

STATE OF NEW MEXICO

**DEPARTMENT OF MILITARY AFFAIRS
AND STATE ARMORY BOARD**

FINANCIAL STATEMENTS

FOR THE YEAR-ENDED JUNE 30, 2018



INTRODUCTORY SECTION

**STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
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DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
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**STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
OFFICIAL ROSTER
FOR THE YEAR ENDED JUNE 30, 2018**

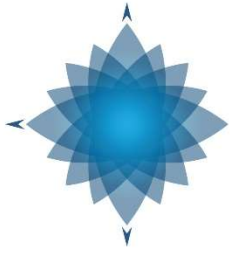
DEPARTMENT OF MILITARY AFFAIRS

Name	Title
Major General Kenneth A. Nava	Adjutant General
Theresa V. Martinez	Director of State Programs
Lawrence Montano	Deputy Director of State Programs/ Acting Chief Financial Officer
Tamara D. Murillo	Budget Director / Resource Manager

STATE ARMORY BOARD

Major General Kenneth A. Nava	Chairman
Command Sergeant Major Jerry H. Garcia	Secretary/Treasurer
Theresa V. Martinez	Executive Director
Colonel Steve Garcia	Member
Colonel (RET) James T. Keefner	Member
Command Sergeant Major (RET) John B. Torres	Member
LTC (RET) Mark Gonzales	Member
Joseph M. Dworak	Assistant Attorney General

FINANCIAL SECTION



Independent Auditor's Report

Major General Kenneth A. Nava, Adjutant General
State of New Mexico
Department of Military Affairs and State Armory Board
and
Mr. Wayne Johnson
New Mexico State Auditor
Santa Fe, New Mexico

Report of the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons of the general and major special revenue funds of the Department of Military Affairs/State Armory Board (the Department) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the government activities, each major fund, and the aggregate remaining fund information of the Department as of June 30, 2018, and the respective changes in financial position and the respective budgetary comparisons for the general fund and major special revenue funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the Department's financial statements, and the combining and individual fund financial statements, and the budgetary comparisons. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the other schedules required by 2.2.2 NMAC are also not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2018, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Department's internal control over financial reporting and compliance.

Integrity Accounting + Consulting, LLC

Integrity Accounting & Consulting, LLC
Albuquerque, NM

October 29, 2018

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
STATEMENT OF NET POSITION
GOVERNMENT-WIDE
As of June 30, 2018

	<u>Governmental Activities</u>
Assets and deferred inflows of resources:	
Assets:	
Current assets	
Investment in State Treasurer General	
Fund Investment Pool	\$ 772,388
Petty cash	200
Receivables	4,195
Due from other state agencies	1,484,068
Due from federal government	7,018,052
Total current assets	<u>9,278,903</u>
Non-current assets:	
Capital assets not being depreciated	10,344,078
Capital assets being depreciated	198,871,402
Less accumulated depreciation	<u>(121,912,091)</u>
Total capital assets, net of depreciation	<u>87,303,389</u>
Total assets	<u>96,582,292</u>
Deferred Outflows of Resources:	
Total deferred outflows of resources	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 96,582,292</u>
Liabilities, deferred inflows of resources and net position	
Liabilities:	
Current liabilities	
Cash overdraft	\$ 3,357,058
Accounts payable	2,090,043
Accrued salaries payable	151,576
Accrued payroll liabilities	163,682
Other accrued liabilities	1,279
Due to components of the state	53,959
Due to State General Fund	3,465,283
Receipts held in suspense	16,737
Compensated absences - current portion	331,111
Total current liabilities	<u>9,630,728</u>
Long-term liabilities:	
Compensated absences payable	82,778
Contingent liability	<u>125,000</u>
Total liabilities	<u>9,838,506</u>
Deferred Inflows of Resources:	
Total deferred inflows of resources	<u>-</u>
Net position:	
Net investment in capital assets	87,303,389
Restricted	
Special revenue funds	231,288
Unrestricted	<u>(790,891)</u>
Total net position	<u>86,743,786</u>
Total liabilities, deferred inflows of resources and net position:	<u>\$ 96,582,292</u>

See independent auditors' report.

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

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
STATEMENT OF ACTIVITIES
GOVERNMENT-WIDE
For The Year Ended June 30, 2018

	Governmental Activities
Expenses:	
Public Safety	\$ 18,879,814
Depreciation expense	6,691,930
Total program expenses	25,571,744
Program revenues:	
Federal grants - operating	13,451,097
Federal grants - capital	2,168,738
State-federal pass-through grants	1,047,126
Total program revenues	16,666,961
Net program (expense) revenue	(8,904,783)
General revenues and (expenses):	
Transfer - State General Fund appropriations	8,057,200
Transfer - Severance tax bond appropriations (capital projects)	299,266
Transfer - General obligation bond appropriations (capital projects)	141,993
Transfer - To General Services Department	(45,974)
Transfer - Reversions to state general fund - FY17	(1,656,660)
Interest income	12,958
Miscellaneous revenue	75,140
Total general revenues and expenses	6,883,923
Change in net position	(2,020,860)
Beginning net position	90,504,542
Restatement	(1,739,896)
Beginning net position, as restated	88,764,646
Ending net position	\$ 86,743,786

See independent auditors' report.
The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
BALANCE SHEET
GOVERNMENTAL FUNDS
As of June 30, 2018

	Major Funds				Non-Major Funds	Total Governmental Funds
	General Fund	Adjutant General Emergency (07000)	Service Members' Life Insurance (93200)	Armory Improv. Capital Projects (89700)	Other Funds	
Assets and deferred inflows of resources:						
Assets:						
Investment in State Treasurer General						
Fund Investment Pool	\$ 9,643	188,880	413,189	-	160,676	772,388
Petty cash	200	-	-	-	-	200
Receivables	4,195	-	-	-	-	4,195
Due from other funds	-	-	-	7,502	-	7,502
Due from other state agencies	267	1,478,035	-	-	5,767	1,484,069
Due from federal government	6,441,153	136,455	-	440,443	-	7,018,051
Total assets	<u>\$ 6,455,458</u>	<u>1,803,370</u>	<u>413,189</u>	<u>447,945</u>	<u>166,443</u>	<u>9,286,405</u>
Deferred Outflows of Resources:						
Total deferred outflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>6,455,458</u>	<u>1,803,370</u>	<u>413,189</u>	<u>447,945</u>	<u>166,443</u>	<u>9,286,405</u>
Liabilities, deferred inflows of resources and fund balance						
Liabilities:						
Investment overdraft	\$ 3,017,071	-	-	339,987	-	3,357,058
Accounts payable	1,748,295	127,379	123,426	90,943	-	2,090,043
Accrued salaries payable	151,576	-	-	-	-	151,576
Accrued payroll liabilities	163,682	-	-	-	-	163,682
Other accrued liabilities	1,111	-	168	-	-	1,279
Due to other funds	7,502	-	-	-	-	7,502
Due to components of the state	53,959	-	-	-	-	53,959
Due to State General Fund	1,490,562	1,675,991	218,350	73,935	6,446	3,465,284
Receipts held in suspense	16,737	-	-	-	-	16,737
Total liabilities	<u>6,650,495</u>	<u>1,803,370</u>	<u>341,944</u>	<u>504,865</u>	<u>6,446</u>	<u>9,307,120</u>
Deferred Inflows of Resources:						
Unavailable revenues - grants	<u>2,122,414</u>	<u>1,426,783</u>	<u>-</u>	<u>439,839</u>	<u>-</u>	<u>3,989,036</u>
Total deferred inflows of resources	<u>2,122,414</u>	<u>1,426,783</u>	<u>-</u>	<u>439,839</u>	<u>-</u>	<u>3,989,036</u>
Fund balance:						
Nonspendable	200	-	-	-	-	200
Restricted						
Service Members' Life Insurance						
Reimbursements	-	-	71,245	-	-	71,245
Financial assistance for NM						
Guard members' families	-	-	-	-	159,997	159,997
Purchase land for joint operation and first responder campus	-	-	-	46	-	46
Unassigned	<u>(2,317,651)</u>	<u>(1,426,783)</u>	<u>-</u>	<u>(496,805)</u>	<u>-</u>	<u>(4,241,239)</u>
Total fund balance	<u>(2,317,451)</u>	<u>(1,426,783)</u>	<u>71,245</u>	<u>(496,759)</u>	<u>159,997</u>	<u>(4,009,751)</u>
Total liabilities, deferred inflows of resources and fund balances:	<u>\$ 6,455,458</u>	<u>1,803,370</u>	<u>413,189</u>	<u>447,945</u>	<u>166,443</u>	<u>9,286,405</u>

See independent auditors' report.
The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
GOVERNMENT-WIDE STATEMENT OF NET POSITION
As of June 30, 2018

Total fund balance - Governmental funds	\$	(4,009,751)
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds.		87,303,389
Unavailable deferred inflows of revenues from grant funds not reimbursed within sixty days after year end are not considered "available" revenues and are considered to be deferred inflows of resources in the fund financial statements, but are considered revenue in the Statement of Activities		3,989,036
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. Long-term liabilities at year-end consist of:		
Contingent liability	\$ (125,000)	
Current compensated absences	(331,111)	
Noncurrent compensated absences	\$ <u>(82,778)</u>	(538,889)
Rounding		<u>1</u>
Net position for governmental activities	\$	<u><u>86,743,786</u></u>

See independent auditors' report.
The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
NON-MAJOR GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For The Year Ended June 30, 2018

	Major Funds			Non-Major Funds	Total Governmental Funds	
	General Fund	Adjutant General Emergency (07000)	Service Members' Life Insurance (93200)	Armory Improv. Capital Projects (89700)		Other Funds
Revenues:						
Federal sources	\$ 13,315,370	-	-	2,638,624	-	15,953,994
State-federal pass-through grants	190,550	-	-	-	-	190,550
Other grants	-	-	-	-	-	-
Interest on investments	3,488	-	9,471	-	-	12,959
Miscellaneous revenue	67,942	-	588	-	6,610	75,140
Total revenues	<u>13,577,350</u>	<u>-</u>	<u>10,059</u>	<u>2,638,624</u>	<u>6,610</u>	<u>16,232,643</u>
Expenditures:						
Public Safety						
Current:						
Personal services and benefits	8,665,916	714,284	-	-	-	9,380,200
Contractual services	2,613,740	193,865	-	137,857	276	2,945,738
Other costs	4,938,706	95,159	1,235,219	-	-	6,269,084
Capital outlay	3,069,601	73,096	-	2,980,477	440,983	6,564,157
Total expenditures	<u>19,287,963</u>	<u>1,076,404</u>	<u>1,235,219</u>	<u>3,118,334</u>	<u>441,259</u>	<u>25,159,179</u>
Excess (deficiency) of revenue over expenditures	<u>(5,710,613)</u>	<u>(1,076,404)</u>	<u>(1,225,160)</u>	<u>(479,710)</u>	<u>(434,649)</u>	<u>(8,926,536)</u>
Other financing sources (uses)						
Severance tax bond						
proceed appropriations	-	-	-	-	367,558	367,558
General obligation bond						
proceed appropriations	-	-	-	-	141,993	141,993
Transfer - State General Fund appropriations	5,997,200	1,500,000	560,000	-	-	8,057,200
Transfer - To General Services Department	(45,974)	-	-	-	-	(45,974)
Transfer - Reversions to state general fund - FY18	(376,340)	(1,280,171)	-	(149)	-	(1,656,660)
Total other financing sources (uses):	<u>5,574,886</u>	<u>219,829</u>	<u>560,000</u>	<u>(149)</u>	<u>509,551</u>	<u>6,864,117</u>
Net change in fund balance	<u>(135,727)</u>	<u>(856,575)</u>	<u>(665,160)</u>	<u>(479,859)</u>	<u>74,902</u>	<u>(2,062,419)</u>
Beginning fund balance	<u>(2,181,724)</u>	<u>(570,208)</u>	<u>736,405</u>	<u>(16,900)</u>	<u>85,095</u>	<u>(1,947,332)</u>
Ending fund balance	<u>\$ (2,317,451)</u>	<u>(1,426,783)</u>	<u>71,245</u>	<u>(496,759)</u>	<u>159,997</u>	<u>(4,009,751)</u>

