

STATE OF NEW MEXICO

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

**AUDITED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

HINKLE & LANDERS, P. C.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

**STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
TABLE OF CONTENTS
FOR THE YEAR ENDED JUNE 30, 2008**

TABLE OF CONTENTS

INFORMATIONAL SECTION	<u>Page</u>
Table of Contents	i-ii
Official Roster	1
FINANCIAL SECTION	
Independent auditors' report	2-3
<u>Basic Financial Statements:</u>	
Government-Wide Statements:	
Statement of net assets	4
Statement of activities	5
Fund Financial Statements:	
Governmental Funds	
Balance sheet – governmental funds	6
Reconciliation of the governmental funds balance sheet to the statement of net assets	7
Statement of revenues, expenditures, and changes in fund balances – governmental funds	8
Reconciliation of the statement of revenues, expenditures, and changes in fund balances of governmental funds to the statement of activities	9
Statement of revenues, expenditures and changes fund balances – budget and actual – major governmental funds – General fund	10
Statement of revenues, expenditures and changes fund balances – budget and actual – major governmental funds – special revenue funds – Adjutant General Emergency	11
Fiduciary Funds	
Statement of Fiduciary Assets and Liabilities – agency funds	12
Notes to Financial Statements	13-35
SUPPLEMENTAL INFORMATION	
Combining balance sheet – General fund – All accounts	36
Combining statement of revenues, expenditures, and changes in fund balances – General fund – All accounts	37
Statement of revenues, expenditures and changes fund balances – multi-year budget and actual – major governmental fund – capital projects fund – Armory Improvements	38-41
Combining balance sheet – non-major governmental funds	42
Combining statement of revenues, expenditures, and changes in fund balances – non-major governmental funds	43

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
TABLE OF CONTENTS
FOR THE YEAR ENDED JUNE 30, 2008

Statement of revenues, expenditures and changes fund	
balances – multi-year budget and actual – special revenue fund	
– Service Members’ Life Insurance Reimbursement Fund	44
Combining Schedule of Changes in Assets and Liabilities – fiduciary funds	45
Fund Descriptions	46-47

OTHER SUPPLEMENTAL INFORMATION:

Schedule of expenditures of federal awards	48-49
Schedule Of Special, Deficiency, Specific And Capital Outlay Appropriations	50
Schedule of Joint Powers Agreements	51-52
Report on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with governmental auditing standards	53-54
Report on compliance with requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133	55-56
Schedule of findings and questioned costs	57-62
Exit conference	63

**STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
OFFICIAL ROSTER
AS OF JUNE 30, 2008**

DEPARTMENT OF MILITARY AFFAIRS

Major General Kenny C. Montoya..... Adjutant General
Colonel Jack Fox Deputy Adjutant General
George Jeantete Director of State Programs
Lawrence Montano..... Chief Financial Officer

STATE ARMORY BOARD

Major General Kenny C. Montoya..... Chairman
Command Sergeant Major Kevin Myers..... Secretary/Treasurer
George Jeantete Executive Director
LTC Vince Martinez Member – (Comm. Officer)
MG (Ret.) Melvyn Montano Member
Moise Medina..... Member
Richard Kozlowski Member
Danny Hawkes Member

INDEPENDENT AUDITORS' REPORT

Major General Kenny Montoya, Adjutant General
State of New Mexico
Department of Military Affairs and State Armory Board
and
Mr. Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

We have audited the accompanying financial statements of the governmental activities, each major fund, the general and special revenue major fund budgetary comparisons, and the aggregate remaining fund information of the Department of Military Affairs/State Armory Board (Department) as of and for the year then ended June 30, 2008, which collectively comprise the Department's basic financial statements as listed in the Table of Contents. We have also audited the budgetary comparisons for the major capital project fund and multi-year appropriations fund, the combining and individual fund financial statements of the non-major governmental funds and the respective budgetary comparisons presented as supplementary information as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 2, the financial statements of the Department are intended to present the financial position and changes in financial position of only that portion of the governmental activities, major funds and aggregate remaining fund information of the State of New Mexico that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2008, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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, 2008, and the respective changes in financial position thereof, and the respective budgetary comparisons for the general fund and major special revenue funds thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the non-major governmental funds of the Department as of June 30, 2008 and the respective changes in financial position and budgetary comparisons for the capital projects infrastructure fund, the multi-year appropriation fund,

and the non-major governmental funds for the year ended June 30, 2008 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 12, 2008, 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 grants agreements and other matters. The purpose of that report is to describe the scope of our testing, of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Department has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the basic 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 and is not a required part of the financial statements. The Schedule of Expenditures of Federal Awards (page 47) is required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments and Non-Profit Organizations*. The additional schedules listed as "other supplemental information" in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in black ink that reads "Hinkle & Landers, P.C." in a cursive, slightly slanted font.

Hinkle & Landers, P.C.
December 12, 2008

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
STATEMENT OF NET ASSETS
GOVERNMENT-WIDE
AS OF JUNE 30, 2008

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Current assets:	
Investment in State Treasurer General Fund Investment Pool	\$ 2,661,025
Petty cash	200
Accounts receivable	13,993
Due from other state agencies	3,962,473
Due from Federal government	3,099,353
Prepaid expenses	<u>2,911</u>
Total current assets	9,739,955
Non-current assets:	
Capital assets not being depreciated	8,644,078
Capital assets being depreciated	110,073,210
Less accumulated depreciation	<u>(66,025,856)</u>
Total capital assets, net of depreciation	<u>52,691,432</u>
Total assets	<u>\$ 62,431,387</u>
 <u>LIABILITIES AND NET ASSETS</u>	
Current liabilities:	
Accounts payable	\$ 1,577,821
Accrued salaries payable	168,904
Payroll taxes payable	64,726
Other payroll liabilities payable	107,564
Due to State General Fund	488,475
Receipts held in suspense	281
Compensated absences payable	230,651
Long-term Liabilities:	
Compensated absences payable	<u>58,773</u>
Total liabilities	<u>2,697,195</u>
Net assets:	
Investment in capital assets	52,691,432
Restricted	
Special revenue funds	334,826
Capital outlay funds	6,991,247
Unrestricted	<u>(283,313)</u>
Total net assets	<u>59,734,192</u>
Total liabilities and net assets	<u>\$ 62,431,387</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, 2008**

	<u>Governmental Activities</u>
Expenses:	
Public Safety	\$ 17,820,563
Depreciation expense	4,147,798
Total program expenses	<u>21,968,361</u>
 Program revenues:	
Federal grants - operating	9,433,210
State-federal pass-through grants	<u>126,504</u>
Total program revenues	<u>9,559,714</u>
Net program (expense) revenue	<u>(12,408,647)</u>
 General revenues and (expenses):	
Transfer - State General Fund appropriations	7,794,100
Transfer - Bond proceeds appropriation	3,500,000
Transfer - Compensation appropriation	127,800
Interest income	26,436
Miscellaneous revenue	<u>416,439</u>
Total general revenues and expenses	<u>11,864,775</u>
Change in net assets	(543,872)
Beginning net assets	59,530,774
Restatement	<u>747,290</u>
Beginning net assets-as restated	<u>60,278,064</u>
Net assets-end of the year	<u><u>\$ 59,734,192</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
BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF JUNE 30, 2008

	<u>Major Funds</u>			<u>Non-Major Funds</u>	<u>Total Governmental Funds</u>
	<u>General Fund (06900 + 99200)</u>	<u>Adjutant General Emergency (07000)</u>	<u>Armory Improvements Capital Projects (89700)</u>	<u>Other Funds</u>	
<u>ASSETS</u>					
Investment in State Treasurer General Fund Investment Pool	\$ 83,241	-	2,242,851	334,933	2,661,025
Petty cash	200	-	-	-	200
Accounts receivable	13,015	978	-	-	13,993
Due from other funds	-	1,597,548	1,102,047	-	2,699,595
Due from other state agencies	11,924	10,519	3,934,935	5,096	3,962,474
Due from Federal government	3,099,353	-	-	-	3,099,353
Prepaid expenses	-	-	2,911	-	2,911
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 3,207,733</u>	<u>1,609,045</u>	<u>7,282,744</u>	<u>340,029</u>	<u>12,439,551</u>
<u>LIABILITIES and FUND BALANCE</u>					
Liabilities:					
Accounts payable	\$ 1,309,030	26,859	241,400	532	1,577,821
Accrued salaries payable	163,030	5,875	-	-	168,905
Payroll taxes payable	63,901	826	-	-	64,727
Other payroll liabilities payable	107,564	-	-	-	107,564
Due to other funds	1,597,548	1,102,047	-	-	2,699,595
Due to State General Fund	2,460	473,497	7,848	4,671	488,476
Receipts held in suspense	281	-	-	-	281
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>3,243,814</u>	<u>1,609,104</u>	<u>249,248</u>	<u>5,203</u>	<u>5,107,369</u>
Fund balance:					
Reserved for:					
Encumbrances - multi-year	-	-	39,338	-	39,338
Petty cash	200	-	-	-	200
Prepaid expenses	-	-	2,911	-	2,911
Capital projects	-	-	6,991,247	-	6,991,247
Unreserved reported in:					
General fund	(36,281)	-	-	-	(36,281)
Special Revenue Funds	-	(59)	-	334,826	334,767
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balance	<u>(36,081)</u>	<u>(59)</u>	<u>7,033,496</u>	<u>334,826</u>	<u>7,332,182</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balance	<u>\$ 3,207,733</u>	<u>1,609,045</u>	<u>7,282,744</u>	<u>340,029</u>	<u>12,439,551</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 ASSETS
AS OF JUNE 30, 2008

Total fund balance - Governmental funds	\$	7,332,182
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets (net of accumulated depreciation) used in governmental activities are not current financial resources and, therefore, are not reported on the governmental funds balance sheet.		52,691,432
Short-term liabilities, including compensated absences payables are not available to pay for current period expenditures and, therefore, are not reported in the governmental funds balance sheet.		(230,651)
Long-term liabilities, including compensated absences payables are not due and payable in the current period and, therefore, are not reported in the governmental funds balance sheet.		(58,773)
Differences due to rounding		<u>2</u>
Net assets of governmental activities	\$	<u><u>59,734,192</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, 2008

