 Homeland Security Grant Program	\$ -
<b>FEDERAL EMERGENCY MANAGEMENT AGENCY</b>	
Finding 2008-2 CFDA 97.046 Fire Management Assistance Grant Program	\$ -
Finding 2008-2 Significant Deficiency and Material Weakness: As Discussed in Finding 2008-2, the accounting records for federal grant activity were not timely and accurately reconciled during the year. As a result, at year end, grant revenue was understated in the general ledger by approximately \$7,329,345; federal grants receivable was understated by approximately \$9,940,865. Policies and procedures should be established that require the timely and accurate reconciliations of grant receivables, grant revenue and grant expenditures between the general ledger and subsidiary grant records. Draw downs for reimbursement of federal grant expenditures from grantor agencies should be timely submitted, preferably monthly.	

**III. STATUS OF PRIOR AUDIT FINDINGS and QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS (As reported in the audit report of the New Mexico Department of Public Safety (DPS), the predecessor agency to certain programs now handled by the New Mexico Department of Homeland Security and Emergency Management (DHSEM) effective July 1, 2007)**

**US DEPARTMENT OF HOMELAND SECURITY**

**Finding 2007-9 Cash Management and Reporting-Material Weakness  
CFDA 97.067 (Homeland Security Cluster)**

**Condition:** This finding was a material weakness stating that draw downs and amounts reported to the Federal Government per SF269A Forms, when compared to the general ledger, were not adequately supported by the general ledger detail of expenditures for these programs.

**Recommendation:** The auditor recommended that the Department continue in its efforts to fill all vacancies to ensure accurate reporting and cash management.

**Current Status:** The DHSEM has reported that during FY 2007, the grant unit of DPS was severely impacted by a lack of staff. As a result of the transition, the DHSEM hired and assigned a single person responsible for fiscal quarterly reporting. DPS was not able to submit the June 30, 2007 reports until November 2007. Once that process was complete, the DHSEM began the process of establishing new accounts within FEMA PARS and HHS SmartLink. The SmartLink process was not complete until January 2008. At that point, the DHSEM began submitting all delinquent reports. This was verified by the auditor; however, current year

**STATE OF NEW MEXICO**  
**DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT**  
**Schedule of Findings and Questioned Costs (Single Audit-Federal Award Programs)**  
**Year Ended June 30, 2008**

**III. STATUS OF PRIOR AUDIT FINDINGS and QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS (Cont'd)**

**US DEPARTMENT OF HOMELAND SECURITY (Cont'd)**

**Finding 2007-9 Cash Management and Reporting-Material Weakness (Cont'd)**  
CFDA 97.067 (Homeland Security Cluster)

Finding 2008-2 is a similar finding reported in the June 30, 2008 audit report. In addition, FEMA grant management staff visited with the DHSEM grant staff in March 2008, and provided training on the SmartLink system.

**Finding 2007-10 Reporting**  
CFDA 97.067 and CFDA 97.004 (Homeland Security Cluster)

**Condition:** This finding stated that reports due to the Federal Government for the above programs were filed late. Lateness of the reports ranged from 1 to 30 days.

**Recommendation:** The auditor recommended that the Department continue its efforts to fill all vacancies to ensure accurate reporting and cash management.

**Current Status:** The DHSEM has reported that during FY 2007, the grant unit of DPS was severely impacted by a lack of staff. As a result of the transition, the DHSEM hired and assigned a single person responsible for fiscal quarterly reporting. DPS was not able to submit the June 30, 2007 reports until November 2007. Once that process was complete, the DHSEM began the process of establishing new accounts within FEMA PARS and HHS SmartLink. The SmartLink process was not complete until January 2008. At that point, the DHSEM began submitting all delinquent reports. This was verified by the auditor; however, current year Finding 2008-2 is a similar finding reported in the June 30, 2008 audit report. In addition, FEMA grant management staff visited with the DHSEM grant staff in March 2008, and provided training on the SmartLink system.

**Finding 2007-13 Cash Management**  
CFDA 97.004 (Homeland Security Cluster)

**Condition:** This finding stated that total expenditures per the SF269A Forms did not tie to the total of the detailed listing of expenses per the general ledger for two grants.

**Recommendation:** The auditor recommended that the Department establish procedures for federal reporting to include the use of the general ledger.

**Current Status:** The DHSEM has reported that during FY 2008, expenditure reports would not run until Budget verified that payroll had been posted for all pay periods within that quarter. Draw amounts are provided to both Budget and Finance for concurrence on expenditures per award. This was verified by the auditor; however, current year finding 2008-2 is a similar finding which is reported in the June 30, 2008 audit.