See independent auditors' report.
The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2018**

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

Net change in fund balances (deficit) - total governmental funds \$ (2,062,419)

Governmental funds report capital outlays as expenditures. However in the

Capital expenditures recorded as capital outlay or other expenses 6,453,225

Depreciation expense on capital assets is reported in the government-wide (6,691,930)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Change in deferred inflows of resources related to grants 454,124

The issuance of long-term debt (e.g. bonds, notes, capital leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however has any effect on net position. Also, governmental funds report the effect of premiums and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

(Increase)/decrease in compensated absences (48,862)

(Increase)/decrease in contingent liabilities (125,000)

Expenditures in the statement of activities that do not provide current financial resources are not reported as expenditures in the funds

Rounding 2

Change in net position of governmental activities \$ (2,020,860)

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
GENERAL FUND - STATE ARMORY BOARD FUND (99200) - MAJOR FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND NET ASSETS BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
For The Year Ended June 30, 2018

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance Favorable (Unfavorable)
Revenues				
Federal grants-operating	\$ 16,074,000	16,336,700	13,505,920	(2,830,780)
State-federal pass through grants	-	-	-	-
Miscellaneous revenue	23,900	23,900	15,971	(7,929)
Building - Rental or Lease	52,500	52,500	27,727	(24,773)
Land - Rental or Lease	14,400	14,400	14,000	(400)
Land royalties	-	-	157	157
Interest on investments	900	900	3,488	2,588
Total revenues	16,165,700	16,428,400	13,567,263	(2,861,137)
Expenditures				
P-721 Expenditures				
Personal services and employee benefits	8,810,000	8,955,400	8,665,916	289,484
Contractual services	3,769,900	3,948,600	2,613,740	1,334,860
Other	9,583,000	9,521,600	4,929,063	4,592,537
Capital outlay	-	-	3,069,601	(3,069,601)
Total P-721 expenditures	22,162,900	22,425,600	19,278,320	3,147,280
Excess (deficiency) of revenues over expenditures	(5,997,200)	(5,997,200)	(5,711,057)	286,143
Other Financing Sources (Uses)				
State general fund appropriations	5,997,200	5,997,200	5,997,200	-
Transfer - To General Services Department	-	-	(45,974)	(45,974)
Reversion to state general fund FY18	-	-	(375,896)	(375,896)
Net interagency transfers and financial sources (uses)	5,997,200	5,997,200	5,575,330	(421,870)
Net change in fund balance	\$ -	-	(135,727)	(135,727)
Reconciliation of Budgetary Basis to Fund Financial Statement				
Total budget basis expenditures for fiscal year 2018:			\$ 19,278,320	
Adjustments:				
Accounts payable that required a request to pay prior-year bills out of the FY2019 budget			-	
Prior year accounts payable paid out of FY2018 budget			-	
Rounding			-	
Total GAAP Basis Expenditures for the fiscal year ended June 30, 2018:			\$ 19,278,320	

See independent auditors' report.
The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
GENERAL FUND - DEPT OF MILITARY AFFAIRS FUND (06900) - MAJOR FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND NET ASSETS BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
For The Year Ended June 30, 2018

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance Favorable (Unfavorable)
Revenues				
Federal grants-operating	-	-	-	-
State-federal pass through grants	-	-	-	-
Miscellaneous revenue	\$ -	4,905	4,905	-
Building - Rental or Lease	-	7,388	5,182	(2,206)
Land - Rental or Lease	-	-	-	-
Land royalties	-	-	-	-
Interest on investments	-	-	-	-
Total revenues	-	12,293	10,087	(2,206)
Expenditures				
P-721 Expenditures				
Personal services and employee benefits	-	-	-	-
Contractual services	-	-	-	-
Other	-	12,293	9,643	2,650
Capital outlay	-	-	-	-
Total P-721 expenditures	-	12,293	9,643	2,650
Excess (deficiency) of revenues over expenditures	-	-	444	444
Other Financing Sources (Uses)				
State general fund appropriations	-	-	-	-
Reversion to state general fund FY18	-	-	(444)	(444)
Net interagency transfers and financial sources (uses)	-	-	(444)	(444)
Net change in fund balance	\$ -	-	-	-
Reconciliation of Budgetary Basis to Fund Financial Statement				
Total budget basis expenditures for fiscal year 2018:			\$ 9,643	
Adjustments:				
Accounts payable that required a request to pay prior-year bills out of the FY2019 budget			-	
Prior year accounts payable paid out of FY2018 budget			-	
Rounding			-	
Total GAAP Basis Expenditures for the fiscal year ended June 30, 2018:			\$ 9,643	

See independent auditors' report.
The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
ADJUTANT GENERAL EMERGENCY SPECIAL REVENUE FUND (07000) - MAJOR FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND NET ASSETS BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
For The Year Ended June 30, 2018

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance Favorable (Unfavorable)
Revenues				
Federal grants-operating	\$ -	-	-	-
Total revenues	-	-	-	-
Reissued prior year budget	-	-	-	
Total resources	-	-	-	
Expenditures				
Current (Public Safety):				
Personal services and employee benefits	-	900,000	714,284	185,716
Contractual services	-	450,000	193,865	256,135
Other	-	150,000	95,159	54,841
Capital outlay	-	-	73,096	(73,096)
Total expenditures	-	1,500,000	1,076,404	423,596
Excess (deficiency) of revenues over expenditures	-	(1,500,000)	(1,076,404)	423,596
Other Financing Sources (Uses)				
State general fund appropriations	-	1,500,000	1,500,000	-
Reversion to state general fund FY18	-	-	(1,280,171)	(1,280,171)
Net interagency transfers and financial sources (uses)	-	1,500,000	219,829	(1,280,171)
Net change in fund balance	-	-	(856,575)	(856,575)
Reconciliation of Budgetary Basis to Fund Financial Statement				
Total budget basis expenditures for fiscal year 2018:			\$ 1,076,404	
Adjustments:				
Accounts payable that required a request to pay prior-year bills out of the FY2019 budget			-	
Prior year accounts payable paid out of FY2018 budget			-	
Rounding			-	
Total GAAP Basis Expenditures for the fiscal year ended June 30, 2018:			\$ 1,076,404	

See independent auditors' report.
The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
SERVICE MEMBERS' LIFE INSURANCE REIMBURSEMENT FUND (93200) - MAJOR FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND NET ASSETS BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
For The Year Ended June 30, 2018

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance Favorable (Unfavorable)
Revenues				
Federal grants-operating	-	-	-	-
State-federal pass through grants	-	-	-	-
Miscellaneous revenue	-	-	588	588
Total revenues	-	-	588	588
Reissued prior year budget	-	670,000	-	
Total resources	-	670,000	588	
Expenditures				
P-721 Expenditures				
Personal services and employee benefits	-	-	-	-
Contractual services	-	-	-	-
Other	560,000	1,230,000	1,228,076	1,924
Capital outlay	-	-	-	-
Total P-721 expenditures	560,000	1,230,000	1,228,076	1,924
Excess (deficiency) of revenues over expenditures	(560,000)	(560,000)	(1,227,488)	(667,488)
Other Financing Sources (Uses)				
State general fund appropriations	560,000	560,000	560,000	-
Compensation appropriation	-	-	-	-
Intraagency transfer	-	-	-	-
Reversion to state general fund FY17	-	-	-	-
Net interagency transfers and financial sources (uses)	560,000	560,000	560,000	-
Net change in fund balance	-	-	(667,488)	(667,488)
Reconciliation of Budgetary Basis to Fund Financial Statement				
Total budget basis expenditures for fiscal year 2018:			\$ 1,228,076	
Adjustments:				
Accounts payable that required a request to pay prior-year bills out of the FY2019 budget			-	
Prior year accounts payable paid out of FY2017 budget			7,143	
Rounding			-	
Total GAAP Basis Expenditures for the fiscal year ended June 30, 2018:			\$ 1,235,219	

See independent auditors' report.
The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - AGENCY FUNDS
As of June 30, 2018

		<u>Agency Funds</u>
Assets		
Cash in local banks	\$	<u>38,793</u>
Total assets	\$	<u><u>38,793</u></u>
Liabilities		
Deposits held for others	\$	<u>38,793</u>
Total liabilities	\$	<u><u>38,793</u></u>

See independent auditors' report.
The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 1 – HISTORY AND FUNCTION

Department of Military Affairs

The Department of Military Affairs (Section 20-3-1 to 20-3-3, NMSA, 1978) consists of the following divisions:

1. The Office of the Adjutant General
2. Three subordinate military divisions:
 - a. the Army National Guard Division;
 - b. the Air National Guard Division;
 - c. the State Defense Force Division
3. The Civil Air Patrol Division
4. Subordinate support agencies, including:
 - a. the Selective Service Office;
 - b. the State Armory Board;
 - c. the State Programs Office;
 - d. the United States Property and Fiscal Office;
 - e. such other agencies, administrative staffs and clerical staffs necessary for departmental operation which the Adjutant General may by regulation prescribe.

The Adjutant General is the military chief of staff to the Governor and is the head of the Department of Military Affairs. Even though the Adjutant General is appointed by the Governor, the Adjutant General has decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

State Armory Board

The State Armory Board was created by Laws of 1925, Chapter 113, (Sections 20-8-1 through 20-8-6, NMSA, 1978) and consists of the Adjutant General and six other members, one of whom must be a commissioned officer of the National Guard. The members of the Board are appointed by the Governor.

The State Armory Board is in charge of all facilities owned, rented or leased by State for use by the National Guard. The Board also prescribes and promulgates rules and regulations as it deems necessary to direct local armory boards in managing and controlling those facilities, renting them to the public and accounting for the revenue derived from them.

In addition, the State Armory Board is authorized to acquire, sell or exchange property as necessary to carry out the military duties and is responsible for the construction, maintenance and operation of arsenals, armories, stables, quarters, campgrounds and rifle ranges, depots, storehouses and other facilities used by the National Guard of this state.

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The Department is part of the primary government of the State of New Mexico, and its financial data should be included with the financial data of the State. The Department is a component unit of the executive branch and these financial statements include all funds, programs and activities over which the Adjutant General has oversight responsibility. The Department is a user organization of the *Statewide Human Resource, Accounting, and Management Reporting System (SHARE)*. The service organization is the Department of Finance and Administration (DFA).