	<u>Major Funds</u>			<u>Non-Major Funds</u>	<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Adjutant General Emergency</u>	<u>Armory Improvements Capital Projects</u>	<u>Other Funds</u>	
Revenues:					
Federal sources	\$ 9,559,714	-	-	-	9,559,714
Interest on investments	-	-	-	26,436	26,436
Miscellaneous revenue	203,342	213,097	-	-	416,439
Total revenues	<u>9,763,056</u>	<u>213,097</u>	<u>-</u>	<u>26,436</u>	<u>10,002,589</u>
Expenditures:					
Public Safety					
Current:					
Personal services and benefits	7,987,332	203,074	6,665	-	8,197,071
Contractual services	1,951,188	167,598	-	-	2,118,786
Other costs	6,035,008	8,369	569,146	1,044,436	7,656,959
Capital outlay	767,016	-	465,487	-	1,232,503
Total expenditures	<u>16,740,544</u>	<u>379,041</u>	<u>1,041,298</u>	<u>1,044,436</u>	<u>19,205,319</u>
Excess (deficiency) of revenue over expenditures	<u>(6,977,488)</u>	<u>(165,944)</u>	<u>(1,041,298)</u>	<u>(1,018,000)</u>	<u>(9,202,730)</u>
Other financing sources (uses)					
Severance tax bonds					
proceeds appropriations	-	-	3,500,000	-	3,500,000
Transfer - State General Fund appropriations	6,081,100	250,000	235,000	1,228,000	7,794,100
Transfer - Compensation appropriation	127,800	-	-	-	127,800
Transfers in	-	44,498	-	-	44,498
Transfers out	(44,498)	-	-	-	(44,498)
Transfer - Reversions to state general fund - FY08	-	(130,745)	(7,848)	-	(138,593)
Total other financing sources (uses):	<u>6,164,402</u>	<u>163,753</u>	<u>3,727,152</u>	<u>1,223,329</u>	<u>11,278,636</u>
Net change in fund balance	<u>(813,086)</u>	<u>(2,191)</u>	<u>2,685,854</u>	<u>205,329</u>	<u>2,075,906</u>
Beginning net assets	(17,611)	2,132	4,379,090	145,375	4,508,986
Restatement	794,616	-	(31,448)	(15,878)	747,290
Beginning net assets-as restated	<u>777,005</u>	<u>2,132</u>	<u>4,347,642</u>	<u>129,497</u>	<u>5,256,276</u>
Net assets-end of the year	<u>\$ (36,081)</u>	<u>(59)</u>	<u>7,033,496</u>	<u>334,826</u>	<u>7,332,182</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, 2008**

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

Net change in fund balances (deficit) - total governmental funds	\$	2,075,906
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Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the estimated useful life of the assets. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay expenditures (Additions) which were capitalized	\$	609,039
Other capitalized expenditures not recorded as capital outlay		956,093
Depreciation		<u>(4,147,798)</u>
Excess (shortage) of capital outlay over depreciation expense		(2,582,666)

Some items reported in the Statement of Activities are not sources of uses of current financial resources and, therefore, are not reported as revenues or expenditures in governmental funds.

These activities consist of:

Change in compensated absences		(37,114)
Differences due to rounding		<u>2</u>

Change in net assets of governmental activities	\$	<u><u>(543,872)</u></u>
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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 (06900 & 99200) - MAJOR FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND NET ASSETS BUDGET (non-GAAP BASIS) AND ACTUAL (GAAP BASIS)
FOR THE YEAR ENDED JUNE 30, 2008

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Federal grants-operating	\$ 11,691,200	14,140,300	9,433,210	(4,707,090)
State-federal pass through grants	-	109,593	126,504	16,911
Miscellaneous revenue	139,200	139,200	160,581	21,381
Building - Rental or Lease	26,300	26,300	28,660	2,360
Land royalties	18,700	18,700	14,101	(4,599)
Total revenues	\$ 11,875,400	14,434,093	9,763,056	(4,671,037)
Expenditures				
Current (Public Safety):				
Personal services and employee benefits	\$ 8,541,400	8,652,800	7,987,331	665,469
Contractual services	2,420,400	2,947,500	1,951,189	996,311
Other	7,122,500	9,042,693	6,784,053	2,258,640
Total expenditures	18,084,300	20,642,993	16,722,573	3,920,420
Excess (deficiency) of revenues over expenditures	\$ (6,208,900)	(6,208,900)	(6,959,517)	(750,617)
Other Financing Sources (Uses)				
State general fund appropriations	6,081,100	6,081,100	6,081,100	-
Compensation appropriaton	127,800	127,800	127,800	-
Intraagency transfer	-	-	(44,498)	(44,498)
Net interagency transfers and financial sources (uses)	6,208,900	6,208,900	6,164,402	(44,498)
Net change in fund balance	\$ -	-	(795,115)	(795,115)
Reconciliation of Budgetary Basis to Fund Financial Statement				
Total budget basis expenditures for fiscal year 2008:			\$ 16,722,573	
Adjustments:				
Accounts payable that required a request to pay prior-year bills out of the FY2009 budget			36,282	
Prior year accounts payable paid out of FY2008 budget			(18,311)	
Total GAAP Basis Expenditures for the fiscal year ended June 30, 2008:			\$ 16,740,544	

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 (non-GAAP BASIS) AND ACTUAL (GAAP BASIS)
FOR THE YEAR ENDED JUNE 30, 2008

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Miscellaneous revenue	58,327	202,578	213,097	10,519
Total revenues	58,327	202,578	213,097	10,519
Reissued prior year budget	355,371	355,371		
Total resources	413,698	557,949		
Expenditures				
Current (Public Safety):				
Personal services and employee benefits	90,000	210,001	203,075	6,926
Contractual services	550,371	225,621	167,598	58,023
Other	23,327	372,327	361,547	10,780
Total expenditures	663,698	807,949	732,220	75,729
Excess (deficiency) of revenues over expenditures	\$ (250,000)	(250,000)	(519,123)	(269,123)
Other Financing Sources (Uses)				
State general fund appropriations	250,000	250,000	250,000	-
Intraagency transfer	-	-	44,498	44,498
Reversion to state general fund FY08	-	-	(130,745)	(130,745)
Net interagency transfers and financial sources (uses)	250,000	250,000	163,753	(86,247)
Net change in fund balance	\$ -	-	(355,370)	(355,370)
Reconciliation of Budgetary Basis to Fund Financial Statement				
Total budget basis expenditures for fiscal year 2008:			\$ 732,220	
Adjustments:				
Accounts payable that required a request to pay prior-year bills out of the FY2009 budget			59	
Prior year accounts payable paid out of FY2008 budget			(353,238)	
Total GAAP Basis Expenditures for the fiscal year ended June 30, 2008:			\$ 379,041	

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, 2008

	<u>Agency Funds</u>
Assets	
Cash in local banks	\$ <u>72,894</u>
Total assets	\$ <u><u>72,894</u></u>
Liabilities	
Deposits held in custody for others	\$ <u>72,894</u>
Total liabilities	\$ <u><u>72,894</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 AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

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.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Department of Military Affairs and State Armory Board have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to Governmental Accounting Standards Board (GASB) pronouncements and

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. They are applied to the government-wide financial statements. The more significant of the Department's accounting policies are described below:

A. Reporting Entity and Component Units

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. As a component unit of the State of New Mexico, a phase one government, the Department was required to implement GASB Statement 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* in fiscal year 2002.

Governmental Accounting Standards Board Statement (GASBS) 14, "The Financial Reporting Entity," effective for periods beginning after December 15, 1992, establishes standards for defining and reporting on the financial reporting entity. GASBS 14 supersedes previous standards issued by the National Council on Governmental Accounting. The requirements of GASBS 14 apply at all levels to all state and local governments.

GASBS 14 defines the financial reporting entity as consisting of the primary government, organizations for which the primary government is financially accountable, and 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. This definition of the reporting entity is based primarily on the notion of financial accountability as the "cornerstone of all financial reporting in government."

A primary government is any state government or general purpose local government, consisting of all the organizations that make up its legal entity. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are, for financial reporting purposes, part of the primary government. The Department, therefore, 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. However, New Mexico does not at present issue an audited Comprehensive Annual Financial Report inclusive of all agencies of the primary government.

The Department is not included in any other governmental "reporting entity" as defined in Section 2100, *Codification of Governmental Accounting and Financial Reporting Standards*. 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.

The Audit Act, Section 12-6-1 through 12-6-14, NMSA 1978, requires the financial affairs of every agency to be thoroughly examined and audited each year, and a complete written report to be made. Moreover, the New Mexico State Auditor requires that each agency shall prepare financial statements in accordance with accounting principles generally accepted in the United States of America. However, the financial statements were prepared by the independent certified public accountants performing the audit.

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

Included within the Department for this purpose are the following: All of the programs that are administered and/or controlled by the Department have been included.

No entities were noted that should be considered component units of the Department. No entities were specifically excluded from the Department because no entities were noted as meeting any of the criteria for potential inclusion.

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).

B. Basic Financial Statements -Government-Wide Statements

The Department's basic financial statements include both government-wide (based on the Department as a whole) and fund financial statements. Both the government-wide and fund financial statements (Within the basic statement) categorize primary activities as either governmental or business type. The Department is a single purpose government entity and has no business-type activities. The government-wide financial statements, the statement of net assets and the statement of activities report information on all non-fiduciary activities of an agency. The Department does not have any fiduciary activities. In the government-wide statement of net assets, the governmental activities are presented on a consolidated basis and are reflected on the full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. The Department's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety) which are otherwise supported by general government revenues. The Statement of Activities reduces gross expense (including depreciation expense on capital assets) by related program revenues, operating and capital grants. Program revenue must be directly associated with the function (public safety). Program revenues include 1) charges to applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment, 2) grants and contributions that are restricted to meeting the operational or capital requirements for a particular function or segment. The appropriation from the State General Fund not included among program revenues is reported instead as general revenue.

When applicable, the effect of interfund activity is removed from the statement of net assets and the statement of activities in order to avoid a grossing-up effect on the assets, liabilities, revenues and expenditures.

The net cost by function is normally covered by general revenue. Since the Department only has one program, it does not employ indirect cost allocation.

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

Restricted net assets are those with constraints placed on their use by either: 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

enabling legislation. All net assets not otherwise classified as restricted, are shown as unrestricted. Generally, the Department would first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

C. Basic Financial Statements -Fund Financial Statements

The fund financial statements are similar to the financial statements presented in previous years. Emphasis is on the major funds of the governmental category. Non-major funds are summarized into a single column. The Department's major funds include the General Fund, the Adjutant General Emergency Fund, and the Armory Improvements Capital Projects Fund.

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

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

The new model sets forth the minimum criteria (percentage of the assets, liabilities, revenues or expenditures of either fund category or the governmental and enterprise combines) for the determination of major funds. The non-major funds are combined in a column in the fund financial statements and detailed in the combining section.

The following fund types are used by the Department:

GOVERNMENTAL FUND TYPES

All governmental fund types are accounted for on a spending or financial flow measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of available spendable resources. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of available spendable resources during a period. 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 sixty days of the end of the fiscal year. Due to their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures of fund liabilities.

General Fund – The General Fund is the general operating fund of the Department. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is comprised of two accounts: the Department of Military Affairs and the State Armory Board. The general operations of the Department are being consolidated into one account (SHARE Fund 99200) and the Department's General Fund budget is now adopted based on this one fund. The General Fund is funded primarily from appropriations from the State of New Mexico General Fund and by cost-sharing agreements with the National Guard Bureau of the Federal government. The General Fund is made up of the following *Statewide Human Resources, Accounting and Management Reporting (SHARE)* system fund numbers:

06900 **Department of Military Affairs** – This fund was formerly used to account for some of the operations of the Department. It is currently being phased out. It had no current year budget. Unobligated and unused state funds are reverting to the State General Fund.