**STATE OF NEW MEXICO**  
**DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT**  
**Schedule of Findings and Questioned Costs (Single Audit-Federal Award Programs)**  
**Year Ended June 30, 2008**

**III. STATUS OF PRIOR AUDIT FINDINGS and QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS (Cont'd)**

**FEDERAL EMERGENCY MANAGEMENT AGENCY**

**Finding 2007-11 Segregation of Duties-Allowable Costs**

Cash Management and Reporting  
CFDA 97.036 (FEMA Disaster Grant 1659)

**Condition:** This finding stated the public assistance officer for this grant was solely responsible for expenditures, drawdowns, and project accounting reporting and that there was no mechanism for approval and monitoring of the public assistance officer's duties on a day-to-day basis.

**Recommendation:** The auditor recommended that management establish an adequate system of internal control for this and all grants.

**Current Status:** The DHSEM has reported that during FY 2008, a Bureau Chief was hired within the Recovery Bureau to ensure accurate expenditures as well as programmatic reporting. There is also an individual within the grant unit who is responsible for the quarterly draws. The Bureau Chief and CFO are responsible for approving awards and reimbursements. The Bureau chief and CFO are responsible for approving awards and reimbursements. The Bureau Chief and Unit Manager oversee the duties of the Public Assistance officer on a daily basis. This was verified by the auditor and no similar findings were noted in the June 30, 2008 audit.

**STATE OF NEW MEXICO**  
**DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT**  
**Schedule of Findings and Responses (Pertaining to Financial Statements)**  
**Year Ended June 30, 2008**

**I. PRIOR-YEAR AUDIT FINDINGS**

a. Repeated in current year

N/A This is a new Department effective July 1, 2007.

b. Resolved and not included in current year

N/A This is a new Department effective July 1, 2007.

**II. CURRENT YEAR FINDINGS PERTAINING TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED**

**Finding No. 2008-1, Capital Asset Records and Inventory**

**Condition**

The Department did not have a complete and accurate inventory list of capital assets and accumulated depreciation as of June 30, 2008 upon our initial request for the information. We later provided guidance and assisted the Department to compile the list of capital assets and accumulated depreciation effective as of June 30, 2008. Capital asset items were transferred to the Department effective July 1, 2007 from the New Mexico Department of Public Safety, the predecessor agency to the Department. In addition, the Department purchased additional capital items during the year. The inventory list that was provided to us for audit was incomplete and did not provide accurate depreciation and accumulated depreciation.

**Criteria**

A complete and accurate inventory list of capital assets, depreciation and accumulated depreciation should be maintained and updated on an ongoing basis. The individuals assigned to maintaining the inventory list should work closely with finance department in order to insure that all required capital items are capitalized. The listing should include all assets with a value of over \$5,000 and should include, at a minimum, the item description, date purchased, asset useful life, annual depreciation amount, accumulated depreciation amount, and the cost of the item. An inventory should also be taken and certified on an annual basis, and individual items should be tagged with an identifying number.

**Effect**

Without a complete and accurate inventory listing, the cost of capital asset items and related accumulated depreciation, as recorded on the financial statements, could be misstated. In addition, unless items are tagged with an identifying number and an inventory is taken on an annual basis, capital asset items could be lost or misappropriated.

**Cause**

The Department became a new Department of the State of New Mexico, effective July 1, 2007. The Department was previously a part of the New Mexico Department of Public Safety. As a result, the maintenance of the capital assets inventory records and related accumulated depreciation during the transition caused for a delay in completing the records in time for the annual audit. Also, individuals responsible for the capital assets inventory were apparently not instructed as to the requirements and contents of the inventory records.

**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
Schedule of Findings and Responses (Pertaining to Financial Statements)  
Year Ended June 30, 2008**

**II. CURRENT-YEAR FINDINGS PERTAINING TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED (Cont'd)**

**Finding No. 2008-1, Capital Asset Records and Inventory (Cont'd)**

**Recommendation**

We recommend that a complete and accurate inventory list of capital assets, depreciation and accumulated depreciation be maintained and updated on an ongoing basis. We further recommend that the Department provide for an annual inventory of capital assets, that the inventory be certified, and that all items be tagged with an identifying number.

**Entity Response**

The Department has taken corrective action to ensure that procedures are developed and implemented to address the finding. The process will include accountability and certification of all capital assets utilizing the tracking template provided by the Auditor.

**Finding No. 2008-2, Federal Grants Receivable and Schedule of Expenditures of Federal Awards**

**Condition**

The accounting records for federal grant activity were not timely and accurately reconciled during the year. The Schedule of Expenditures of Federal Awards had not been accurately prepared and reconciled to the accounting records at year end. In addition, the accounting records reflected some federal grant transactions which had been incorrectly recorded in the general ledger, and also some federal grant transactions which had not been recorded. As a result, at year end, grant revenue was understated in the general ledger by approximately \$7,329,345; federal grants receivable was understated by approximately \$9,940,865; and the Interest in the State General Fund Investment Pool (Cash) was overstated by \$2,071,844.