The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is accountable and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body, and either it is able to impose its will on that organization, or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

In evaluating how to define the Department, for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in GASB-14. The first 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 interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters.

A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Based upon the application of these criteria, the Department has no component units.

STATE OF NEW MEXICO
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

B. Basis of Accounting/Measurement Focus

The accounts of the Department are organized on the basis of 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, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government-Wide Financial Statements

The Department's Government-Wide Financial Statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of Governmental and Business-Type Activities for the Department accompanied by a total column. Fiduciary activities of the Department are not included in these statements.

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the Department's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows. The types of transactions reported as program revenues for the Department include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Appropriations from the State General Fund not included among program revenues are reported instead as general revenue.

Certain eliminations have been made to interfund activities, payables, and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, those transactions between governmental and business-type activities have not been eliminated.

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net position and changes in net position presented in the Government-Wide financial statements.

The Department reports the general fund as a major governmental fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Revenues are provided through funded primarily from appropriations from the State of New Mexico

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

General Fund and by cost-sharing agreements with the National Guard Bureau of the Federal government. Expenditures include all costs associated with the daily operation of the Department except for items included in other funds. The general fund is comprised the of the Department of Military Affairs Fund (SHARE Fund #06900) and the State Armory Board Fund (SHARE Fund #99200). Separate budgets are created for each fund. Both funds are reverting funds to the State General Fund. For presentation purposes, the funds are aggregated together in the basic financial statements. Separate combining statements are also presented as supplementary information.

In addition, the Department reports the following other major funds:

Adjutant General's Emergency Fund – Special revenue fund –To account for state appropriations for emergencies declared by the Governor in which the National Guard is utilized. Authorized by Section 20-2-3A and 20-1-6, NMSA, 1978 Comp. Unobligated and unused state funds are reverting to the State General Fund. (SHARE Fund #07000)

Service Members' Life Insurance Reimbursement Fund – Special revenue fund –To account for state appropriations for reimbursement to New Mexico armed service members' life insurance premiums. Authorized by Section 20-4-7.3, NMSA 1978. This fund is non-reverting to the State General Fund. (SHARE Fund #93200)

Armory Improvements Capital Projects Fund – Capital projects fund –To account for federal and state appropriations for construction, upgrades, and improvements on statewide armories and other NM National Guard facilities. Unused and unobligated state funds are reverting to the State General Fund. (SHARE Fund #89700)

All governmental funds are accounted for on a spending or “current financial resources” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets, deferred outflows of resources, current liabilities, and deferred inflows of resources are included on the Balance Sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 90 days after year-end) are recognized when due. Revenues are available if collected within the current period or soon enough afterwards to pay liabilities of the current period. The Department considers revenues to be available if collected within ninety days of the end of the fiscal year. The primary revenue sources, which have been treated as susceptible to accrual by the Department are intergovernmental revenues. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met and the susceptible to accrual criteria have been met.

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

Under the terms of grant agreements, the Department funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Department's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

Proprietary Fund Financial Statements

Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, and a Statement of Cash Flows for each major proprietary fund and for the non-major funds aggregated.

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities (whether current or noncurrent), and deferred inflows of resources are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

Operating revenues, such as charges for services, in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues, such as subsidies/grants and investment earnings, are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

The Department does not report any funds as proprietary funds.

Fiduciary Fund Financial Statements

Fiduciary fund financial statements include a Statement of Net Position. The Department's fiduciary funds are Agency Funds, which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Agency funds are accounted for on a spending or "economic resources" measurement focus and the accrual basis of accounting as are the proprietary funds explained above. The Department has one agency fund, as described below:

Local Armory Board Funds – The State Armory Board oversees the amounts collected and used by the various armory boards throughout the state. The collective balances of these Local Armory Boards are presented in the accompanying financial statements as an agency fund of the Department. (SHARE Fund #20470)

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

C. Assets, Liabilities and Equity

Cash Equivalents

The Department's cash and cash equivalents are considered to be cash on hand and demand deposits and short-term investments with original maturities of three months or less from the date of acquisition held by the Local Armory Boards.

Investments

The Department's investments consist of amounts held in the State Treasurer General Fund Investment Pool. State law and regulations regulate this pool. Investment in the pool is reported at carrying amount, which reasonably estimates fair value.

Receivables and Payables

Receivables from and payables to external parties are reported separately and are not offset in the financial statements unless a right of offset exists.

Receivables primarily consist of amounts due from state and federal agencies for expenses incurred as part of joint operating agreements.

All federal grants are on a reimbursement basis. 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, unearned revenue balances represent overdraw of cash (advances) in excess of modified accrual basis expenditures. Generally, receivable or unearned revenue balances caused by differences in the timing of cash reimbursements and expenditures 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.

In accordance with Article IV Section 32 of the New Mexico Constitution [Remission of debts due state or municipalities], the Department does not write-off amounts owed to it by any individual, association, company, or other agency. The Department maintains a list of all amounts owed to it to ensure no amounts are erroneously written off. The Department considers all of its receivables as fully collectible. As a result, an allowance for uncollectible accounts is not reflected in these financials.

STATE OF NEW MEXICO
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

Inventories and Prepaid Items

Inventories in governmental funds consist of expendable supplies held for consumption, and are valued at cost using a first-in, first-out (FIFO) method. Expendable supplies are accounted for using the consumption method. Proprietary fund inventories are recorded at the lower of cost or market on a first-in, first-out basis, and consist of operating supplies held for use in operations and are recorded as expenditures when consumed rather than when purchased. The Department currently does not hold any items in inventory.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Pursuant to the implementation of GASB Statement No. 34, the historical cost of infrastructure assets, (retroactive to 1979) are included as part of the governmental capital assets reported in the government wide statements. Information technology equipment including software is being capitalized and included in machinery and equipment in accordance with NMAC 2.20.1.9 C (5). Donated capital assets are recorded at estimated fair market value at the date of donation. Capital assets that have been disposed of are recorded as deletions on the government-wide financial statements. Accumulated depreciation is adjusted for all deletions.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense capitalized by the Department during the current fiscal year was \$-0-. No interest was included as part of the cost of capital assets under construction.

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Type</u>	<u>Years</u>
Land	Perpetuity
Construction in progress	Perpetuity
Buildings and improvements	30 - 40
Machinery and equipment	5 - 15

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

Analysis of Impairment

Management reviews long-lived assets and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In management's opinion, there is no impairment of such Department assets at June 30, 2018.

Deferred Outflows of Resources

In addition to assets, the balance sheet reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a use of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenditure) until that time. The Department does not have any items that qualify for reporting in this category.

Deferred Inflows of Resources

In addition to liabilities, the balance sheet reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Revenue must be susceptible to accrual (measurable and available to finance expenditures of the current fiscal period) to be recognized.

If assets are recognized in connection with a transaction, but those assets are not yet available to finance expenditures of the current fiscal period, then the assets must be offset by a corresponding liability for deferred inflows of resources.

The Department has one type of item which arises under the modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue – grants are reported only in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The Department has recorded \$3,989,036 related to grants that are considered “unavailable”.

Compensated Absences

Full-time permanent employees are granted vacation benefits in varying amounts to specified maximums depending on their tenure with the Department. Accumulated unused vacation may be carried from one calendar year to another but the amount of annual leave carryover cannot exceed 240 hours.

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 sick leave which has been accrued represents the hours earned at June 30, 2018, 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.

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

A liability for compensated absences is recorded as a liability in the government-wide financial statements. The liability is not reported in the governmental fund balance sheet unless it was actually due and payable at year end for payments due to retired or terminated employees.

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of fund net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as debt issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

Fund Balance

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy based primarily on the extent to which the organization is bound to honor constraints on the specific purpose for which amounts in the funds can be spent.

Governmental Fund Financial Statements. In accordance with GASBS No. 54, the Department classifies fund balances in the governmental funds as follows:

Nonspendable Fund Balance includes fund balance amounts that cannot be spent either because they are not in spendable form or because of legal/contractual requirements. Examples are Prepaid Expenses and Inventory.

Spendable Fund Balance includes Restricted, Committed, Assigned, and Unassigned designations:

Restricted includes fund balance amounts that are limited for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed includes fund balance amounts that are obligated to a specific purpose which are internally imposed by the government through formal action at the highest level of decision-making authority. These commitments can only be overturned by a like action.

Assigned includes spendable fund balance a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
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FOR THE YEAR ENDED JUNE 30, 2018

Unassigned includes residual positive fund balances within the General Fund, which have not been classified within the other above-mentioned categories. Unassigned Fund Balances may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

When both restricted and unrestricted resources are available for use, it is the Department's policy to use restricted resources first, then unrestricted resources (committed, assigned, and unassigned) as they are needed. When unrestricted resources (committed, assigned, and unassigned) are available for use in the General Fund, it is the Department's policy to use unassigned resources first, then assigned, and then committed as needed. When unrestricted resources (committed, assigned, and unassigned) are available for use in any other governmental fund, it is the Department's policy to use committed resources first, then assigned, and then unassigned as needed.

The Department does not have a formal minimum fund balance requirement.

Net Position

Government-wide and Proprietary Fund Financial Statements. The government-wide and business types fund financial statements utilize a net position presentation. Net position are categorized as net investment in capital assets, restricted, and unrestricted. There was no related debt as of fiscal year-end.

Net Investment in Capital Assets – is intended to reflect the portion of net position 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), 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. These are assets which have a legally enforceable third-party (statutory or granting agency) limitation on their use. Legally enforceable means that a government can be compelled by an external party, such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for purposes specified by the legislation. Generally, the enforceability of an enabling legislation restriction is determined by professional judgment. If it is determined that the restrictions continue to be legally enforceable, then for the purposes of financial reporting, the restricted net position should not reflect any reduction for resources used for purposes not stipulated by the enabling legislation. The government-wide statement of net position reports \$231,288 of restricted net position that are considered as restricted by enabling legislation.

Unrestricted Assets – represent unrestricted liquid assets. These are comprised off all net position that is not otherwise classified as restricted or invested in capital assets. The Department allocates expenses to restricted or unrestricted resources based on the budgeted source of funds. It is the Department's practice to apply restricted resources prior to unrestricted funds when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

STATE OF NEW MEXICO
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

D. Inter-Fund Transactions

Interfund activity is reported as loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or between proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

E. Income Taxes

As a governmental entity, the Department is not subject to federal or state income taxes. The Department is generally no longer subject to examination by federal and state taxing authorities for years prior to 2015. For the year ended June 30, 2018, no interest or penalties were recorded or included in the financial statements.

F. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The State Legislature makes annual appropriations to the Department which lapse at fiscal yearend. 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 program 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 Appropriations Act. The budget amounts shown in the financial statements are the original and final authorized amounts as legally revised during the year. The legal level of budgetary control is at the appropriation program level.