99200 **State Armory Board** – To account for the general operations of the Department of Military Affairs and the State Armory Board, including the Air National Guard, Civil Air Patrol, Tuition Assistance Program, WETS/MATES (Weekend Training Sites/Mobilization Authorization Training and Engineering Sites), Environmental Resources, the ARNG O & M Agreement (Army National Guard Operations and Maintenance Agreement), the Youth Challenge Program and the ILEA (International Law Enforcement Academy) Program. Funding is provided by state general fund appropriations, Federal cost sharing agreements, building rentals and other miscellaneous revenues. This fund now accounts for all of the general operations of the Department of Military Affairs. Unobligated and unused state funds are reverting to the State General Fund.

Special Revenue Funds – The Special Revenue Funds are used to account for the proceeds of specific revenue sources.

07000 **Adjutant General's Emergency 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.

93200 **Service Members' Life Insurance Reimbursement Fund** – To account for state appropriations for reimbursement to New Mexico armed service members' life insurance premiums. Unused and unobligated state general fund appropriations are reverted to the State General Fund if indicated in the appropriations. The fund, however, was created by Sec. 20-4-7.3, NMSA 1978 as a non-reverting fund.

Capital Projects Funds – The Capital Projects Funds are used to account for major capital expenditures.

89700 **Armory Improvements** – To account for federal and state appropriations for construction of all armories started before July 1, 1993, the Hawk Missile Utility Extension, Onate

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

Complex Improvements, statewide armory improvements and the building renovations for the ILEA Program. Unused and unobligated state funds are reverting to the State General Fund.

85000 *Laws of 1994* – To account for federal and state appropriations for construction of the Clayton Armory, Portales Armory (Transfer), the Emergency Management Center, the Headquarters Building and the Taos Readiness Center. Unused and unobligated state funds are reverting to the State General Fund.

D. Non-Current Governmental Assets/Liabilities

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

E. Basis of Accounting

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

The government-wide financial statements are presented on an accrual basis of accounting. The governmental funds in the fund financial statements are presented on a modified accrual basis. Under the accrual method of accounting, revenues are recognized when earned and expenditures are recognized when incurred. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*, which was adopted by the Department as of July 1, 2000.

All governmental funds utilize the modified accrual basis of accounting. Under this method, revenues and other governmental fund financial resource increments are recognized in the accounting period in which they become susceptible to accrual -that is, when they become both measurable and available to finance expenditures of the current fiscal period; available meaning collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

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

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

In applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to GASB Statement No. 33, the provider should recognize liabilities and expenses and the recipient should

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

recognize receivables and revenues when the applicable eligibility requirements including time requirements, are met. Resources transmitted before the eligibility requirement are met, under most circumstances, should be reported as advances by the provider and deferred revenue by the recipient.

F. Budgets and Budgetary Accounting

The State Legislature makes annual appropriations to the Department which lapse at fiscal year end. Legal compliance is monitored through the establishment of a budget and a financial control system which permits a budget-to-actual expenditure comparison. Expenditures may not legally exceed appropriations for each budget at the appropriation unit level. Budgeted appropriation unit amounts may be amended upon approval from the Budget Division of the State of New Mexico Department of Finance and Administration within the limitations as specified in the General 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 unit 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 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 unit and object code based upon the appropriation made by the Legislature. The DFA Budget Division reviews and approves the operating budget which becomes effective on July 1.
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

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

of the FY 2009 budget. The Armory Improvements Capital Projects Fund operates 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 statement prepared on the modified accrual basis has been included as part of the basic financial statements.

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.

G. Encumbrances – Multi-Year Projects and Appropriations

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

**STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

H. Accrued Compensated Absences – Annual Leave

Qualified employees accumulate annual leave as follows:

Qualified employees accumulate annual leave as follows:

Years of Service	Hours Earned <u>Per Month</u>	Days Earned <u>Per Month</u>	Days of Maximum <u>Accrual</u>
1-2	6.67	.83	30
3-6	8.00	1.00	30
7-10	9.99	1.25	30
11-14	12.00	1.50	30
15th/Beyond	13.33	1.67	30

Exempt employees accumulate annual leave as follows:

Years of Service	Hours Earned <u>Per Month</u>	Days Earned <u>Per Month</u>	Days of Maximum <u>Accrual</u>
0-10	9.99	1.25	30
11-14	12.00	1.50	30
15th/Beyond	13.33	1.67	30

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

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

I. Federal Grants Receivable (Deferred Revenue)

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, deferred revenue balances represent an overdraw of cash (advances) in excess of modified accrual basis expenditures.

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

Generally, receivable or deferred 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.

J. Reservations and Designations

Reservations of fund balance in the governmental fund statements are created to either (1) satisfy legal covenants that require that a portion of the fund balance be segregated or (2) identify the portion of the fund balance that is not appropriated for future expenditures. Specific reservations of fund balance accounts are summarized below:

Reserved for Encumbrances – This reserve was created to represent encumbrances outstanding at the end of the year based on purchase orders and contracts for multi-year capital projects signed by the Department but not completed as of the close of the fiscal year.

Reserved for Subsequent Years' Expenditures – This designation represents funds the Department expects to have budgeted to cover federal programs and capital projects in subsequent years made up of non-reverting funds.

K. Net Assets

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

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

Restricted Assets – are liquid assets (generated from revenues and not bond proceeds), 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 assets should not reflect any reduction for resources used for purposes not stipulated by the enabling legislation. The government-wide statement of net assets reports \$334,826 of restricted net assets that are considered is restricted by enabling legislation under the alternative dispute resolution and domestic relations mediation act.

**STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

Unrestricted Assets – represent unrestricted liquid assets.

The Department allocates expenses to restricted or unrestricted resources based on the budgeted source of funds.

L. Use of Estimates

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

M. Capital Assets

Capital assets are defined in Section 12-6-10 NMSA 1978. Section 12-6-10 NMSA 1978, was amended effective June 19, 2005, changing the capitalization threshold of movable chattels and equipment to items costing more than \$5,000. Capital assets purchased or acquired at a value of \$5,000 or greater are capitalized. In some cases assets acquired at a value of \$5,000 or less are capitalized.

Assets are carried at historical costs or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. Computer software which is purchased with data processing computer equipment is included as part of the capitalized computer equipment data processing in accordance with 2.20.1.9 C (5). Also, the Department does not develop any software. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed when incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful life with no salvage value.

	<u>Years</u>
Furniture, Equipment, and Machinery	5
Buildings/Structures	25/10
Data Processing Equipment	3

The Department utilizes facilities and buildings that are owned by the State of New Mexico. These assets and the related depreciation expense are not included in the accompanying financial statements. GASB 34 requires the recording and depreciation of infrastructure assets, such as roads, bridges, etc. The Department does not own any infrastructure assets. There is no debt related to capital assets.

NOTE 3 – CASH AND INVESTMENT POLICY

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):

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

Fund	SHARE		Balance Per	Adjustments	Balance Per
	Agency-Account	Location	State	for Interfund	Financials
			Treasurer	Advances	
Dept. of Military Affairs	70500-06900	STO	\$ 281	-	281
State Armory Board	70500-99200	STO	82,960	-	82,960
Subtotal General Fund			83,241	-	83,241
Adjutant General's Emergency Fund	70500-07000	STO	(1,102,047)	1,102,047	-
Laws of 1994	70500-85000	STO	4,671	-	4,671
Armory Improvements	70500-89700	STO	3,344,898	(1,102,047)	2,242,851
Service Members' Life Insurance					
Reimbursement Fund	70500-93200	STO	330,262	-	330,262
Total			\$ 2,661,025	-	2,661,025

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

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

- a) Securities issued by the United States (U.S.) government or by its departments or agencies and direct obligations of the U.S. or are backed by the full faith and credit of the U.S. government or agencies sponsored by the U.S. government;
- b) Contracts for the present purchase and resale at a specified time in the future, not to exceed one year or, in the case of bond proceeds, not to exceed three years, of specific securities at specified prices at a price differential representing the interest income to be earned by the state. No such contract shall be invested in unless the contract is fully secured by obligations of the United States of other securities backed by the United States having a market value of at least one hundred two percent of the amount of the contract;
- c) Contracts for the temporary exchange of state-owned securities for the use of broker-dealers, banks or other recognized institutional investors in securities, for periods not to exceed one year for a specified fee rate. No such contract shall be invested in unless the contract is fully secured by exchange of an irrevocable letter of credit running to the state, cash or equivalent collateral of at least one hundred two percent of the market value of the securities plus accrued interest temporarily exchanged. The collateral required for either of the forms of investment in sections (b) and (c) shall be delivered to the fiscal agent of New Mexico or its designee contemporaneously with the transfer of funds or delivery of the securities

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

at the earliest time industry practice permits, but in all cases, settlement shall be on the same-day basis. Neither of the contracts in (b) or (c) shall be invested in unless the contracting bank, brokerage firm or recognized institutional investor has a net worth in excess of five hundred million dollars;

- d) Any of the following investments in an amount not to exceed forty percent of any fund that the state treasurer invests: (1) commercial paper rated "prime" quality by a national rating service, issued by corporations organized and operating within the U.S.; (2) medium-term notes and corporate notes with a maturity not exceeding five years that are rated A or its equivalent or better by a nationally recognized rating service and that are issued by a corporation organized and operating in the U.S.; or (3) an asset-backed obligation with a maturity not exceeding five years that is rated AAA or its equivalent by a nationally recognized rating service;
- e) Shares of a diversified investment company registered pursuant to the federal Investment Company Act of 1940 that invests in U.S. fixed income securities or debt instruments authorized pursuant to (a), (b) and (d) above provided that the investment company has total assets under management of at least one billion dollars and the investments made by the State Treasurer pursuant to this paragraph are less than five percent of the assets of the investment company; or
- f) Individual, common or collective trust funds of banks or trust companies that invest in U.S. fixed income securities or debt instruments authorized pursuant to (a), (b) and (d) above provided that the investment manager has assets under management of at least one billion dollars and the investments made by the state treasurer pursuant to this paragraph are less than five percent of the assets of the individual, common or collective trust fund.

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

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.

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

**STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

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

At June 30, 2008, cash (checking) accounts for the armory boards consisted of the following:

<u>Armory</u>	<u>Bank Name</u>	<u>Balance 6/30/2008</u>	<u>Armory</u>	<u>Bank Name</u>	<u>Balance 6/30/2008</u>
Alamogordo	Western Bank	\$ 2,553	Joint Forces HQ	Century Bank	1,475
Albuquerque	Wells Fargo	3,220	Las Cruces	Bank of America	5,526
Belen	Wells Fargo	216	Las Vegas	Bank of Las Vegas	4,040
Carlsbad	Eddy Federal CU	223	Portales	Wells Fargo	1,001
Clayton	Farmers & Stockmens	3,655	Rio Rancho	US NM Fed Credit Union	3,835
Clovis	Western Bank	-	Roswell	Wells Fargo	7,862
Deming	First Savings	529	Santa Clara	AM Bank	2,256
Espanola	Del Norte Credit Union	2,953	Santa Fe	First National	17,298
Farmington	Citizens Bank	1,994	Santa Rosa	Wells Fargo	2,556
Gallup	First Community Bank	17	Socorro	Wells Fargo	3,390
Grants	Wells Fargo	2,641	Springer	Wells Fargo	1,029
Hobbs	Western Commerce	104	Taos	Peoples Bank	278
			Tucumcari	Everyone's Fed CU	4,243
				Total	\$ <u>72,894</u>

All funds held in bank accounts by the various local armory boards are covered by FDIC insurance totaling \$250,000 per account.