**Criteria**

Effective internal control policies and procedures require the timely and accurate reconciliation of grant receivables, grant revenue and grant expenditures between the Department's general ledger and its subsidiary grant records and spreadsheets. This is necessary in order to ensure that grant activity transactions are completely and accurately recorded in the general ledger, that reimbursement from grantor agencies are accurate and timely, and that grant reporting to grantor agencies is accurate and timely.

**Effect**

The Department had difficulty analyzing and recording transactions accurately, and ensuring the accuracy of financial and federal reporting. There were delays in the draw down of federal funds which ultimately caused a cash deficit of over \$10 million. The State Treasurer does allow for state agencies to maintain negative cash balances in accounts where federal funds are awaiting draw down; however, the State of New Mexico is floating the use of federal grant funds awaiting draw down. In addition, financial statements are misstated if the recording of transactions is inaccurate.

**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
Schedule of Findings and Responses (Pertaining to Financial Statements)  
Year Ended June 30, 2008**

**II. CURRENT-YEAR FINDINGS PERTAINING TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED (Cont'd)**

**Finding No. 2008-2, Federal Grants Receivable and Schedule of Expenditures of Federal Awards (Cont'd)**

**Cause**

The Department of Homeland Security and Emergency Management became a new cabinet level department of the State of New Mexico, effective July 1, 2007. The majority of the affairs of the Department were previously handled by the New Mexico Department of Public Safety. As a result, there were transition issues which affected the books and records of the Department during the year and which were not completely resolved until the auditor assisted the department in reconciling the federal grant revenues, expenditures and receivables for the fiscal year. Additionally, the Department did not have effective internal control policies and procedures in place during the year which would provide for timely and accurate reconciliations between the Department's general ledger and its subsidiary grant records and spreadsheets.

**Recommendation**

We recommend that the Department establish effective internal control policies and procedures that require timely and accurate reconciliations of grant receivables, grant revenue and grant expenditures between the Department's general ledger and its subsidiary grant records and spreadsheets. This will help to ensure that grant reporting to grantor agencies is accurate and timely. We further recommend that draw downs for reimbursement of federal grant expenditures from grantor agencies be timely submitted, preferably monthly.

**Entity Response and Corrective Action Plan**

We agree with the audit finding and have developed and implemented internal controls, policies and detailed procedures to ensure timely and accurate reconciliation of grant receivables, grant revenues and expenditures. The policies include required monthly draws for reimbursement of federal grant expenditures and reconciliation of trial balances on a monthly basis for all funds.

**Finding 2008-3 - Late Delivery of Audit Report to State Auditor's Office**

**Condition**

The June 30, 2008 fiscal year financial and compliance audit of the Department of Homeland Security and Emergency Management was not submitted to the State Auditor's Office by the required due date of December 15, 2008. The audit report was submitted February 17, 2009.

**Criteria**

Subsection A of 2.2.2.9 (2.2.2 NMAC), Requirements for Contracting and Conducting Audits of Agencies, and the audit contract requires that audit reports for state agencies are due no later than 60 days after the Financial Control Division of the Department of Finance and Administration provides the State Auditor with notice that the agency's books and records are ready and available for audit; however, the deadline cannot exceed beyond December 15<sup>th</sup>.



**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
Schedule of Findings and Responses (Pertaining to Financial Statements)  
Year Ended June 30, 2008**

**II. CURRENT-YEAR FINDINGS PERTAINING TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED (Cont'd)**

**Finding 2008-3 - Late Delivery of Audit Report to State Auditor's Office (Cont'd)**

**Effect**

Since the audit report was not delivered to State Auditor's Office by December 15, 2008, this is in noncompliance with State Auditor Rule 2.2.2.9 A and the provisions of the audit contract.

**Cause**

The Department of Homeland Security and Emergency Management became a new cabinet level department of the State of New Mexico, effective July 1, 2007. The majority of the affairs of the Department were previously handled by the New Mexico Department of Public Safety. As a result, there were transition issues which affected the books and records of the Department during the year and which were not completely resolved until the auditor assisted the department in reconciling the records resulting from the transition.

Grants Receivable as of June 30, 2008 was understated by approximately \$9,640,865, Federal grant revenue was understated by approximately \$7,329,345, and Interest in the State General Fund Investment Pool was overstated by \$2,071,844. In addition, the auditor was short-staffed due to illness which further delayed the completion of the audit.

**Recommendation**

We recommend that the audit report be delivered to State Auditor's Office by the contracted delivery date and in compliance with State Auditor Rule 2.2.2.9 A and the provisions of the audit contract.