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

STATE OF NEW MEXICO
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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 Appropriations and Senate Finance Committees. The final outcome of those hearings is 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 program 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.
5. Formal budgetary integration is employed as a management control device during the fiscal year for the General and Special Revenue Funds. Budgets are prepared for each project within a capital projects fund. These budgets are for the entire project and may span two or more years, depending on the project.
6. The budget for the General Fund and all special revenue funds are adopted on a modified accrual basis of accounting. Per the General Appropriations Act, Laws of 2006, Chapter 109, Section 3, Subsections O and N, the budgetary basis is modified accrual. However, there is statutory exception. The budget is adopted on the modified accrual basis of accounting except for accounts payable accrued at the end of the fiscal year that do not get paid by the statutory deadline per Section 6-10-4 NMSA 1978. Those accounts payable require approval to pay prior year bills out of the FY 2019 budget. The Armory Improvements Capital Projects Fund and the STB Capital Outlay Fund operate under a multiyear budget.
7. The original budgets differ from the final budgets presented in the budget comparison statements by amendments made during the fiscal year. All budgetary adjustments must be approved by the Department of Finance and Administration Budget Division and the Legislative Finance Committees.
8. Appropriations lapse at the end of the fiscal year for those goods and services received by June 30th.

In accordance with the requirements of Section 2.2.2.10.A(2)(b) of 2.2.2 NMAC, Requirements for Conducting Audits of Agencies and the allowance made by GASB 34, footnote 53, the budgetary comparison statements prepared on the modified accrual basis have been included as part of the basic financial statements. The accompanying Statements of Revenue, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual present comparisons of the legally adopted budget with actual data on a budgetary basis.

Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) a reconciliation of resultant basis, perspective, equity and timing differences in the excess (deficiency) of revenues and other sources of financial resources for the year ended

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June 30, 2018 is presented. Reconciliations between the Non-GAAP budgetary basis amounts and the financial statements on the GAAP basis by fund can be found on each individual budgetary statement.

Each year the Legislature approves multiple year appropriations, which the State considers as continuing appropriations. The Legislature authorizes these appropriations for two to five years; however, it does not identify the authorized amount by fiscal year. Consequently, the appropriation is budgeted in its entirety the first year the Legislature authorizes it. The unexpended portion of the budget is carried forward as the next year's beginning budget balance until either the project period has expired or the appropriation has been fully expended. The budget presentations in these financial statements are consistent with this budgeting methodology.

NOTE 3 – CASH AND CASH EQUIVALENTS

A. Cash – Investment in State Treasurer General Fund Investment Pool

The following is a summary of the investments in the State Treasurer General Fund Investment Pool balances by SHARE account number, as reported by the New Mexico Department of Finance and Administration (DFA):

<u>Fund</u>	<u>SHARE Agency-Acct</u>	<u>Location</u>	<u>Balance Per State Treasurer</u>	<u>Balance Per Financials</u>
State Armory Board	70500-99200	STO	\$ (3,017,071)	(3,017,071)
Department of Military Affairs	70500-06900	STO	9,643	9,643
Adjutant General's Emergency Fund	70500-07000	STO	188,880	188,880
NM Military Family Relief Fund	70500-10580	STO	159,997	159,997
Service Members' Life Insurance Reimbursement Fund	70500-93200	STO	413,189	413,189
Armory Improvements	70500-89700	STO	(339,987)	(339,987)
STB Capital Outlay	70500-89200	STO	679	679
Total			<u>\$ (2,584,670)</u>	<u>(2,584,670)</u>

Certain funds of the Department have overdrawn their available balance in the State Treasurer General Fund Investment Pool. These are presented in the accompanying financial statements as an investment overdraft in the General Fund (99200) and in the Armory Improvements fund (89700). The overdrafts are expected to be resolved by the receipt of amounts due from the federal government totaling \$6,441,153.

The Financial Control Division of the Department of Finance and Administration (DFA) permits the Department to override into a negative cash portion in its General Fund and Capital Projects Funds, since reimbursement is often received for expenditures from either a federal government agency or DFA itself from severance tax bonds proceeds.

The Department is required by State law to have all of its funds on deposit in the State General Fund Investment Pool (SGFIP) which is managed by the New Mexico State Treasurer's Office (STO).

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In general, state statutes require that all deposits held by the State Treasurer be collateralized at a minimum level of fifty (50) percent. Collateral pledged to secure these deposits is monitored by the STO and STO issues separate financial statements which disclose the collateral pledged to secure these deposits.

The State Treasurer invests excess cash balances on behalf of certain earmarked funds of state agencies identified by state statute and local governments. Interest earnings are distributed based on average outstanding cash balances for local governments and the state agencies where interest is allowed to be earned. All other interest earnings are transferred to the State General Fund.

The State Treasurer deposits public monies with New Mexico financial institutions in denominations which generally are in excess of the \$250,000 in insurance coverage provided by federal agencies. Accordingly, the State Treasurer requires that 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 institution's operating results and capital. Collateral for the fiscal agent account is required in amounts equal to 50% of the average investment balance.

The Department follows GASB Statement 40, Deposit and Investment Risk Disclosures. GASBS 40 requires certain disclosures when balances with financial institutions exceed depository insurance. Please see the State Treasurer's annual audit report for the GASB 40 disclosure of the investments. That report may be obtained by writing to the New Mexico State Treasurer's Office, P.O. Box 608, Santa Fe, NM 87504-0608.

Credit Risk for Investments

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

Interest Rate Risk for Investments

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

Custodial Credit Risk—Investment Accounts

The Office of the State Treasurer (STO) monitors the collateral for deposits it holds, which would include the investment accounts of the Department. Therefore, collateralization of the Department's accounts is the responsibility of the STO. The STO has its own separate annual independent audit in which the collateral pledged to secure these deposits is disclosed. By law, the Department is not permitted to have any investments other than what is held at the State Treasurer's Office and the Department did not have any other investments during the year ended June 30, 2018. There is no custodial risk at the Department's level since the Department's investments are under the contract of the Office of the State Treasurer.

Statewide Cash Reconciliation

On August 13, 2018, the New Mexico Department of Finance and Administration, Financial Control Division issued a memorandum regarding the reconciliation of the State General Fund Investment Pool. It stated that the Financial Control Division in collaboration with the State Treasurer's Office, implemented a comprehensive reconciliation model that compared aggregated agency claims on the State General Fund Investment Pool and to the associated resources held by the State Treasurer's Office. This process now has been reviewed by the IPAs performing audits of the General Fund, the Department of Finance and

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Administration and the State of New Mexico's Comprehensive Annual Financial Report. The reviews have deemed the process to be sound and that FCD is fully compliant with the requirements of the monthly process.

For fiscal year 2018 the following assertions are provided:

1. As of June 30, 2018, resources held in the pool were equivalent to the corresponding business unit claims on those resources.
2. All claims as recorded in SHARE shall be honored at face value.

With specific reference to the Department, the Department has provided copies of the referenced diagnostic reports to the IPA. The Department has also explained and provided copies to the IPA what policies and procedures are in place that ensures that the cash balances in SHARE are correct to the extent that the Department has control (i.e. collection, depositing, reconciling, bank statement validation, and documentation of outstanding reconciling items) of the cash it receives and transfers to the state general fund and other state agencies pursuant to state statute.

The Department developed internal reconciliation procedures to ensure that cash receipts and disbursements recorded in the SHARE system are in fact transactions that have been initiated by the Department. Monthly reconciliation procedures throughout the fiscal year, include, but are not limited to validation of: allotments, deposits, expenditures, all general entries, operating transfers, payroll expenditures/payroll liabilities and a review of outstanding warrants. The Department conducts ongoing tracking of all cash deposits and financial transactions to ensure that they are accurately recorded and posted to the SHARE system. This monthly internal reconciliation of cash receipts and disbursements flowing through the Department share of the state general fund investment pool provides management assurance that the balance reflected in State General Fund Investment Pool account is accurate as of the end of the reporting period.

B. Cash – Agency Funds – Local Armory Board Bank Accounts

At June 30, 2018, cash (checking) accounts for the armory boards consisted of the following noninterest bearing accounts:

<u>Armory</u>	<u>Bank Name</u>	<u>Balance</u> <u>06/30/18</u>	<u>Armory</u>	<u>Bank Name</u>	<u>Balance</u> <u>06/30/18</u>
Alamogordo	Western Bank	\$ 617	Las Cruces	Bank of America	\$ 2,574
Albuquerque	Wells Fargo	307	Las Vegas	Bank of Las Vegas	355
Belen	Wells Fargo	148	Rio Rancho	US NM Fed CU	3,923
Clayton	Farmers & Stockmens	620	Roswell	Wells Fargo	2,196
Clovis	Western Bank	178	93rd BDE	Sunflower Bank	20,036
Espanola	Del Norte CU	2,189	Santa Rosa	Wells Fargo	1,157
Farmington	Citizens Bank	303	Springer	Wells Fargo	123
Gallup	Wells Fargo	1,270	Taos	Peoples Bank	16
Hobbs	Western Commerce	1,512	615th Santa Fe	Wells Fargo	1,209
Joint Forces HQ	Century Bank	\$ 60			
				Total	\$ <u><u>38,793</u></u>

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All funds held in bank accounts by the various local armory boards are covered by FDIC insurance totaling up to \$250,000 per bank, per Board. As a result, all bank accounts are fully covered.

C. Summary of Cash

<u>Type</u>	<u>Amount</u>
Governmental funds:	
Investment in State Treasurer General Fund	
Investment Pool	\$ (2,584,670)
Petty cash - held onsite	200
Subtotal governmental funds	<u>(2,584,470)</u>
Agency funds:	
Local Armory Board accounts	<u>38,793</u>
Subtotal agency funds	<u>38,793</u>
Total cash and investments	<u>\$ (2,545,677)</u>

NOTE 4 – RECEIVABLES

A. Due From Federal Government

At June 30, 2018, \$7,018,052 was due from the U. S. Department of Defense, National Guard Bureau for National Guard Military Operations and Maintenance Projects and for the National Guard Youth Challenge Program.

B. Due From Other State Agencies

A summary of receivables from other agencies as of June 30, 2018 is as follows:

Due From		Due To			
Agency/Fund	Agency Name	Agency/Fund	Amount	Purpose of Receivable	
79500/00000	Dept of Homeland Security and Emergency Management	70500/99200	\$ 267	Shared costs	
79500/00000	Dept of Homeland Security and Emergency Management	70500/07000	1,290,328	Emergency responder services	
79500/20052	Dept of Finance and Administration	70500/07000	187,706	Excess reversion	
34100/60900	Dept of Finance and Administration	70500/89200	5,767	Excess reversion	
Receivable from other agencies			<u>\$ 1,484,068</u>		

Severance tax and general obligation bonds:

The State Board of Finance sells severance tax bonds and general obligation bonds as authorized by the State Legislature and hold the proceeds until such time that the Department requests such funds as reimbursement for expenditures. In accordance with GASBS 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the Department recognizes revenue and any related expenses related to severance tax bonds and general obligation bonds when all applicable eligibility requirements have been met. As a result, amounts shown as receivable at June 30, 2018 relate only to those amounts in which

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applicable eligibility requirements have been met, but the drawdowns have not yet been received by the Department. As of June 30, 2018, the amounts receivable totaled \$-0-.

C. Due From Others

Additional receivables from others totaled \$4,195 as of June 30, 2018. These amounts are all considered to be collectible and as a result, no allowance had been created for potential uncollectible amounts.

NOTE 5 – CAPITAL ASSETS

A summary of capital assets and changes occurring during the year ended June 30, 2018 follows. Land and construction in progress are not subject to depreciation.