C. Summary of Cash

<u>Type</u>	<u>Amount</u>
Investment in State Treasurer General Fund	
Investment Pool	\$ 2,661,025
Agency funds	72,894
Petty cash - held onsite	200
Total cash and investments	\$ <u>2,734,119</u>

NOTE 4 – RECEIVABLES

A. Due From Other State Agencies

The State Board of Finance sells severance tax bonds as authorized by the State Legislature and hold the proceeds until such time that the Department requests such funds as reimbursement for expenditures. The proceeds of each project issue are recorded in the respective Capital Projects Fund as bond proceeds when sold and the balance is recorded as "due from other state agencies."

A summary of amounts held by project, as reported by the Administrative Services Division of the Department of Finance and Administration, follows as of June 30, 2008.

**STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

<u>Project Title</u>	<u>Fund</u>	<u>Appr. ID</u>	<u>Pool</u>	<u>Amount Sold</u>	<u>Amount Drawn</u>	<u>Balance Held by State Board of Finance</u>
Taos Armory	89700	03-0243	2003	\$ 250,000	233,565	16,435
Ocate Complex Imp.	89700	03-0244	2003	20,000	-	20,000
Las Cruces Armory Imp.	89700	05-0032	2005	50,000	-	50,000
Farmington Hangar	89700	07-3770	2005	150,000	1,500	148,500
State Armory Board Project	89700	08-3005	2008	1,000,000	-	1,000,000
DMA Project	89700	08-3281	2008	2,500,000	-	2,500,000
STB subtotals				<u>\$ 3,970,000</u>	<u>235,065</u>	<u>3,734,935</u>
Laws 2008, Chapter 3, Section 5	89700	Z80184		\$ 200,000	-	200,000
Special approp. subtotals				<u>\$ 200,000</u>	<u>-</u>	<u>200,000</u>

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.

In addition, \$11,336 is due from NM Public Education Department as part of the School Lunch Program, \$11,105 is due from the NM Department of Homeland Security Emergency Management for services provided, and \$5,096 in interest earnings. The total amount due from other state agencies at June 30, 2008 is \$3,962,473.

A summary of receivables from other agencies follows:

<u>Due From Agency/Fund</u>	<u>Due To Agency/Fund</u>	<u>Amount</u>	<u>Purpose of Receivable</u>
34100/01900	70500/89700	\$ 3,734,935	Severance Tax Bonds receivable
36900/85300	70500/89700	200,000	Special Appropriation, Laws 2008, Chapter 3, Section 5
92400/00000	70500/99200	11,336	School lunch program
79500/00000	70500/99200	587	Emergency responder services
79500/00000	70500/07000	10,519	Emergency responder services
39400/80100	70500/93200	5,096	SGFIP interest receivable
Receivable from other agencies		<u>\$ 3,962,473</u>	

B. Due From Federal Government

At June 30, 2008, \$3,099,353 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. (See SEFA, page 47)

**STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE 5 – 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, 2008, were as follows:

General Fund - State Armory Board (99200):

Cash/investment balance, June 30, 2008		\$	82,960
Additions:			
Due from other agencies	\$	11,923	
Due from federal government		<u>3,099,353</u>	3,111,276
Deductions:			
Accounts payable		(1,272,748)	
Accrued payroll		(163,030)	
Payroll taxes payable		(63,900)	
Other liabilities payable		(107,564)	
Due to other funds		<u>(1,597,548)</u>	<u>(3,204,790)</u>
Due to State General Fund from Fund 99200			\$ <u>(10,554)</u>

Reversion identified by fiscal year appropriation

Fiscal year 2006, not reverted		61,702	
Fiscal year 2007, not reverted		734,364	
Fiscal year 2008		(807,630)	
Stale-dated warrants		1,010	
Total reversions - Fund 99200	\$	<u>(10,554)</u>	

Adjutant General's Emergency Fund (07000)

Cash/investment balance, June 30, 2008		\$	-
Less transfer from Fund 89700			<u>(1,102,047)</u>
Subtotal cash & investments			(1,102,047)
Additions:			
Accounts receivable	\$	978	
Due from other funds		1,597,548	
Due from other agencies		<u>10,519</u>	1,609,045
Deductions:			
Accounts payable		(26,800)	
Accrued payroll		(5,875)	
Payroll taxes payable		<u>(826)</u>	<u>(33,501)</u>
Due to State General Fund from Fund 07000			\$ <u>473,497</u>

Reversion identified by fiscal year appropriation

Fiscal year 2006, not reverted		294,725	
Fiscal year 2007, not reverted		48,027	
Fiscal year 2008		130,745	
Total reversions - Fund 07000	\$	<u>473,497</u>	

**STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

Armory Improvements - Capital Projects Fund (89700)

Cash/investment balance, June 30, 2008		\$ 2,242,851
Additions:		
Due from other agencies	\$ 3,934,935	
Due from other funds	<u>1,102,047</u>	
Total additions		5,036,982
Deductions:		
Accounts payable	(241,400)	
Reserved for future years expenditures	(6,991,247)	
Encumbered amounts	<u>(39,338)</u>	
Total deductions		<u>(7,271,985)</u>
Due to State General Fund from Fund 89700		\$ <u>7,848</u>
Reversion identified by fiscal year appropriation		
Fiscal year 2008	<u>7,848</u>	
Total reversions - Fund 89700	<u>\$ <u>7,848</u></u>	

Laws of 1994 - Capital Projects Fund (85000)

Cash/investment balance, June 30, 2008		\$ 4,671
Due to State General Fund from Fund 85000		<u>4,671</u>
Reversion identified by fiscal year appropriation		
Fiscal year 2008	\$ <u>4,671</u>	
Total reversions - Fund 85000	<u>\$ <u>4,671</u></u>	
Total amount due to State General Fund, June 30, 2008		<u>\$ <u>475,462</u></u>

Note: The amount of the reversions calculated in Fund 99200 for FYs 2006 and 2007 were determined to have been overstated. A prior period adjustment was made to correct this overstatement.

NOTE 6 – DUE TO/FROM OTHER FUNDS

A due to/from in the amount of \$1,102,047 relates to an overdraft of funds from the SGFIP in Fund 07000. The amount represents the transfer of funds from Fund 89700 to Fund 07000 to cover the overdraft in that fund. See Note 3. The amount is expected to be paid within the next fiscal year.

A due to/from in the amount of \$1,597,548 relates to errors in the payment of payroll liabilities from Fund 07000 when the related expenditures and the initial payable had been recorded in Fund 99200. The amount is expected to be paid within the next fiscal year.

	<u>Due To</u>	<u>Due From</u>
Due to Fund 89700 - Armory Improvement Fund	\$ 1,102,047	-
Due From Fund 070 - Adjutant General's Emergency Fund	-	1,102,047
Due To Fund 070 - Adjutant General's Emergency Fund	1,597,548	
Due From Fund 99200 - General Fund		<u>1,597,548</u>
Total	<u>\$ <u>2,699,595</u></u>	<u><u>2,699,595</u></u>

**STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE 7 – ENCUMBRANCES – MULTI-YEAR PROJECTS AND APPROPRIATIONS

The following is a reconciliation of encumbrances per the Department of Finance and Administration (DFA) and the Department of Military Affairs and State Armory Board for Capital Projects Multi-Year Appropriations:

<u>Fund Name/Category</u>	<u>Encumbrances as Reported by DFA</u>	<u>Encumbrances Per Financial Statements</u>		<u>Total</u>
		<u>Prior FYs</u>	<u>FY 2008</u>	
Armory Improvements (89700)				
Contractual services	\$ -	-	-	-
Other costs	4,127	-	4,127	4,127
Total Armory improvements	4,127	-	4,127	4,127
Total all funds	\$ 4,127	-	4,127	4,127

NOTE 8 – CAPITAL ASSETS – GOVERNMENTAL FUNDS

The capital assets activity for the year ended June 30, 2008, is as follows:

<u>Capital Asset Description</u>	<u>Balance June 30, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adj</u>	<u>Balance June 30, 2008</u>
Capital assets being depreciated:					
Buildings and Improvements	\$ 105,369,171	1,341,510	-	-	106,710,681
Machinery and Equipment	1,258,907	223,622	-	-	1,482,529
Leasehold Improvements	1,880,000	-	-	-	1,880,000
Total depreciable capital assets	108,508,078	1,565,132	-	-	110,073,210
Less accumulated depreciation:					
Buildings and Improvements	(60,630,132)	(3,982,163)	-	-	(64,612,295)
Machinery and Equipment	(1,000,014)	(124,316)	-	-	(1,124,330)
Leasehold Improvements	(247,912)	(41,319)	-	-	(289,231)
Total accumulated depreciation	(61,878,058)	(4,147,798)	-	-	(66,025,856)
Total depreciable assets (net)	46,630,020	(2,582,666)	-	-	44,047,354
Capital assets not being depreciated:					
Land	8,644,078	-	-	-	8,644,078
Total capital assets (net)	55,274,098	(2,582,666)	-	-	52,691,432

The Department does not have any debt related to capital assets at June 30, 2008. Depreciation expense for the year was \$4,147,798 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.

**STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE 9 – CHANGES IN COMPENSATED ABSENCES

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

<u>Governmental Activities</u>	<u>Balance June 30, 2007</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2008</u>	<u>Current due within one year</u>
Annual Leave	\$ 251,449	265,692	(277,455)	239,686	180,913
Sick Leave	861	237,825	(237,167)	1,519	1,519
Compensatory	-	263,089	(214,870)	48,219	48,219
	<u>\$ 252,310</u>	<u>766,606</u>	<u>(729,492)</u>	<u>289,424</u>	<u>230,651</u>
Total					

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

NOTE 10 – OPERATING LEASES

The Department leases certain office equipment and an airport hanger under lease agreement 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 26 vehicles on an annual basis from the New Mexico General Services Department.

The cumulative expenditures for operating leases for the year ended June 30, 2008, were \$197,930. Future minimum rental payments under these operating leases are as follows:

<u>For the Year Ended June 30</u>	<u>Total</u>
2009	\$ 111,673
2010	105,297
2011	97,916
2012	92,952
2013	-
Thereafter	-
Total	\$ <u>407,838</u>

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

NOTE 11 – PERA PENSION PLAN

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

Funding Policy. Plan members are required to contribute 7.42% of their gross salary. The Department is required to contribute 16.59% of the gross covered salary. The contribution requirements of plan members and the (name of employer) are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The (name of employer)'s contributions to PERA for the fiscal years ending June 30, 2008, 2007 and 2006 were \$916,902, \$843,995, and \$778,991, respectively, which equal the amount of the required contributions for each fiscal year.