**Entity Response and Corrective Action Plan**

The Department worked with the Auditor relating to the unforeseen staffing issue during the contracted audit period. In addition, because the audit was based on a transition year and required DHSEM to wait for financial information from the Department of Public Safety and the transfer of funds from the Department of Finance and Administration, this delayed the reconciliation and audit readiness of DHSEM books and records. We have developed and implemented a process of monthly reconciliation and verification of financial records and books. This will ensure audit readiness for future financial audits.

**STATE OF NEW MEXICO**  
**DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT**  
**Schedule of Findings and Responses (Pertaining to Financial Statements)**  
**Year Ended June 30, 2008**

**II. CURRENT-YEAR FINDINGS PERTAINING TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED (Cont'd)**

**Finding No. 2008-4, Reconciliation of Interest in the State General Fund Investment Pool (Cash)**

**Condition**

During our test work of the Department's cash transactions, we noted that a deposit entry was posted on June 30, 2008, increasing the cash balance in the General Fund (SHARE Fund No. 20050) by \$2,239,542. The posting was from the receipt of cash from federal grant reimbursements which was actually received in September 2008, after the June 30, 2008 fiscal year end. The deposit entry was posted to the general ledger, in error, as of June 30, 2008, in the incorrect accounting period; however, the SHARE accounting system accepted the transaction as posted on June 30, 2008 since the books are held open at year end for approximately three months. As a result, the cash balance in the General Fund (SHARE Fund No. 20050) was overstated at June 30, 2008 by \$2,239,542. Additionally, since the State Treasurer also utilizes the same SHARE general ledger accounting system to reflect the State Treasurer's cash balance in the same account, the State Treasurer's cash balance was also overstated by the same amount.

The SHARE accounting system was implemented in July 2006. Prior to SHARE being implemented, the Department and the State Treasurer had separately maintained records which allowed for a reconciliation process. However, both Department and the State Treasurer are now using the same SHARE general ledger accounting system as a means of tracking the cash balance in the Department's cash accounts. Therefore, there is no reconciliation process which is conducted between Department's general ledger cash account balances (the Department's interest in the State General Fund Investment Pool) and the balances maintained by the State Treasurer.

**Criteria**

Effective internal control policies and procedures require the timely and accurate reconciliations of cash balances between the Department's general ledger cash account balances (the Department's Interest in the State General Fund Investment Pool) and the balance maintained by the NM State Treasurer's Office. This is necessary in order to ensure cash transactions are completely and accurately recorded in the general ledger and in the correct accounting period.

**Effect**

There is an increased risk that errors could go undetected and that cash balances could be reported inaccurately.

**Cause**

The Department posted the \$2,239,542 deposit in the wrong accounting period, in error, but did not have cash reconciliation procedures in place to detect the posting error. In addition, since the State Treasurer utilizes the same SHARE general ledger accounting system to track the State Treasurer's cash balance in the same account, this error could have gone undetected.

**STATE OF NEW MEXICO**  
**DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT**  
**Schedule of Findings and Responses (Pertaining to Financial Statements)**  
**Year Ended June 30, 2008**

**II. CURRENT-YEAR FINDINGS PERTAINING TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED (Cont'd)**

**Finding No. 2008-4, Reconciliation of Interest in the State General Fund Investment Pool (Cash)**  
**(Cont'd)**

**Recommendation**

We recommend that the Department establish effective internal control policies and procedures for the cash reconciliation process and to ensure that cash transactions are posted accurately and in the proper accounting period.

**Entity Response and Corrective Action Plan**

The Department has implemented internal controls, policies and procedures for timely accurate reconciliations of cash balances. During the fiscal year, the Department was in transition into a stand alone agency which required the Department to work with the Office of the State Treasurer in setting up proper accounting codes, which proved to be a time consuming process. The Department acknowledges that during this time some accounts were not posted correctly, but as stated, corrective action was taken and a verification tracking system is in place.

**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
June 30, 2008**

**Financial Statement Preparation**

The financial statements were prepared by the auditors with the assistance of the Department. Management is responsible for ensuring that the books and records adequately support the preparation of financial statements in accordance with generally accepted accounting principles and that records are current and in balance.

**Exit Conference**

An exit conference was held on February 17, 2009, to discuss the audit. The following individuals were in attendance:

**State of New Mexico - Department of Homeland Security and Emergency Management**

Tim Manning, State Executive Director  
John Martinez, Deputy State Executive Director  
Ben Rael, Chief Financial Officer  
Gayle Mascarenas, Budget Director  
Paula Flores, Grants Manager  
Maria Ortiz, HR Manager  
Michelle Varela, Finance Supervisor

**Independent Auditor - Robert J. Rivera, CPA, PC**

Robert J. Rivera, CPA