<u>Capital Asset Description</u>	<u>Balance 06/30/17</u>	<u>Additions</u>	<u>Adj</u>	<u>Balance 06/30/18</u>
Capital assets not being depreciated:				
Land	\$ 9,394,287	949,791	(1,679,071)	8,665,007
Capital assets being depreciated:				
Buildings and Improvements	194,963,155	5,236,786	(4,385,732)	195,814,209
Machinery and Equipment	4,469,618	266,648	-	4,736,266
Subtotal capital assets being depreciated	199,432,773	5,503,434	(4,385,732)	200,550,475
Less accumulated depreciation:				
Buildings and Improvements	(116,244,020)	(6,238,238)	4,324,907	(118,157,351)
Machinery and Equipment	(3,301,050)	(453,692)	-	(3,754,742)
Total accumulated depreciation	(119,545,070)	(6,691,930)	4,324,907	(121,912,093)
Total capital assets being depreciated	79,887,703	(1,188,496)	(60,825)	78,638,382
Total capital assets (net)	\$ <u>89,281,990</u>	<u>(238,705)</u>	<u>(1,739,896)</u>	<u>87,303,389</u>

The Department does not have any debt related to capital assets at June 30, 2018. Depreciation expense for the year was \$6,691,930 and is attributable to public safety functions throughout the Department.

Buildings and improvements purchased with federal funds are considered state property. However, if a building or other asset purchased with federal funds is sold or disposed of prior to 25 years, the funding agency is entitled to a portion of the proceeds equal to the percentage of federal funds used to acquire the asset.

During the year ended June 30, 2018, assets with an original acquisition cost of under \$5,000 (the current capitalization threshold) were removed from the Department's reported capital assets. Additionally, the Department removed assets that were related to Armories that had been turned over to local communities in previous years. The removed assets had cumulative acquisition costs totaling \$6,064,803 and net a book value of \$1,739,896. These are reflected in the Adjustment column above. Beginning net position was restated to reflect the removal of these assets.

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NOTE 6 – DUE TO STATE GENERAL FUND (REVERSIONS)

Unexpended cash balances of State General Fund monies appropriated to the Department, as well as various other miscellaneous funds collected by the Department, are reverted to the State General Fund.

Amounts due to the State General Fund at June 30, 2018, were as follows:

<u>General Fund - State Armory Board (99200)</u>	<u>Amount</u>
Due to State General Fund	\$ 1,475,448
Stale-dated warrants	<u>15,115</u>
Total 99200	<u>\$ 1,490,563</u>
Reversion identified by fiscal year appropriation	
Fiscal year 2012	\$ 130,537
Fiscal year 2013	91,888
Fiscal year 2014	18,864
Fiscal year 2015	61,499
Fiscal year 2016	351,973
Fiscal year 2017	427,803
Fiscal year 2018	375,896
Other amounts	16,988
Stale-dated warrants	<u>15,115</u>
Total reversions - Fund 99200	<u>\$ 1,490,563</u>
Adjutant General's Emergency Fund (07000)	
Due to State General Fund	\$ 1,655,981
Stale-dated warrants	<u>20,009</u>
Total 07000	<u>\$ 1,675,990</u>
Reversion identified by fiscal year appropriation	
Fiscal year 2016	\$ 796,838
Fiscal year 2018	859,143
Stale-dated warrants	<u>20,009</u>
Total reversions - Fund 07000	<u>\$ 1,675,990</u>
Armory Improvements - Capital Projects Fund (89700)	
Due to State General Fund	\$ 71,794
Stale-dated warrants	<u>2,141</u>
Total 89700	<u>\$ 73,935</u>
Reversion identified by fiscal year appropriation	
Fiscal year 2010	\$ 1,499
Fiscal year 2011	53,696
Fiscal year 2013	4,753
Fiscal year 2018	149
Other amounts	11,697
Stale-dated warrants	<u>2,141</u>
Total reversions - Fund 89700	<u>\$ 73,935</u>

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STB Capital Outlay - Capital Projects Fund (89200)

Due to State General Fund	\$	6,446
State-dated warrants		<u>-</u>
Total 89200	\$	<u><u>6,446</u></u>

Reversion identified by fiscal year appropriation

Fiscal year 2015	\$	119
Other amounts		<u>6,327</u>
Total reversions - Fund 89200	\$	<u><u>6,446</u></u>

Service Members' Life Insurance Reimbursement (93200)

State-dated warrants	\$	<u>218,350</u>
Total 93200	\$	<u><u>218,350</u></u>

NOTE 7 – DUE TO COMPONENTS OF THE STATE

The due to components of the state consists of the following as of June 30, 2018:

<u>Component</u>	<u>Purpose</u>	<u>Amount</u>
University of New Mexico	Tuition	\$ 1,741
New Mexico State University	Tuition	<u>52,218</u>
		<u><u>\$ 53,959</u></u>

NOTE 8 – LONG-TERM DEBT

A summary of changes in the compensated absences payable for the year ended June 30, 2018, is as follows:

	Balance			Amount due	
	<u>06/30/17</u>	<u>Increases</u>	<u>Decreases</u>	<u>06/30/18</u>	<u>within one</u>
					<u>year</u>
Governmental activities					
Compensated absences	\$ <u>365,027</u>	<u>730,182</u>	<u>(681,320)</u>	<u>413,889</u>	<u>331,111</u>
Total governmental activities	\$ <u><u>365,027</u></u>	<u><u>730,182</u></u>	<u><u>(681,320)</u></u>	<u><u>413,889</u></u>	<u><u>331,111</u></u>

Compensated absences are paid with General Fund resources, Fund 99200.

NOTE 9 – INTERFUND BALANCES

The Department recorded interfund receivables/payables to reflect temporary loans between funds. The primary purpose of the loans was to cover cash shortages until grant reimbursements or other funding measures could be obtained.

The following interfund balances existed at June 30, 2018:

<u>Due To Fund</u>	<u>Fund #</u>	<u>Due From Fund</u>	<u>Fund #</u>	<u>Amount</u>
Armory				
Improvement Fund	89700	General Fund	99200	\$ <u>7,502</u>
				<u><u>\$ 7,502</u></u>

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NOTE 10 – ENCUMBRANCES – MULTI-YEAR PROJECTS AND APPROPRIATIONS

There were no outstanding encumbrances related to the Department’s multi-year projects as of June 30, 2018.

NOTE 11 – OPERATING LEASES

The Department leases certain office equipment and an airport hangar under lease agreements with terms ranging from one year to five years with options to renew for additional one-year terms. All leases may be terminated at any time with sixty days’ notice if the New Mexico Legislature does not grant sufficient appropriation for the lease or if the Department decides that termination is necessary to protect the best interests of the State of New Mexico.

Buildings and Structures

The Agency leases airport hangar space at three locations throughout the State. The terms of the leases are for one year with additional renewal periods at the end of each lease year. All leases contain fiscal funding clauses.

Machinery & Equipment

The Agency leases various copiers and postage machines. The terms of the leases run from three to four years. The leases on the copy machines also provide for maintenance and copy charges. All leases contain fiscal funding clauses.

Vehicles

The Agency leases multiple vehicles on an annual basis from the New Mexico General Services Department. The cumulative expenditures for operating leases for the year ended June 30, 2018, were \$280,042. Future minimum rental payments under these operating leases are as follows:

Fiscal Year		
Ending June 30,	Amount	
2019	\$	16,040
2020		13,676
2021		11,228
2022		8,298
2023		922
Total	\$	<u>50,164</u>

NOTE 12 – LEASE REVENUE

The Department receives lease revenue from two cell tower providers from a tower that the Department owns, Verizon and Cricket. The amount of rent paid to the Department increases each year, 4% for Verizon and 2.5% for Cricket. The Department expects these leases to continue indefinitely. Expected future lease revenue under for the next five years is as follows:

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<u>Fiscal Year</u>		<u>Amount</u>
<u>Ending June 30,</u>		
2019	\$	42,896
2020		44,411
2021		45,980
2022		47,604
2023		49,270
Total	\$	<u>230,161</u>

The Department also receives lease revenue in the form of oil/gas royalties from a lease with Chevron Oil & Gas. For the year ended June 30, 2018, the total royalties recognized from this lease was \$157. The amounts earned vary depending upon the production rates achieved, so any amounts related to this lease have not been included in the above expected future lease revenue.

NOTE 13 – PERA PENSION PLAN

Compliant with the requirements of Government Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions, the State of New Mexico has implemented the standard for the fiscal year ending June 30, 2018.

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

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

The Department's contributions to PERA for the years ended June 30, 2018, 2017, and 2016 were \$974,236, \$966,099 and \$936,224, respectively, which equal the required contributions for each year.

NOTE 14 – DEFERRED COMPENSATION PLAN

The State of New Mexico offers state, local government and school district employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all state employees and those local government and school district employees whose employers have elected participation in the plan, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

There are employees that are making contributions to the Deferred Compensation Plan. Neither the Department nor the State of New Mexico make any contributions to the Deferred Compensation Plan. All

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contributions withheld from participants by the Department have been paid to the New Mexico Public Employee's Retirement Association, which administers the plan.

NOTE 15 – POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN

Compliant with the requirements of Government Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, the State of New Mexico has implemented this standard for the fiscal year ended June 30, 2018.

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

Information concerning the net liability, benefit expense, and benefit-related deferred inflows and deferred outflows of resources of the primary government will be contained in the State of New Mexico Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2018 and will be available, when issued, from the Office of the State Controller, Room 166, Bataan Memorial Building, 407 Galisteo Street, Santa Fe, New Mexico, 87501.

The Department's contributions to the RHCA for the years ended June 30, 2018, 2017, and 2016 were \$114,684, \$113,727 and \$110,147, respectively, which equal the required contributions for each year.

NOTE 16 – RISK MANAGEMENT

State statute requires the Risk Management Division of the General Services Department to be responsible for the acquisition and administration of all insurance purchased by the State. Since 1977 various statutes have been passed which allows Risk Management Division to insure, self-insure or use a combination of both in all areas of coverage. The Department participates in the risk pool managed by Risk Management Division and annually pays insurance premiums.

The coverage provided by the Risk Management Division 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 01, 2017, through June 30, 2018. The primary area where the Department may retain the risk of loss is liability for breach of contract. The Department has not experienced any losses for breach of contract.

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NOTE 17 – CONTINGENCIES

The Department receives funding pursuant to various grant programs. The grant programs are often subject to additional audits by agents of the granting agency, the purpose of which is to ensure compliance with the specific conditions of the grant that, if not met, could require the Department to refund amounts received to the granting agency. The Department carefully monitors grant requirements and believes it has met all such conditions.

The Department is party to various claims and legal proceedings, which normally occur in the course of governmental operations. While the outcome of the proceedings cannot be predicted, the Department believes that any potential liability would be covered through insurance, supplemental appropriation or would be immaterial to the financial statements.

During the period subsequent to June 30, 2018 and prior to the issuance of the financial statements, the Department became subject to a judgment related to a wrongful termination lawsuit. While much of the judgment will be covered through insurance, the Department is exposed to a liability related to back-pay that will not be covered by insurance of \$125,000. Because the liability has a high probability of being awarded and is estimable, a long-term contingent liability for \$125,000 was accrued in the Government-Wide Statement of Net Position.