NOTE 12 – POST-EMPLOYMENT BENEFITS

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

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

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

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

**STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at www.nmrhca.state.nm.us.

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. The statute requires each participating employer to contribute 1.3% of each participating employee's annual salary; each participating employee is required to contribute .65% of their salary. Employers joining the program after 1/1/98 are also required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

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

The Department's contributions to the RHCA for the years ended June 30, 2008, 2007 and 2006 were \$70,915, \$63,522 and \$44,146 , respectively, which equal the required contributions for each year.

NOTE 13 – INSURANCE COVERAGE

The Department obtains coverage through Risk Management Division of the State of New Mexico General Services Department. This coverage includes liability and civil rights, property, vehicle, employer bond, workers' compensation, group insurance and state unemployment. These coverages are designed to satisfy the requirements of the State Tort Claims Act. All employees of the Department are covered by blanket fidelity bond up to \$5,000,000 with a \$1,000 deductible per occurrence by the State of New Mexico for the period July 01, 2007, through June 30, 2008.

NOTE 14 – FUND BALANCE -PRIOR-PERIOD ADJUSTMENTS

Various adjustments to the net assets/fund balance as of June 30, 2007, were required as follows:

<u>Description</u>	<u>Fund</u>	<u>Reason</u>	<u>Amount</u>
Capital Projects Funds			
Armory Improvements Fund	89700	To correct errors in severance tax bonds receivable from prior years	\$ (31,448)
Laws of 1994	85000	To correct errors in severance tax bonds receivable from prior years	(15,878)
General Fund	99200	To correct overstatement of calculated reversion from fiscal year 2007	794,616
			<u>\$ 747,290</u>

**STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE 15 – LEASE REVENUE

Details of leases follow:

<u>Tenant</u>	<u>Site</u>	<u>Term</u>	<u>Monthly Rent</u>
Qwest/Verizon	Santa Fe - Tower site	04/19/2000 - 04/19/2010	\$ 605
Cricket	Santa Fe - Tower site	12/01/2005 - 12/01/2010	951
AllTel	Santa Fe - Tower site	10/22/2005 - 10/22/2010	\$ 850

Expected future lease revenue under for the next five years and thereafter follows:

Year Ended	
<u>30-Jun</u>	<u>Amount</u>
2009	\$ 29,039
2010	28,118
2011	15,564
2012	5,120
Total	<u>\$ 77,841</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, 2008, the total royalties recognized from this lease was \$14,101. 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 16 – COMMITMENTS

The Department has entered into a grant agreement with the State of New Mexico, Youth Conservation Corps Commission and the Children Youth and Families Agency (CYFD) 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 and are unemployed or under-employed.

NOTE 17 – DEFICIT FUND BALANCE

Fund 07000 shows a deficit fund balance total of \$59 as a result of accounts payable at year end which will be paid out of the FY 2009 budget. These accounts payable required approval from the DFA Budget Division to payout of the FY 2009 budget.

Fund 99200 shows a deficit fund balance total of \$36,282 as a result of accounts payable at year end which will be paid out of the FY 2009 budget. These accounts payable required approval from the DFA Budget Division to payout of the FY 2009 budget.

**STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE 18 – INTER-AGENCY TRANSFERS & OTHER FINANCING SOURCES (USES)

The Department made/received the following transfers during the fiscal year:

<u>Transferring Agency/Fund</u>	<u>Receiving Agency/Fund</u>	<u>Amount</u>	<u>Purpose of Transfer/Laws</u>
36900/85400	70500/07000	\$ 250,000	Executive Order 2007-033
Subtotal Fund 07000		250,000	
36900/85300	70500/89700	200,000	Special Appropriation, Laws 2008, Chapter 3, Section 5
34100/01900	70500/89700	35,000	Special Appropriation - Laws 2008, Chapter 92, SB 471
34100/01900	70500/89700	1,000,000	Laws 2007, Chapter 2, Section 4-STB revenue recognized
34100/01901	70500/89700	2,500,000	Laws 2007, Chapter 2, Section 22-STB revenue recognized
Subtotal Fund 89700		3,735,000	
36900/85300	70500/93200	1,228,000	General Appropriation - Laws 2008, Ch 28, Sec 4
39400/80100	70500/93200	26,436	SGFIP interest
Subtotal Fund 93200		1,254,436	
36900/85300	70500/99200	5,921,100	General Appropriation - Laws 2008, Ch 28, Sec 4
36900/85300	70500/99200	160,000	Special Appropriation - Laws 2007, Ch 21, Sec 32
34100/62000	70500/99200	127,800	FY2008 Compensation appropriation
Subtotal Fund 99200		6,208,900	
Total other financing sources		\$ 11,448,336	
34100/40300	70500/89700	\$ 193,344	Bond proceeds - Laws 2003, Chapter 429, Section 5
34100/56300	70500/89700	110,766	Bond proceeds - Laws 2002, Chapter 110, Section 4
39400/80100	70500/93200	26,436	SGFIP interest
Total payments on receivables from prior years		\$ 330,546	

NOTE 19 – INTRAFUND TRANSFERS

The interfund transfers are as follows:

<u>Transferring Fund</u>	<u>Receiving Fund</u>	<u>Amount</u>	<u>Purpose of Transfer</u>
99200	07000	\$ 44,498	Cash transfer due to error in payment of PERA Contributions
Total intrafund transfers		\$ 44,498	

COMBINING STATEMENTS

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, 2008

	Department of Military Affairs Fund 06900	State Armory Board Fund 99200	Total General Fund
<u>ASSETS</u>			
Investment in State Treasurer General			
Fund Investment Pool	\$ 281	82,960	83,241
Petty cash	200	-	200
Accounts receivable	-	13,015	13,015
Due from other state agencies	-	11,924	11,924
Due from Federal government	-	3,099,353	3,099,353
	<hr/>	<hr/>	<hr/>
Total assets	\$ 481	3,207,252	3,207,733
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<u>LIABILITIES and FUND BALANCE</u>			
Liabilities:			
Accounts payable	\$ -	1,309,030	1,309,030
Accrued salaries payable	-	163,030	163,030
Payroll taxes payable	-	63,901	63,901
Other payroll liabilities payable	-	107,564	107,564
Due to other funds	-	1,597,548	1,597,548
Due to State General Fund	-	2,460	2,460
Receipts held in suspense	281	-	281
	<hr/>	<hr/>	<hr/>
Total liabilities	281	3,243,533	3,243,814
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Fund Balance:			
Reserved for:			
Petty cash	200	-	200
Unreserved, undesignated	-	(36,281)	(36,281)
	<hr/>	<hr/>	<hr/>
Total fund balance	200	(36,281)	(36,081)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Total liabilities and fund balance	\$ 481	3,207,252	3,207,733
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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, 2008

	Department of Military Affairs Fund 06900	State Armory Board Fund 99200	Total General Fund
Revenues:			
Federal sources	\$ -	9,559,714	9,559,714
Miscellaneous revenue	-	203,342	203,342
Total revenues	-	9,763,056	9,763,056
Expenditures:			
Public Safety			
Current:			
Personal services and benefits	-	7,987,332	7,987,332
Contractual services	-	1,951,188	1,951,188
Other costs	-	6,035,008	6,035,008
Capital outlay	-	767,016	767,016
Total expenditures	-	16,740,544	16,740,544
Excess (deficiency) of revenue over expenditures	-	(6,977,488)	(6,977,488)
Other financing sources (uses)			
State General Fund appropriations	-	6,081,100	6,081,100
Compensation appropriation	-	127,800	127,800
Transfers out	-	(44,498)	(44,498)
Total other financing sources (uses):	-	6,164,402	6,164,402
Net change in fund balance	-	(813,086)	(813,086)
Fund balance, beginning	200	(17,811)	(17,611)
Restatement	-	794,616	794,616
Beginning net assets-as restated	200	776,805	777,005
Net assets-end of the year	\$ 200	(36,281)	(36,081)

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
ARMORY IMPROVEMENTS FUND - CAPITAL PROJECTS (89700) - MAJOR FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
MULTI-YEAR BUDGET (non-GAAP BASIS) AND ACTUAL (GAAP BASIS)
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual Received/ Expensed</u>	<u>Variance from Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Severance tax bond appropriations	\$ 2,902,265	3,322,161	3,500,000	(177,839)
General fund appropriations	<u>235,000</u>	<u>235,000</u>	<u>235,000</u>	<u>-</u>
Total revenues	3,137,265	3,557,161	3,735,000	<u>(177,839)</u>
Fund balance	<u>4,379,090</u>	<u>4,379,090</u>	<u>4,379,090</u>	
Total resources	\$ <u>7,516,355</u>	<u>7,936,251</u>	<u>8,114,090</u>	
Expenditures				
DMA 100% STB Statewide Armory MVP: A030244/0302				
Other Costs	\$ -	20,000	20,000	-
Total Belen Armory MVP	<u>-</u>	<u>20,000</u>	<u>20,000</u>	<u>-</u>
DMA GSD MOU SF Perf Arts GF: A041323				
Other Costs	<u>17,555</u>	<u>17,555</u>	-	<u>17,555</u>
Total DMA MOU SF Perf Arts	<u>17,555</u>	<u>17,555</u>	-	<u>17,555</u>
DMA 100% STB Statewide Armory Improvement: A030243/0301				
Other Uses	<u>-</u>	<u>60,234</u>	<u>45,147</u>	<u>15,087</u>
Total 100% STB Statewide	<u>-</u>	<u>60,234</u>	<u>45,147</u>	<u>15,087</u>
DMA 100% STB Las Cruces Armory Improvement: A050032				
Other Costs	<u>-</u>	<u>50,000</u>	-	<u>50,000</u>
Total STB Las Cruces Armory	<u>-</u>	<u>50,000</u>	-	<u>50,000</u>
Bataan Museum Renovation 100% GF: A051000				
Other Costs	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>	-
Total Bataan Museum Renovation	\$ <u>10,000</u>	<u>10,000</u>	<u>10,000</u>	<u>-</u>