NOTE 18 – COMMITMENTS

The Department has entered into a Military Construction Cooperative Agreement with the National Guard Bureau to assist in the design and construction of the Alamogordo Readiness Center and the Las Cruces Readiness Center. The estimated costs for the Alamogordo project called for \$6,510,879 in federal construction costs with a state share of \$110,115. The Las Cruces project has an estimated total cost of \$14,607,000 with the state's share being \$5,260,000. Severance tax bonds totaling \$200,000 have been authorized to assist in funding the Department's share of the A&E costs. General Obligation Bonds totaling \$6,000,000 have been approved by the voters of New Mexico as per the Laws of 2016, Chapter 82, section 10.D. The breakout is as follows: \$4,000,000 to plan, design and construct the Las Cruces Readiness Center and \$2,000,000 for improvements, repairs and demolition and to purchase and install systems to improve energy efficiency and for staging areas at facilities statewide. Additionally, The Department received \$1,700,000 in an appropriation from the Capital Program Repair Fund to purchase lands for a multiagency joint operation and first responder campus in Santa Fe County. At the conclusion of the projects, the property will be transferred to the Department to be depreciated over its useful life.

The Department has entered into a cooperative agreement with the National Guard Bureau to operate a project to be known as the New Mexico Youth ChalleNGe Academy. This program will operate a residential training program targeting at risk youth that have dropped out of high school.

**STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 19 – FUND DEFICITS AND NON-COMPLIANCE

Deficit Fund Balances

The following funds incurred a deficit fund balance at June 30, 2018:

<u>Fund</u>	<u>Fund Type</u>	<u>Amount</u>
General Fund - 99200	General Fund	\$ (2,317,451)
Adjutant General Emergency Fund - 07000	Special Revenue Fund	(1,426,783)
Armory Improvement Fund - 89700	Capital Projects Fund	\$ (496,759)

Legal Compliance with Budget

The Department was in compliance with Section 6-6-6 of the New Mexico State Statues regarding legal compliance with approved budgets. No funds exceeded budgeted expenditures as of June 30, 2018.

NOTE 20 – RESTATEMENT OF NET POSITION

During the year ended June 30, 2018, the Department implemented a change in accounting practice and eliminated capital assets with original costs less than the current capitalization threshold of \$5,000. This resulted in the prior year ending capital assets being overstated by \$1,739,896. An adjustment was made to beginning net position on the government-wide financial statements to reflect this change.

NOTE 21 – EVALUATION OF SUBSEQUENT EVENTS

The Department has evaluated subsequent events through October 29, 2018, the date which the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
MAJOR GOVERNMENTAL FUNDS
BALANCE SHEET
GENERAL FUND - ALL SUBFUNDS
As of June 30, 2018

	State Armory Board (99200)	Department of Military Affairs (06900)	Total General Fund
Assets and deferred inflows of resources:			
Assets:			
Investment in State Treasurer General Fund Investment Pool	\$ -	9,643	9,643
Petty cash	200	-	200
Receivables	4,195	-	4,195
Due from other state agencies	267	-	267
Due from federal government	6,441,153	-	6,441,153
Total assets	<u>\$ 6,445,815</u>	<u>9,643</u>	<u>6,455,458</u>
Deferred Outflows of Resources:			
Total deferred outflows of resources	<u>-</u>	<u>-</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>6,445,815</u>	<u>9,643</u>	<u>6,455,458</u>
Liabilities, deferred inflows of resources and fund balance			
Liabilities:			
Investment overdraft	\$ 3,017,071	-	3,017,071
Accounts payable	1,738,652	9,643	1,748,295
Accrued salaries payable	151,576	-	151,576
Accrued payroll liabilities	163,682	-	163,682
Other accrued liabilities	1,111	-	1,111
Due to other funds	7,502	-	7,502
Due to components of the state	53,959	-	53,959
Due to State General Fund	1,490,562	-	1,490,562
Receipts held in suspense	16,737	-	16,737
Total liabilities	<u>6,640,852</u>	<u>9,643</u>	<u>6,650,495</u>
Deferred Inflows of Resources:			
Unavailable revenues - grants	2,122,414	-	2,122,414
Total deferred inflows of resources	<u>2,122,414</u>	<u>-</u>	<u>2,122,414</u>
Fund balance:			
Nonspendable	200	-	200
Unassigned	(2,317,651)	-	(2,317,651)
Total fund balance	<u>(2,317,451)</u>	<u>-</u>	<u>(2,317,451)</u>
Total liabilities, deferred inflows of resources and fund balances:	<u>\$ 6,445,815</u>	<u>9,643</u>	<u>6,455,458</u>

See independent auditors' report.
The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
MAJOR GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GENERAL FUND - ALL SUBFUNDS
For The Year Ended June 30, 2018

	State Armory Board (99200)	Department of Military Affairs (06900)	Total General Fund
Revenues:			
Federal sources	\$ 13,315,370	-	13,315,370
State-federal pass-through grants	190,550	-	190,550
Interest on investments	3,488	-	3,488
Miscellaneous revenue	57,855	10,087	67,942
Total revenues	<u>13,567,263</u>	<u>10,087</u>	<u>13,577,350</u>
Expenditures:			
Public Safety			
Current:			
Personal services and benefits	8,665,916	-	8,665,916
Contractual services	2,613,740	-	2,613,740
Other costs	4,929,063	9,643	4,938,706
Capital outlay	3,069,601	-	3,069,601
Total expenditures	<u>19,278,320</u>	<u>9,643</u>	<u>19,287,963</u>
Excess (deficiency) of revenue over expenditures	<u>(5,711,057)</u>	<u>444</u>	<u>(5,710,613)</u>
Other financing sources (uses)			
Transfer - State General Fund appropriations	5,997,200	-	5,997,200
Transfer - To General Services Department	(45,974)	-	(45,974)
Transfer - Reversions to state general fund - FY18	(375,896)	(444)	(376,340)
Total other financing sources (uses):	<u>5,575,330</u>	<u>(444)</u>	<u>5,574,886</u>
Net change in fund balance	<u>(135,727)</u>	<u>-</u>	<u>(135,727)</u>
Beginning fund balance	(2,181,724)	-	(2,181,724)
Ending fund balance	<u>\$ (2,317,451)</u>	<u>-</u>	<u>(2,317,451)</u>

See independent auditors' report.
The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018**

SPECIAL REVENUE FUNDS

NM Member Family Assistance – Provide financial assistance to members of the New Mexico National Guard and to their families suffering financial hardships. Authorized by Section 7-1-6.50, NMSA, 1978 Comp, the Laws of 2005, Chapter 220, the Laws of 2008, Chapter 13 and Laws of 2018, Chapter 4. This fund is non-reverting to the State General Fund. (SHARE Fund #10580)

CAPITAL PROJECT FUNDS

STB Capital Outlay – To account for expenditures related to severance tax bond issuances for construction, upgrades, and improvements on statewide armories and other NM National Guard facilities. Unused and unobligated state funds are reverting to the State General Fund at the conclusion of the appropriation period. (SHARE Fund #89200)

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
As of June 30, 2018

	<u>Special Revenue</u>	<u>Capital Projects</u>	
	NM Member Family Assistance Fund Fund 10580	STB Capital Outlay Fund 89200	Total Other Governmental Funds
Assets and deferred inflows of resources:			
Assets:			
Investment in State Treasurer General Fund Investment Pool	\$ 159,997	679	160,676
Due from other state agencies	-	5,767	5,767
Total assets	<u>\$ 159,997</u>	<u>6,446</u>	<u>166,443</u>
Deferred Outflows of Resources:			
Total deferred outflows of resources	<u>-</u>	<u>-</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>159,997</u>	<u>6,446</u>	<u>166,443</u>
Liabilities, deferred inflows of resources and fund balance			
Liabilities:			
Due to State General Fund	\$ -	6,446	6,446
Total liabilities	<u>-</u>	<u>6,446</u>	<u>6,446</u>
Deferred Inflows of Resources:			
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance:			
Restricted			
Financial assistance for NM Guard members' families	159,997	-	159,997
Total fund balance	<u>159,997</u>	<u>-</u>	<u>159,997</u>
Total liabilities, deferred inflows of resources and fund balances:	<u>\$ 159,997</u>	<u>6,446</u>	<u>166,443</u>

See independent auditors' report.
The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For The Year Ended June 30, 2018

	<u>Special Revenue</u>	<u>Capital Projects</u>	
	<u>NM Member Family Assistance Fund Fund 10580</u>	<u>STB Capital Outlay Fund 89200</u>	<u>Total Other Governmental Funds</u>
Revenues:			
Miscellaneous revenue	\$ 6,610	-	6,610
Total revenues	<u>6,610</u>	<u>-</u>	<u>6,610</u>
Expenditures:			
Public Safety			
Current:			
Contractual services	-	276	276
Capital outlay	-	440,983	440,983
Total expenditures	<u>-</u>	<u>441,259</u>	<u>441,259</u>
Excess (deficiency) of revenue over expenditures	<u>6,610</u>	<u>(441,259)</u>	<u>(434,649)</u>
Other financing sources (uses)			
Severance tax bond			
proceed appropriations	-	367,558	367,558
General obligation bond			
proceed appropriations	-	141,993	141,993
Transfer - State General Fund appropriations	-	-	-
Transfer - Compensation appropriation	-	-	-
Transfers in	-	-	-
Transfers out	-	-	-
Transfer - Reversions to state general fund - FY15	-	-	-
Total other financing sources (uses):	<u>-</u>	<u>509,551</u>	<u>509,551</u>
Net change in fund balance	<u>6,610</u>	<u>68,292</u>	<u>74,902</u>
Beginning fund balance	153,387	(68,292)	85,095
Ending fund balance	<u>\$ 159,997</u>	<u>-</u>	<u>159,997</u>

See independent auditors' report.
The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND NET ASSETS BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
STATE PROGRAMS (P-721)
GENERAL FUND - MAJOR FUND
SERVICE MEMBERS' LIFE INSURANCE REIMBURSEMENT FUND - MAJOR FUND
For The Year Ended June 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Federal grants-operating	\$ 16,074,000	16,336,700	13,505,920	(2,830,780)
Miscellaneous revenue	23,900	28,805	21,464	(7,341)
Building - Rental or Lease	52,500	59,888	32,909	(26,979)
Land - Rental or Lease	14,400	14,400	14,000	(400)
Land royalties	-	-	157	157
Interest on investments	900	900	3,488	
Total revenues	<u>16,164,800</u>	<u>16,439,793</u>	<u>13,574,450</u>	<u>(2,865,343)</u>
Expenditures				
P-721 Expenditures				
Personal services and employee benefits	8,810,000	8,955,400	8,665,916	289,484
Contractual services	3,769,900	3,948,600	2,613,740	1,334,860
Other	10,143,000	10,763,893	6,166,782	4,597,111
Capital outlay	-	-	3,069,601	(3,069,601)
Total P-721 expenditures	<u>22,722,900</u>	<u>23,667,893</u>	<u>20,516,039</u>	<u>3,151,854</u>
Excess (deficiency) of revenues over expenditures	<u>(6,558,100)</u>	<u>(7,228,100)</u>	<u>(6,941,589)</u>	<u>286,511</u>
Other Financing Sources (Uses)				
State general fund appropriations	6,557,200	6,557,200	6,557,200	-
Reversion to state general fund FY17	-	-	(376,340)	(376,340)
Net interagency transfers and financial sources (uses)	6,557,200	6,557,200	6,134,886	(422,314)
Net change in fund balance	<u>\$ (900)</u>	<u>(670,900)</u>	<u>(806,703)</u>	<u>(135,803)</u>
Reconciliation of Budgetary Basis to Fund Financial Statement				
Total budget basis expenditures for fiscal year 2018:			\$ 20,516,039	
Adjustments:				
Accounts payable that required a request to pay prior-year bills out of the FY2019 budget			-	
Prior year accounts payable paid out of FY2017 budget			7,143	
Rounding			-	
Total GAAP Basis Expenditures for the fiscal year ended June 30, 2018:			<u>\$ 20,523,182</u>	

P-721 is comprised of two types of funds, the General Fund, which is reverting (99200 & 06900) and the Service Members' Life Insurance Reimbursement Fund, which is a non-reverting special revenue fund (93200). Fund 99200 and Fund 06900 contain reversions to the State General Fund in the amount of \$363,477 and \$444, respectively.

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUNDS
For The Year Ended June 30, 2018

	<u>Balance</u> <u>June 30, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2018</u>
Assets				
Cash in local banks	\$ 61,568	81,218	(103,993)	38,793
Total assets	<u>61,568</u>	<u>81,218</u>	<u>(103,993)</u>	<u>38,793</u>
Liabilities				
Deposits held for others	61,568	81,218	(103,993)	38,793
Total liabilities	\$ <u>61,568</u>	<u>81,218</u>	<u>(103,993)</u>	<u>38,793</u>
Armory				
	<u>Balance</u> <u>June 30, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2018</u>
Alamogordo	\$ 630	990	(1,003)	617
Albuquerque	2,503	14,859	(17,055)	307
Belen	1,015	-	(867)	148
Clayton	620	-	-	620
Clovis	118	120	(60)	178
Espanola	5,270	933	(4,014)	2,189
Farmington	379	332	(408)	303
Gallup	-	1,270	-	1,270
Hobbs	1,616	-	(104)	1,512
Joint Forces HQ	27,498	2,893	(30,331)	60
Las Cruces	8,201	10,472	(16,099)	2,574
Las Vegas	67	500	(212)	355
Rio Rancho	1,519	11,412	(9,008)	3,923
Roswell	4,959	-	(2,763)	2,196
Santa Fe - 93rd BDE	6,082	34,507	(20,553)	20,036
Santa Fe - 615th	-	2,212	(1,003)	1,209
Santa Rosa	701	700	(244)	1,157
Springer	277	-	(154)	123
Taos	113	18	(115)	16
Total	\$ <u>61,568</u>	<u>81,218</u>	<u>(103,993)</u>	<u>38,793</u>

See independent auditors' report.
The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2018

<u>Federal Grantor/Pass-Through Program Title</u>	<u>Federal CFDA Number</u>	<u>Report Category</u>	<u>Adjusted Federal Awards Expended</u>	<u>Payments to Subrecipients</u>
U.S. Department of Defense				
National Guard Bureau				
National Guard Military Operations and Maintenance Projects:				
	12.401			
FACILITIES OPERATIONS AND MAINTENANCE				
		A01100, A01075, A01050		
W912J3-16-2-1001			\$ 356	-
W912J3-17-2-1001			4,104,237	-
W912J3-18-2-1001			2,955,593	-
ENVIRONMENTAL RESOURCE MGMT:				
		A02100,A02075		
W912J3-16-2-1002			424,490	-
W912J3-17-2-1002			436,459	-
W912J3-18-2-1002			367,347	-
PHYSICAL SECURITY:				
		A03100		
W912J3-17-2-1003			150,381	-
W912J3-18-2-1003			547,075	-
ELECTRONIC SECURITY:				
		A04100		
W912J3-17-2-1004			98,082	-
W912J3-18-2-1004			139,754	-
SUSTAINABLE RANGE PROGRAM:				
		A07100		
W912J3-17-2-1007			156,863	-
W912J3-18-2-1007			99,116	-
ANTI-TERRORISM PROGRAM MANAGER:				
		A10100		
W912J3-17-2-1010			7,795	-
W912J3-18-2-1010			64,347	-
AIR NAT. GUARD O&M:				
		A21000		
W912J3-17-2-1021			262,121	-
W912J3-18-2-1021			624,236	-
AIR NAT. GUARD ENVIRONMENT:				
		A22075		
W912J3-17-2-1022			13,960	-
W912J3-18-2-1022			41,881	-
DISTANCE LEARNING:				
		A40100		
W912J3-17-2-1040			142,480	-
W912J3-18-2-1040			260,689	-
Subtotal CFDA # 12.401			\$ 10,897,262	-

See independent auditors' report.

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2018

Federal Grantor/Pass-Through Program Title	Federal CFDA Number	Report Category	Adjusted Federal Awards Expended	Payments to Subrecipients
MILITARY CONSTRUCTION:	12.400			
W912J3-13-2-2001 (Alamogordo Readiness)		A120021	\$ 2,095,248	-
W912J3-13-2-2001 (Las Cruces Readiness)		A150034	73,489	-
Subtotal CFDA # 12.400			<u>2,168,737</u>	<u>-</u>
NATIONAL GUARD YOUTH CHALLENGE PROGRAM:	12.404	360000		
W912J3-16-2-4002			2,766	-
W912J3-17-2-4002			2,551,108	-
Subtotal CFDA # 12.404			<u>2,553,874</u>	<u>-</u>
TOTAL NATIONAL GUARD BUREAU			<u>15,619,873</u>	<u>-</u>
U.S. Department of Agriculture: Passed through the NM Public Education Department				
Child Nutrition Cluster:				
National School Lunch Program (NSLP)	10.555	360100	190,550	-
School Breakfast Program (SBP)	10.553	360100	<u>190,550</u>	<u>-</u>
TOTAL NM PUBLIC EDUCATION DEPT.			<u>190,550</u>	<u>-</u>
TOTAL FEDERAL AWARDS			<u>\$ 15,810,423</u>	<u>-</u>

Note 1. Basis for Presentation

The above Schedule of Expenditures of federal awards includes the federal grant activity of the Department and is presented on the accrual basis of accounting (see Note 1). There were no funds expended in the form of non-cash assistance for the grants during the year. The information in this schedule is presented in accordance with the requirements of the Uniform guidance. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in preparation of the basic financial statements.

Note 2 - Sub-recipients

The Department did not provide any federal awards to sub-recipients during the year.

Note 3 - 10% de minimus Indirect Cost Rate

The Department did not elect to use the allowed de minimus indirect cost rate.

Note 4 - Federally Funded Insurance

The Department has no federally funded insurance.

Note 5 - Reconciliation of Federal

Statement of Revenues, Expenditures and
Changes in Fund Balances:

Federal Sources	\$ 16,144,544
Deferred U.S. Department of Defense - NGB (2018)	3,132,461
Deferred U.S. Department of Defense - NGB (2017)	(3,458,181)
Other Adjustments	<u>(8,401)</u>
Schedule of Expenditures of Federal Awards	<u>15,810,423</u>

See independent auditors' report.

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS/STATE ARMORY BOARD
SCHEDULE OF SPECIAL, DEFICIENCY, SPECIFIC AND CAPITAL OUTLAY APPROPRIATIONS
For the Year Ended June 30, 2018

Description	SHARE Identifier #	Appropriation Period	Original Appropriation	Prior Year Expenditures	Current Expenditures	Approps Expired	Unencumbered Balances
Fund 89200							
Severance Tax Bonds Outstanding*							
Laws 2014 - Chapter 66, Section 5	14-1334	07/01/2014 - 06/30/2018	\$ 500,000	500,000	-	-	-
Laws 2015 - Chapter 3, Section 29	15-0893	07/01/2015 - 06/30/2019	200,000	199,724	276	-	-
Laws 2015 - Chapter 3, Section 29	15-0894	07/01/2015 - 06/30/2019	500,000	201,010	298,990	-	-
Total severance tax bonds outstanding			<u>1,200,000</u>	<u>900,734</u>	<u>299,266</u>	<u>-</u>	<u>-</u>
General Obligation Bonds Outstanding*							
Laws 2016 - Chapter 82, Section 10	16A5147	07/01/2017 - 06/30/2021	4,000,000	-	-	-	4,000,000
Laws 2016 - Chapter 82, Section 10	16A5148	07/01/2017 - 06/30/2021	2,000,000	-	141,993	-	1,858,007
			<u>6,000,000</u>	<u>-</u>	<u>141,993</u>	<u>-</u>	<u>5,858,007</u>
Fund 89700							
Appropriation From the Capitol Building Repair Fund							
Laws of 2015, Chapter 3, Section 55	15-1039	07/01/2015 - 06/30/2019	\$ 1,700,000	750,209	949,745	-	46
Total Amounts			<u>\$ 8,900,000</u>	<u>1,650,943</u>	<u>1,391,004</u>	<u>-</u>	<u>5,858,053</u>

*Revenue associated with severance tax bonds is recognized when eligibility requirements are met.

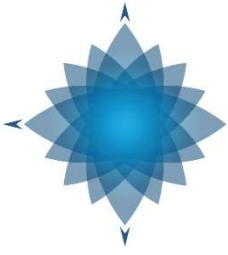
1. All unencumbered balances may be used during the appropriation period noted above.
2. The amounts shown as drawn above include amounts expended under the Art in Public Places Act, which requires that an amount equal to 1% of the total, up to \$200,000, be used for acquisition or commissioning of works of art in and around public buildings.

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
SCHEDULE OF INTERAGENCY TRANSFERS
For The Year Ended June 30, 2018

Description	Agency Transferred			Appropriation Period	Amount Transferred In
	From	From Fund	To Fund		
General Fund Appropriation	DFA	34101	99200	FY18	\$ 5,997,200
General Fund Appropriation	DFA	34101	93200	FY18	560,000
Executive order appropriation	DFA	34101	07000	FY18	1,500,000
					\$ 8,057,200

Description	Agency Transferred			Appropriation Period	Amount Transferred Out
	To	From Fund	To Fund		
General Fund Reversion	DFA	99200	34101	FY18	\$ 375,896
General Fund Reversion	DFA	99200	34101	FY18	444
General Fund Reversion	DFA	07000	34101	FY18	1,280,171
General Fund Reversion	DFA	89700	34101	FY18	149
Transfer of vehicle purchased	GSD	99200	36503	FY18	45,974
					\$ 1,702,634

See independent auditor's report.



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Independent Auditor's Report

Major General Kenneth A. Nava, Adjutant General
State of New Mexico
Department of Military Affairs and State Armory Board
and
Mr. Wayne Johnson
New Mexico State Auditor
Santa Fe, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons of the general fund and major special revenue funds of the Department of Military Affairs/State Armory Board (Department), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements and the combining and individual funds and related budgetary comparisons of the Department, presented as supplementary information, and have issued our report thereon dated October 29, 2018.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies: 2015-001

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items: 2007-002.