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
ARMORY IMPROVEMENTS FUND - CAPITAL PROJECTS (89700) - MAJOR FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
MULTI-YEAR BUDGET (non-GAAP BASIS) AND ACTUAL (GAAP BASIS)
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual Received/ Expensed</u>	<u>Variance from Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Statewide Armory Renovation				
100% GF: A051001				
Contractual Services	\$ -	68,320	11,710	56,610
Other Costs	-	191,181	178,491	12,690
Other Uses	-	5,000	-	5,000
Total Statewide Armory GF	<u>-</u>	<u>264,501</u>	<u>190,201</u>	<u>74,300</u>
Las Cruces Armory Renovation				
100% GF: A051002				
Other Costs	-	10,000	-	10,000
Total Las Cruces Armory	<u>-</u>	<u>10,000</u>	<u>-</u>	<u>10,000</u>
Bataan Museum Renovation				
GF: A060739				
Other Costs	20,000	20,000	20,000	-
Total Bataan Museum Renov GF	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>	<u>-</u>
Santa Fe AASF				
GF: A061978				
Capital Outlay	155,000	155,000	-	155,000
Total Santa Fe AASF	<u>155,000</u>	<u>155,000</u>	<u>-</u>	<u>155,000</u>
Statewide Armory Renovation				
GF: A073026				
Other Costs	3,166,812	3,166,812	378,949	2,787,863
Other Uses	31,988	31,988	-	31,988
Total Statewide Armory GF	<u>3,198,800</u>	<u>3,198,800</u>	<u>378,949</u>	<u>2,819,851</u>
Farmington Hangar 100% STB				
STB: A073770				
Capital Outlay	148,500	148,500	148,500	-
Other Uses	1,500	1,500	-	1,500
Total Farmington Hangar STB	<u>150,000</u>	<u>150,000</u>	<u>148,500</u>	<u>1,500</u>
NMYCA Bus Purchase				
GF: A075643				
Capital Outlay	80,000	80,000	80,000	-
Total NMYCA Bus Purchase	<u>\$ 80,000</u>	<u>80,000</u>	<u>80,000</u>	<u>-</u>

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
ARMORY IMPROVEMENTS FUND - CAPITAL PROJECTS (89700) - MAJOR FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
MULTI-YEAR BUDGET (non-GAAP BASIS) AND ACTUAL (GAAP BASIS)
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual Received/ Expensed</u>	<u>Variance from Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Farmington Hangar 100% GF				
GF: A075644				
Capital Outlay	\$ 148,500	148,500	148,500	-
Other Uses	1,500	1,500	-	1,500
Total Farmington Hangar 100% GF	<u>150,000</u>	<u>150,000</u>	<u>148,500</u>	<u>1,500</u>
DMA STB Armories Upgrades				
Rio Rancho & Statewide A083005				
Other Costs	1,000,000	1,000,000	-	1,000,000
Total STB Armories Upgrades	<u>1,000,000</u>	<u>1,000,000</u>	<u>-</u>	<u>1,000,000</u>
DMA STB SF Aviation Readiness				
Center A083281				
Other Costs	2,475,000	2,475,000	-	2,475,000
Other Uses	25,000	25,000	-	25,000
Total STB Armories Upgrades	<u>2,500,000</u>	<u>2,500,000</u>	<u>-</u>	<u>2,500,000</u>
DMA Armory Repair/Improvement				
A083396				
Other Costs	\$ 35,000	35,000	-	35,000
Total STB Armories Upgrades	<u>35,000</u>	<u>35,000</u>	<u>-</u>	<u>35,000</u>
DMA Design Settlement Taos: 0401				
Contractual Services	-	2,627	-	2,627
Total DMA Design Settlement	<u>-</u>	<u>2,627</u>	<u>-</u>	<u>2,627</u>
DMA 100% GF Reauth M&R				
Construction: 0606				
Other Costs	-	8,751	-	8,751
Total GF Reauth M&R	<u>-</u>	<u>8,751</u>	<u>-</u>	<u>8,751</u>
DMA 100% GF USS NM Comm				
Construction: 0607				
Other Costs	-	430	-	430
Total Bataan Museum Renov GF	<u>-</u>	<u>430</u>	<u>-</u>	<u>430</u>
DMA 100% GF Armory M&R				
Construction: 0608				
Other Costs	-	3,353	-	3,353
Total GF Armory M&R	<u>-</u>	<u>3,353</u>	<u>-</u>	<u>3,353</u>

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
ARMORY IMPROVEMENTS FUND - CAPITAL PROJECTS (89700) - MAJOR FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
MULTI-YEAR BUDGET (non-GAAP BASIS) AND ACTUAL (GAAP BASIS)
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual Received/ Expensed</u>	<u>Variance from Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
DMA Laws 2008 Spec Approp Z80184				
Other Costs	200,000	200,000	-	200,000
Total Laws 2008	<u>200,000</u>	<u>200,000</u>	<u>-</u>	<u>200,000</u>
Total expenditures	<u>7,516,355</u>	<u>7,936,251</u>	<u>1,041,297</u>	<u>6,894,954</u>
Excess (deficiency) of revenues over expenditures	<u>\$ -</u>	<u>-</u>	<u>7,072,793</u>	<u>(7,072,793)</u>

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
AS OF JUNE 30, 2008

	<u>Special Revenue</u>	<u>Capital Projects</u>	
	<u>Service Members' Life Insurance Reimbursement Fund 93200</u>	<u>Laws of 1994 Fund 85000</u>	<u>Total Other Governmental Funds</u>
<u>ASSETS</u>			
Investment in State Treasurer General Fund Investment Pool	\$ 330,262	4,671	334,933
Due from other state agencies	<u>5,096</u>	<u>-</u>	<u>5,096</u>
Total assets	<u>\$ 335,358</u>	<u>4,671</u>	<u>340,029</u>
<u>LIABILITIES and FUND BALANCE</u>			
Liabilities:			
Accounts payable	\$ 532	-	532
Due to State General Fund (note 5)	<u>-</u>	<u>4,671</u>	<u>4,671</u>
Total liabilities	<u>532</u>	<u>4,671</u>	<u>5,203</u>
Fund balance:			
Unreserved reported in:			
Special Revenue Funds	<u>334,826</u>	<u>-</u>	<u>334,826</u>
Total fund balance	<u>334,826</u>	<u>-</u>	<u>334,826</u>
Total liabilities and fund balance	<u>\$ 335,358</u>	<u>4,671</u>	<u>340,029</u>

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, 2008

	<u>Special Revenue</u>	<u>Capital Projects</u>	
	<u>Service Members' Life Insurance Reimbursement Fund 93200</u>	<u>Laws of 1994 Fund 85000</u>	<u>Total Other Governmental Funds</u>
Revenues:			
Interest on investments	\$ 26,436	-	26,436
Total revenues	<u>26,436</u>	<u>-</u>	<u>26,436</u>
Expenditures:			
Public Safety			
Current:			
Other costs	<u>1,044,436</u>	<u>-</u>	<u>1,044,436</u>
Total expenditures	<u>1,044,436</u>	<u>-</u>	<u>1,044,436</u>
Excess (deficiency) of revenue over expenditures	<u>(1,018,000)</u>	<u>-</u>	<u>(1,018,000)</u>
Other financing sources (uses)			
State General Fund appropriations	1,228,000	-	1,228,000
Reversions to state general fund	<u>-</u>	<u>(4,671)</u>	<u>(4,671)</u>
Total other financing sources (uses):	<u>1,228,000</u>	<u>(4,671)</u>	<u>1,223,329</u>
Net change in fund balance	<u>210,000</u>	<u>(4,671)</u>	<u>205,329</u>
Fund balance, beginning	124,826	20,549	145,375
Restatement	<u>-</u>	<u>(15,878)</u>	<u>(15,878)</u>
Beginning net assets-as restated	<u>124,826</u>	<u>4,671</u>	<u>129,497</u>
Net assets-end of the year	<u>\$ 334,826</u>	<u>-</u>	<u>334,826</u>

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
SERVICE MEMBERS' LIFE INSURANCE REIMBURSEMENT FUND (93200)
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND NET ASSETS BUDGET (non-GAAP BASIS) AND ACTUAL (GAAP BASIS)
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
State general fund	\$			
appropriations	1,228,000	1,228,000	1,228,000	-
Interest on investments	<u>12,018</u>	<u>12,018</u>	<u>26,436</u>	<u>14,418</u>
Total revenues	<u>1,240,018</u>	<u>1,240,018</u>	<u>1,254,436</u>	<u>14,418</u>
Expenditures				
Current (Public Safety):				
Other costs	<u>1,240,018</u>	<u>1,240,018</u>	<u>1,233,082</u>	<u>6,936</u>
Total expenditures	<u>1,240,018</u>	<u>1,240,018</u>	<u>1,233,082</u>	<u>6,936</u>
Excess (deficiency) of revenues over expenditures	\$ <u>-</u>	<u>-</u>	<u>21,354</u>	<u>21,354</u>

Reconciliation of Budgetary Basis to Fund Financial Statement

Total budget basis expenditures for fiscal year 2008:	\$ 1,233,082
Adjustments:	
Prior year accounts payable paid out of FY2008 budget	<u>(188,646)</u>
Total GAAP Basis Expenditures for the fiscal year ended June 30, 2008:	<u>\$ 1,044,436</u>

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, 2008

	<u>Balance</u> <u>June 30, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2008</u>
Assets				
Cash in local banks	\$ 53,809	143,962	(124,877)	72,894
Total assets	<u>53,809</u>	<u>143,962</u>	<u>(124,877)</u>	<u>72,894</u>
Liabilities				
Deposits held in custody for others	53,809	143,962	(124,877)	72,894
Total liabilities	<u>\$ 53,809</u>	<u>143,962</u>	<u>(124,877)</u>	<u>72,894</u>
Armory				
	<u>Balance</u> <u>June 30, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2008</u>
Alamogordo	\$ 473	5,800	(3,720)	2,553
Albuquerque	3,470	1,600	(1,850)	3,220
Belen	738	2,693	(3,215)	216
Carlsbad	146	1,000	(923)	223
Clayton	1,868	4,520	(2,733)	3,655
Clovis	401	-	(401)	-
Deming	72	2,125	(1,668)	529
Espanola	933	13,200	(11,180)	2,953
Farmington	2,505	2,723	(3,234)	1,994
Gallup	450	350	(783)	17
Grants	8,896	17,812	(24,067)	2,641
Hobbs	139	2,004	(2,039)	104
Joint Forces HQ	1,243	3,663	(3,431)	1,475
Las Cruces	3,181	11,759	(9,414)	5,526
Las Vegas	1,373	9,625	(6,958)	4,040
Lordsburg	2,143	-	(2,143)	-
Portales	-	1,490	(489)	1,001
Rio Rancho	2,797	8,400	(7,362)	3,835
Roswell	407	10,500	(3,045)	7,862
Santa Clara	1,567	6,450	(5,761)	2,256
Santa Fe	17,478	27,619	(27,799)	17,298
Santa Rosa	1,175	4,000	(2,619)	2,556
Socorro	-	4,704	(1,314)	3,390
Springer	882	675	(528)	1,029
Taos	1,073	1,250	(2,045)	278
Tucumcari	399	-	3,844	4,243
Total	<u>\$ 53,809</u>	<u>143,962</u>	<u>(124,877)</u>	<u>72,894</u>

SUPPLEMENTARY INFORMATION

**STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
DESCRIPTION OF MAJOR FUNDS
FOR THE YEAR ENDED JUNE 30, 2008**

MAJOR GOVERNMENTAL FUNDS

General Fund

To account for all resources traditionally associated with governments which are not required to be accounted for in another fund.