Department's Response to Findings

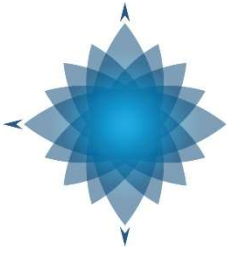
The Department's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Department's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion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

Purpose of this Report

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

Integrity Accounting + Consulting, LLC

Integrity Accounting & Consulting, LLC
Albuquerque, NM
October 29, 2018



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Independent Auditor's Report

Major General Kenneth A. Nava, Adjutant General
State of New Mexico
Department of Military Affairs and State Armory Board
and
Mr. Wayne Johnson
New Mexico State Auditor
Santa Fe, New Mexico

Report on Compliance for Each Major Federal Program

We have audited the Department of Military Affairs/State Armory Board's (the Department) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Department's major federal programs for the year ended June 30, 2018. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Department, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

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

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

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

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

Integrity Accounting + Consulting, LLC

Integrity Accounting & Consulting, LLC
Albuquerque, NM
October 29, 2018

**STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

SECTION I SUMMARY OF AUDIT RESULTS

Financial Statements:

- | | |
|--|------------|
| 1. Type of auditors' report issued | Unmodified |
| 2. Internal control over financial reporting: | |
| a. Material weakness identified? | No |
| b. Significant deficiencies identified not considered to be material weaknesses? | Yes |
| c. Noncompliance material to the financial statements noted? | Yes |

Federal Awards:

- | | |
|---|---|
| 1. Internal control over major programs: | |
| a. Material weaknesses identified? | No |
| b. Significant deficiencies identified not considered to be material weaknesses? | No |
| 2. Type of auditors' report issued on compliance for major programs | Unmodified |
| 3. Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance? | No |
| 4. Identification of major programs: | |
| <u>CFDA</u> | <u>Federal Program</u> |
| 12.401 | National Guard Military Operations and Maintenance Projects |
| 12.404 | National Guard Challenge Program |
| 5. Dollar threshold used to distinguish between type A and type B programs: | \$750,000 |
| 6. Auditee qualified as low-risk auditee? | No |

**STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

SECTION II FINDINGS – FINANCIAL STATEMENTS

<u>Finding</u>	<u>Status of Current and Prior Year Findings</u>	<u>Financial Statement Finding</u>	<u>Federal Awards Finding</u>
Prior Year Findings			
2007-002 {07-02} - Reversions to the State General Fund	Repeated/ Modified	Yes	No
2015-001 - Cash Management	Repeated/ Modified	Yes	No
Current Year Findings			
None			

PRIOR YEAR FINDINGS – REPEATED/MODIFIED

2007-002 [07-02] – Reversions to State General Fund – Material Non-compliance

Statement of Condition

As of June 30, 2018, the Department had a liability of \$3,465,283 owed to the State General Fund for unreserved and undesignated fund balances of reverting funds related to reversions and stale-dated warrants from the current and prior years that had not yet been made. These liabilities were not transferred to the State General Fund by the September 30 deadline.

<u>Fund</u>	<u>SHARE</u>		<u>Balance Due</u>
	<u>Agency-Acct</u>	<u>Year</u>	
State Armory Board	70500-99200	2012	\$ 130,537
State Armory Board	70500-99200	2013	91,888
State Armory Board	70500-99200	2014	18,864
State Armory Board	70500-99200	2015	61,499
State Armory Board	70500-99200	2016	351,973
State Armory Board	70500-99200	2017	427,803
State Armory Board	70500-99200	2018	363,477
Adjutant General's Emergency Fund	70500-07000	2016	796,838
Adjutant General's Emergency Fund	70500-07000	2018	859,143
Armory Improvement Fund	70500-89700	2010	1,499
Armory Improvement Fund	70500-89700	2011	53,696
Armory Improvement Fund	70500-89700	2013	4,753
Armory Improvement Fund	70500-89700	2018	149
STB Capital Outlay	70500-89200	2015	119
Stale dated warrants and other non-reversion amounts			290,627
			<u>\$ 3,452,865</u>

The Department did revert \$421,027.23 for Fund 07000 and \$443.61 for Fund 06900 for fiscal year 2018 by the due date, however the remaining 2018 reversions and prior outstanding reversions were not able to be submitted timely.

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

This is a repeat finding from prior audits. Due to operational cashflow constraints, the Department continues to struggle to make the reversions timely. The Department was able to submit \$421,470.84 in FY18 reversions, however it was not able to submit any other funds.

Criteria

The General Appropriations Act, Laws 2017, Chapter 6, Section 2 (General Provisions), requires any unencumbered balances in agency accounts remaining at the end of fiscal year 2018 shall revert to the general fund by October 1. In addition, Section 6-5-10, NMSA 1978 requires that all unreserved and undesignated fund balances in reverting funds and accounts as reflected in the central financial reporting and accounting system as of June 30, as adjusted, shall revert to the general fund within forty-five days of release of the audit report for that fiscal year.

Effect

The Department was in violation of the general provisions of the 2017 Appropriation Act, of Section 6-5-10, NMSA 1978, and with the State Audit Rule. Funds required to be reverted and returned to the State General Fund were not available to be appropriated by the Legislature for use in other areas of the State government.

Cause

The Department did not have the available cash to pay its current and outstanding reversions. The Department relies on receipt of federal receivables to pay its reversions, and delays in the receipt s of those funds negatively impacts the Department's ability to pay down its reversions owed.

Recommendation

We recommend that the Department work toward paying the outstanding balances due to the state general fund for prior years. We also recommend that the Department seek ways to better manage its available funds in order to allow for timely remittance of amounts to be reverted to the State General Fund.

Management Response

Concur.

The Department of Military Affairs is calculating the annual general fund reversions in accordance with Department of Finance and Administration's direction. The agency will revert funds as the funds become available in FY19.

Approximately half of DMA's reversions come from The Adjutant General's Emergency Fund (AGEF) (07000). DMA must have budget in place to respond to State Active Duty Emergencies when called out by the Governor. Historically, the New Mexico National Guard is responding to State Emergencies in May and June therefore, DMA requests additional funding via Executive Order to ensure the availability of funds through the end of the each fiscal year. This is in an effort to ensure the NMNG is ready to respond to fires or floods, unfortunately this often times results in unexpended budget. Another factor is the lengthy reimbursement process with FEMA via the NM Department of Homeland Security. The turnaround time for reimbursement is often not until the next fiscal year or later which limits the Department's ability to revert the AGEF funds within the prescribed timeframe. Currently, DMA has

**STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

reimbursements pending from the following State Active Duty / EMAC missions: Goliath, Dog Head, Hurricane Harvey (Texas), and Hurricane Maria (Puerto Rico).

In an effort to minimize these reversions, in FY 16 the Department requested from the NM Legislature in that the Adjutant General’s Emergency fund become a non-reverting multi-year fund. Reversions to this fund occur due to statewide emergencies (i.e. fires, flooding etc.) which generally occur at the end of any given fiscal year. If any federal revenues from prior years are received (i.e. FEMA or EMACs) those revenues cannot be recorded in the fiscal year in which the costs were incurred and therefore end up being current year reversions. These reimbursements can take as long as 2 years. This request to the NM Legislature was not approved. DMA is researching other avenues to present to the NM Legislature in an effort to ratify this issue.

The Federal government executes their budget via a Master Cooperative Funding Agreement by and between the Adjutant General and the National Guard Bureau. The Department pays all expenditures for the Federal programs up front and seeks reimbursement. The Federal reimbursement process can take a minimum of 30 to 75 days after the expenditures which, results in negative cash flow until the reimbursements are received from the Federal government. The Department cannot process the reversions with a negative cash flow.

In FY18 there were unforeseen circumstances in which the Federal Government was unable to reimburse the State in an efficient and timely manner. The Adjutant General and the United States Property and Fiscal Officer met and we believe the issue of receiving reimbursement timely has been resolved. The Department of Military Affairs (DMA) will continue reverting previous year's balances as cash becomes available. DMA continues to work on influencing reimbursements at the national level. We will also continue our ongoing efforts with the New Mexico Legislature to change the current law during the 2019 Legislative Session (60 day) to make the Adjutant General 's Emergency Fund (0700) a non-reverting fund. If passed and signed into law for FY20, this will eliminate our year end reversions going forward for the 0700 fund. The State Programs Director, “Acting” Chief Financial Officer and Finance Manager will continue to oversee the process for remitting reversions.

2015-001 – Cash Management – Significant Deficiency

Statement of Condition

While conducting the audit, it was observed that the Department had overdrawn its Investment in the State General Fund Investment Pool in certain funds. As of June 30, 2018, the Department showed the following overdrawn balances:

<u>Fund</u>	<u>SHARE</u>		<u>Balance Per</u>
	<u>Agency-Acct</u>	<u>Location</u>	
State Armory Board	70500-99200	STO	\$ (3,017,071)
Armory Improvement Fu	70500-89700	STO	(339,987)
			<u>\$ (3,357,058)</u>

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

This is a repeat finding from prior years. During the year ended June 30, 2017, the Department reported negative cash totaling \$184,941. Due to delays in the receipt of federal reimbursements, this amount increased significantly in FY18.

Criteria

Sound business practices hold that entities should spend only those funds available to them and should not overdraw cash holdings.

Effect

The Department has overdrawn its available cash balances and could be subject to oversight from other state agencies, as a result.

Cause

The Department did not effectively monitor its available cash balances to ensure adequate funding was available.

Recommendation

We recommend the Department monitor its cash balances and take those amounts into consideration when deciding on future projects.

Management Response

Concur.

The Adjutant General and the National Guard Bureau (NGB) have entered into a Master Cooperative Agreement (MCA) which establishes the terms and conditions applicable to the contribution and execution of NGB funds in support of the NM National Guard. New Mexico is a reimbursement state which means the Department pays for the goods and services up-front and seeks reimbursement from the federal government. The reimbursement process can take up to a minimum of 30 to 75 days after the expenditure is made. Projects cannot be delayed due to cash balance being insufficient, as this would cause the state to be in breach of the MCA. Unfortunately, this results in a negative cash flow until the reimbursements are received which also means the Department is unable to process reversions on a timely basis. The department is in the process of working with USPF0 and continues to make tremendous improvements in the reimbursement process and will continue to monitor the cash balances for each fund on a weekly basis. The Department also communicates directly with DFA to provide them updates on outstanding receivables from the federal government via the MCA.

The Department's Chief Financial Officer will continue to provide oversight to the cash management process with an expected reduction in overall cash deficiency by June 30, 2019.

**STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
OTHER DISCLOSURES
FOR THE YEAR ENDED JUNE 30, 2018**

A. AUDITOR PREPARED FINANCIAL STATEMENTS

Presentation: The accompanying financial statements are the responsibility of the Department and are based on information from the Department's financial records. Assistance was provided by Integrity Accounting & Consulting to the Department in preparing the financial statements.

B. EXIT CONFERENCE

The contents of the report for the Department of Military Affairs/State Armory Board were discussed on October 29, 2018. The following individuals were in attendance.

Department of Military Affairs/State Armory Board:

Major General Kenneth Nava	Adjutant General
Theresa Martinez	Director State Programs
Lawrence Montano	Deputy Director State Programs/Acting CFO
Sonya Carrasco-Trujillo	General Counsel
Tamara Murillo	Budget Director
Sandra Gonzales	Chief Procurement Officer
Edwin Quintana	MCFA/SGLI Manager
Ricardo Gonzales	Chief Information Officer

Integrity Accounting & Consulting:

Erick Robinson, CPA, CFE	Partner
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