Department of Military Affairs – This fund was formerly used to account for some of the operations of the Department. It is currently being phased out. (*SHARE Fund #06900*)

State Armory Board – To account for the general operations of the Department of Military Affairs and the State Armory Board, including the Air National Guard, Civil Air Patrol, Tuition Assistance Program, WETS/MATES (Weekend Training Sites/Mobilization Authorization Training and Engineering Sites), Environmental Resources, the ARNG O & M Agreement (Army National Guard Operations and Maintenance Agreement), the Youth ChalleNGe Program, and the ILEA (International Law Enforcement Academy) Program. Funding is provided by state general fund appropriations, Federal cost sharing agreements, building rentals and other miscellaneous revenues. This fund now accounts for all of the general operations of the Department of Military Affairs. (*SHARE Fund #99200*)

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources which are legally restricted to expenditures for specific purposes.

Adjutant General's Emergency 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.) (*SHARE Fund #07000*)

Capital Projects Funds

Capital Projects are used to account for funds which are to be used to fund major capital improvements.

Armory Improvements Capital Projects Fund – To account for federal and state appropriations for construction of all armories started before July 1, 1993, the Hawk Missile Utility Extension, Onate Complex improvements, statewide armory improvements, and the building renovations for the ILEA Program. (*SHARE Fund #89700*)

**STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
DESCRIPTION OF NON-MAJOR FUNDS
FOR THE YEAR ENDED JUNE 30, 2008**

NON-MAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources which are legally restricted to expenditures for specific purposes.

Service Members' Life Insurance REimbursement 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. (*SHARE Fund #93200*) This fund is non-reverting to the State General Fund.

Capital Projects Funds

Capital Projects are used to account for funds which are to be used to fund major capital improvements or acquisitions.

Laws of 1994 – To account for federal and state appropriations for construction of the Clayton Armory, Portales Armory (Transfer), the Emergency Management Center, the Headquarters Buildings, and the Taos Readiness Center. This fund is currently inactive and therefore did not have a formal budget adopted for FY2008. (*SHARE Fund #85000*)

**STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008**

<u>Federal Grantor/Pass-Through Program Title</u>	<u>Federal CFDA Number</u>	<u>Report Category</u>	<u>Adjusted Grants Receivable 6/30/2007</u>	<u>Adjusted Federal Awards Expended</u>	<u>Federal Receipts</u>	<u>Grants Receivable (Deferred Revenue 6/30/2008</u>
U.S. Department of Defense National Guard Bureau						
National Guard Military Operations and Maintenance Projects: * 12.401						
WETS/MATES AND O&M						
	A01100, A01075, A01050					
DAHA29-06-2-1001			\$ 516,872	-	(429,951)	86,921
DAHA29-07-2-1001			1,884,995	1,910,170	(3,558,572)	236,593
W912J3-08-2-1001			-	2,560,461	(1,245,388)	1,315,073
OPERATION JUMPSTART						
	A0110A					
DAHA29-07-2-1001A			119,949	77,408	(197,357)	-
W912J3-08-2-1001-A			-	157,618	(128,806)	28,812
ENVIRONMENTAL RESOURCE MGMT:						
	A02100,A02075					
DAHA29-05-2-1002			72,774	43,966	(116,740)	-
DAHA29-06-2-1002			43,445	107,700	(131,470)	19,675
DAHA29-07-2-1002			62,266	124,051	(185,484)	833
W912J3-08-2-1002			-	353,982	(264,779)	89,203
PHYSICAL SECURITY:						
	A03100					
DAHA29-07-2-1003			500,985	223,489	(724,474)	-
W912J3-08-2-1003			-	602,292	(449,086)	153,206
ELECTRONIC SECURITY:						
	A04100					
DAHA29-06-2-1004			3,954	-	(3,207)	747
DAHA29-07-2-1004			80,009	51,985	(129,150)	2,844
W912J3-08-2-1004			-	114,738	(98,934)	15,804
SUSTAINABLE RANGE PROGRAM:						
	A07100					
DAHA29-07-2-1007			74,844	123,185	(198,029)	-
W912J3-08-2-1007			-	150,859	(100,718)	50,141
ANTI-TERRORISM PROGRAM MANAGER:						
	A10100					
DAHA29-07-2-1010			-	21,743	(21,743)	-
W912J3-08-2-1010			-	43,152	(36,834)	6,318
AIR NAT. GUARD O&M:						
	A21000					
DAHA29-07-2-1021			281,453	235,779	(517,232)	-
W912J3-08-2-1021			-	396,259	(246,866)	149,393
AIR NAT. GUARD ENVIRONMENT:						
	A22075					
DAHA29-06-2-1022			813	-	(813)	-
DAHA29-07-2-1022			31,922	11,156	(43,078)	-
W912J3-08-2-1022			-	30,363	(21,861)	8,502

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

Federal Grantor/Pass-Through Program Title	Federal CFDA Number	Report Category	Adjusted Grants Receivable 6/30/2007	Adjusted Federal Awards Expended	Federal Receipts	Grants Receivable (Deferred Revenue 6/30/2008)
AIR NAT. GUARD SECURITY:		A23100				
DAHA29-07-2-1023			4,842	17,507	(22,349)	-
W912J3-08-2-1023			-	62,984	(33,070)	29,914
AIR NAT. FAMILY SUPPORT:		A29100				
DAHA29-07-2-1029			46,695	4,826	(51,521)	-
W912J3-08-2-1041-A			-	44,661	(31,417)	13,244
DISTANCE LEARNING:		A40100				
DAHA29-07-2-1040			547	410	(957)	-
W912J3-08-2-1040			-	4,906	(4,906)	-
ARMY NAT. GUARD FAMILY SUPPORT:		A41100				
DAHA29-06-2-1041			1,890	-	(171)	1,719
DAHA29-07-2-1041			48,473	56,846	(105,319)	-
W912J3-08-2-1041			-	151,868	(120,419)	31,449
NATIONAL GUARD YOUTH CHALLENGE PROGRAM:		* 12.404 360X00				
DAHA29-06-2-4002			316,133	136,340	(452,473)	-
W912J3-08-2-1041			-	1,602,988	(744,026)	858,962
TOTAL NATIONAL GUARD BUREAU			<u>4,092,861</u>	<u>9,423,692</u>	<u>(10,417,200)</u>	<u>3,099,353</u>
U.S. Department of Agriculture: Passed through the NM Public Education Department						
National School Lunch Program (NSLP)	10.555	360100	-	115,093	(115,093)	-
School Breakfast Program (SBP)	10.553	360100	-	-	-	-
TOTAL NM PUBLIC EDUCATION DEPT.			<u>-</u>	<u>115,093</u>	<u>(115,093)</u>	<u>-</u>
TOTAL FEDERAL AWARDS			<u>\$ 4,092,861</u>	<u>9,538,785</u>	<u>(10,532,293)</u>	<u>3,099,353</u>
Grants receivable			4,092,861	9,538,785	(10,532,293)	3,099,353
Deferred revenue			-	-	-	-
Net grants receivable			<u>4,092,861</u>	<u>9,538,785</u>	<u>(10,532,293)</u>	<u>3,099,353</u>

*Major Program

Note 1. Basis for Presentation

The Schedule of Expenditures and Receipts of Federal Awards is presented on the accrual basis of accounting which is the same basis as that used to prepare the financial statements

Note 2 - Non-cash assistance

The Department did not receive any federal awards in the form of non-cash assistance during the year.

Note 3 - Sub-recipients

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

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, 2008

Description	SHARE Identifier #	Appropriation Period	Original Appropriation	Expend- itures To Date	Out- standing Encumb- rances	Expended but not Drawn Down	Unencumb- ered Balances
Fund 89700							
Special, Deficiency, Specific and Capital Outlay Appropriations							
Laws 2005 - Chapter 347, Section 24, Item 2	05-1001	07/01/2006 - 06/30/2010	\$ 500,000	425,701	2,903	-	71,396
Laws 2005 - Chapter 347, Section 24, Item 3	05-1002	07/01/2006 - 06/30/2010	10,000	-	-	-	10,000
Laws 2006 - Chapter 111, Section 3	06-1978	07/01/2006 - 06/30/2010	155,000	-	-	-	155,000
Laws 2007 - Chapter 2, Section 3	07-3026	07/01/2005 - 06/30/2011	3,198,800	378,949	-	-	2,819,851
Laws 2007 - Chapter 42, Section 69, Item 2	07-5644	07/01/2007 - 06/30/2011	150,000	148,500	-	-	1,500
Laws 2008 - SB471, Chapter 92, Section 35	08-3396	07/01/2007 - 06/30/2012	35,000	-	-	-	35,000
Laws 2008 - Chapter 3, Section 5, Item 84	08-0184	07/01/2007 - 06/30/2009	200,000	-	-	-	200,000
Total special and capital outlay appropriations outstanding			<u>\$ 4,248,800</u>	<u>953,150</u>	<u>2,903</u>	<u>-</u>	<u>3,292,747</u>
Severance Tax Bonds Outstanding							
Laws 2003 - Chapter 429, Section 5, Item 1	03-0243	07/01/2003 - 06/30/2008	\$ 250,000	219,703	1,225	15,210 *	13,862
Laws 2003 - Chapter 429, Section 5, Item 2	03-0244	07/01/2003 - 06/30/2008	20,000	-	-	20,000 *	-
Laws 2005 - Chapter 347, Section 4, Item 1	05-0032	07/01/2005 - 06/30/2010	50,000	-	-	-	50,000
Laws 2007 - Chapter 42, Section 24	07-3770	07/01/2007 - 06/30/2011	150,000	1,500	-	-	148,500
Laws 2008 - Chapter 92, Section 4	08-3005	07/01/2007 - 06/30/2012	1,000,000	-	-	-	1,000,000
Laws 2008 - Chapter 92, Section 22	08-3281	07/01/2007 - 06/30/2012	2,500,000	-	-	-	2,500,000
Less expired appropriations - Laws 2003 Chap. 429, Sec. 5			-	-	-	-	(13,862)
Total severance tax bonds outstanding			<u>3,970,000</u>	<u>221,203</u>	<u>1,225</u>	<u>35,210</u>	<u>3,698,500</u>
			<u>\$ 8,218,800</u>	<u>1,174,353</u>	<u>4,128</u>	<u>35,210</u>	<u>6,991,247</u>
		Total reserved for future years' expenditures					<u>6,991,247</u>
		Total encumbered amounts			<u>\$ 4,128</u>	<u>35,210</u>	

* - Amounts expended in FY 2008, but not drawn down by the Department prior to the fiscal year end.

All unencumbered balances may be used during the appropriation period noted above.

**STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
SCHEDULE OF JOINT POWERS AGREEMENTS AND MEMORANDUMS OF UNDERSTANDING
FOR THE YEAR ENDED JUNE 30, 2008**

Participants	Responsible Party for Operations	Description	Beginning & Ending Dates	Total Estimated Amount of Project	Agency Contributions in FY 2008	Revenues & Expenditures Reported On By:	Audit Responsibility
New Mexico Corrections Dept. (NMCD)	NMCD	Janitorial and landscape work	Open	Pd by NMCD	-	NMCD	NMCD
Eastern NM University Roswell Youth Challenge PO#1139	DMA & SAB	Food services for cadets attending	07-01-07 to 6/30/2008	\$ 419,688	419,688	DMA & SAB	DMA & SAB
University of NM Natural Heritage Program (NMNHP)	DMA & SAB	Biological resources management pgm. for NM lands	Ongoing to 6/30/2009	73,409	73,409	DMA & SAB	DMA & SAB
University of NM Office of Cultural Affairs (NMOCA) PO#1253	DMA & SAB	Cultural resources management pgm. for NMANG sites	Ongoing to 6/30/2008	255,000	209,487	DMA & SAB	DMA & SAB
Eastern NM Univ. PO#1138	DMA & SAB	Provide vocational training at ENMU for Youth Challenge cadets	07-01-07 to 6/30/2008	180,000	175,000	DMA & SAB	DMA & SAB
University of NM PO#1229	DMA & SAB	Survey of presence of rare & protected species	Ongoing to 6/30/2009	64,234	64,234	DMA & SAB	DMA & SAB
University of NM PO#1413	DMA & SAB	Roswell WETS site - Presence of rare protected, threatened & endangered species	09/11/07 TO 6/30/2009	66,150	66,150	DMA & SAB	DMA & SAB
University of NM PO#1413	DMA & SAB	Roswell WETS site - Data recovery	9/27/07 TO 6/30/2009	9,911	9,911	DMA & SAB	DMA & SAB
University of NM PO#1414	DMA & SAB	Happy Valley - Data recovery	6/12/08 TO 6/30/2009	199,640	199,640	DMA & SAB	DMA & SAB

**STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
SCHEDULE OF JOINT POWERS AGREEMENTS AND MEMORANDUMS OF UNDERSTANDING
FOR THE YEAR ENDED JUNE 30, 2008**

Participants	Responsible Party for Operations	Description	Beginning & Ending Dates	Total Estimated Amount of Project	Agency Contributions in FY 2008	Revenues & Expenditures Reported On By:	Audit Responsibility
University of NM PO#1415	DMA & SAB	Camel Tracks - To conduct site monitoring/species mgmt	9/26/07 TO 6/30/2009	25,000	25,000	DMA & SAB	DMA & SAB
University of NM PO#2616	DMA & SAB	Black Mountain - site monitoring/ species management	9/27/07 TO 6/30/2009	50,000	50,000	DMA & SAB	DMA & SAB
University of NM PO#1418	DMA & SAB	Camel Tracks - To conduct data recovery	9/26/07 TO 6/30/2009	\$ 78,530	78,530	DMA & SAB	DMA & SAB

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

Major General Kenny Montoya, Adjutant General
State of New Mexico
Department of Military Affairs and State Armory Board
and
Mr. Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

We have audited the financial statements of the governmental activities, each major fund, the aggregate remaining fund information, the budgetary comparisons for the general fund and major special revenue funds, and the combining and individual funds and budgetary comparisons presented as supplemental information of the Department of Military Affairs/State Armory Board (Department) as of and for the year ended June 30, 2008, and have issued our report thereon dated December 12, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Department's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Department's financial statements that is more than inconsequential will not be prevented or detected by the Department's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting: 08-01, 08-02, and 08-03.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 08-01 and 08-03 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described in the accompanying schedule of findings and questioned costs and responses as items 07-02.

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

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

The image shows a handwritten signature in black ink that reads "Hinkle & Landers, P.C." in a cursive, script font.

Hinkle & Landers, P.C.
December 12, 2008

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

Major General Kenny Montoya, Adjutant General
State of New Mexico
Department of Military Affairs and State Armory Board
and
Mr. Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

Compliance

We have audited the compliance of the Department of Military Affairs/State Armory Board (the Department) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

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

In our opinion, the Department complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

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

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

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

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

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

A handwritten signature in black ink that reads "Hinkle & Landers, P.C." in a cursive, stylized font.

Hinkle & Landers, P.C.
December 12, 2008

**STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors' report issued Unqualified

Internal Control over financial reporting:

Material weaknesses identified? X Yes ___ No

Significant deficiencies identified that are not considered to be material weaknesses? X Yes ___ No

Non-compliance material to financial statements noted? X Yes ___ No

Federal Awards

Internal Control

Material weaknesses identified? ___ Yes X No

Significant deficiencies identified that are not considered to be material weaknesses? ___ Yes X No

Type of auditors' report issued on major programs Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? ___ Yes X No

Identification of major program as noted below:

<u>CFDA Numbers Funding Source</u>	<u>Name of Federal Programs</u>	<u>Funding Source</u>
12.401	National Guard Military Operations and Maintenance Projects	U.S. Department of Defense/National Guard Bureau
12.404	National Guard Civilian Youth Opportunities	U.S. Department of Defense/National Guard Bureau

Dollar threshold used to distinguish between A and B programs: \$300,000

Auditee qualified as low-risk auditee? ___ Yes X 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, 2008**

SECTION II AND III- FINANCIAL STATEMENTS AND FEDERAL AWARD FINDINGS

<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			
07-01 ACCOUNTING SYSTEM-SHARE	Resolved	Yes	no
07-02 FAILURE TO REVERT FUNDS TO THE STATE GENERAL FUND	Modified/ Repeated	Yes	no
07-03 BANK RECONCILIATIONS	Resolved	Yes	no
Current Year Findings			
08-01 PROPER MAINTENANCE OF CAPITAL ASSET LISTINGS	Current	Yes	no
08-02 OVERSIGHT OF LOCAL ARMORY BOARD ACTIVITIES AND FUNDS	Current	Yes	no
08-03 SAS 112 - MATERIAL ADJUSTMENTS BY AUDITOR	Current	Yes	no

PRIOR YEAR FINDINGS

07-02 – REVERSIONS NOT MADE TIMELY TO STATE GENERAL FUND

Statement of Condition

As of June 30, 2008, the Department had a liability of \$491,386 owing to the State General Fund for unreserved and undesignated fund balances of reverting funds. These liabilities were not transferred to the State General Fund by the September 30 deadlines. The reversion amounts were comprised of the following:

Fiscal year 2006 reversion	\$107,728
Fiscal year 2007 reversion	237,483
Fiscal year 2008 reversion	<u>146,175</u>
Total	<u><u>\$490,377</u></u>

Criteria

The General Appropriations Act of 2007, Laws 2007, Chapter 28, Section 3 (General Provisions), requires any unencumbered balances in agency accounts remaining at the end of fiscal year 2007 shall revert to the general fund by September 30th. 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 2007 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 revert the June 30, 2008 balance of funds owing to the State General Fund.

**STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

Recommendation

We recommend that the Department be aware of how much needs to revert to the State General Fund based on its analysis of if financials and revert all unreserved and undesignated funds to the State General Fund as required by Section 6-5-10, NMSA.

Management Response

Concur. The Department will prepare and submit general fund reversions no later than January 15, 2009, based upon this (FY08) audit report. Future annual general fund reversions will be calculated in accordance with Department of Finance and Administration's direction.

CURRENT YEAR FINDINGS

08-01 – PROPER MAINTENANCE OF CAPITAL ASSET LISTINGS

Statement of Condition

During the audit, it was observed that the Department did not have an effective system in place to identify and capture all transactions that needed to be capitalized and depreciated for the government-wide financial statements. Management was not able to provide a complete inventory listing for all capital assets held by the Department and no physical inventory of capital assets had been conducted by the entity in the current fiscal year as required by NMAC 2.20.1.16.

While there was a process in place to record the purchase and subsequent issuance of tracking numbers for equipment costing in excess of \$5,000, testing carried out during the audit determined that the process was not effective in capturing all of the items required to be capitalized. There was also no process in place to ensure that items on this listing were carried over to the actual capital asset inventory sheets. An additional \$128,094 in items not shown on the list had to be capitalized.

In addition, there were significant amounts of repair and maintenance expenditures (\$685,116) required to be capitalized as betterments and improvements to existing buildings that were not identified for addition to the capital asset listing.

Criteria

Per the NM Audit Act (12-6-10, NMSA 1978) expenditures exceeding \$5,000 for equipment, furniture, building improvements and betterments, etc should be capitalized and depreciated out over their useful life. Additionally, an inventory should be maintained identifying those items considered capital assets.

Section 12-6-10, NMSA 1978, requires each agency to conduct an annual physical inventory of movable chattels and equipment on the inventory list at the end of each fiscal year. The agency shall certify the correctness of the inventory after the physical inventory.

Effect

The lack of an effective process to identify all expenditures to be capitalized and to ensure that an accurate and complete listing of those assets creates the risk of material misstatements to the financial statements. Failure to conduct and certify an annual inventory of capital assets places the Department in non-compliance with State statutes.

**STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

Cause

During the year ended June 30, 2008, the Department had significant changes in personnel in key financial positions. During this transition the process for identifying and capitalizing equipment, betterments, and improvements was overlooked and the process broke down.

Recommendation

It is recommended that the Department implement a process whereby all vouchers are reviewed to determine if they should be capitalized and then recorded as additions to the capital asset inventory listing as necessary. Each year, an inventory should be conducted to verify the accuracy and completeness of the inventory listing. The inventory should be certified by Military Affairs personnel and a copy maintained in the Department's files.

Management Response

Concur. During the audit, the agency provided a list of all transactions identified as Capital outlay expenditures. The Department maintains two data bases to account for capital assets. The first contains data regarding land and buildings and the second contains the data for all other capital assets. The Department will reconcile monthly capital outlay expenditures to the capital asset database.

08-02 – OVERSIGHT OF LOCAL ARMORY BOARD ACTIVITIES AND FUNDS

Statement of Condition

During the audit of the State Armory Board's (SAB) activities and oversight procedures for the various Local Armory Boards (LAB) around the state, it was observed that multiple LABs were not in compliance with Department policy for submitting their activity reports on a monthly basis. Of the 27 active LABs, eight (8) did not submit any documentation or only partial documentation for the year ended June 30, 2008. As a result, the SAB was not able to review their activity and cash balances to determine if they were in compliance with Department policies.

It was also observed that the process for reviewing and reconciling the LAB's documents at the SAB was not effective in requiring and ensuring compliance by the Local Armory Boards.

Criteria

Section IV of the Standard Operating Procedure for the State Armory Board requires that the State Programs Finance Office shall perform monthly audits of all LAB funds and that required documentation must be submitted no later than the 15th day of the month following the audit month.

Effect

The lack of routine reviews and reconciliations of LAB activities and cash balances creates the potential for material misstatements of the cash balances held by the Local Armory Boards due to theft, fraud, or failures in the reporting process.

Cause

Due to personnel changes at the Department, personnel have been unable to provide adequate attention to the Local Armory Board activities and to ensure compliance from all Boards.

Recommendation

It is recommended that a process be developed whereby the individual tasked with reviewing and reconciling the Local Armory Board activities creates a worksheet to track the submission of required documents on a monthly basis. For those armories that do not submit their documents timely, a process for following up with LABs

**STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

should be implemented that both ensures timely submission of the documents and established consequences for failure to submit them by the required date.

In addition, the monthly paperwork should be reviewed timely once it is submitted and any discrepancies addressed with the respective armory to ensure resolution. A process for monitoring the review process should be implemented that involves senior management reviewing and signing off on the reconciliations on a monthly basis to ensure they are submitted timely by the LABs and subsequently reviewed in a timely manner by SAB personnel.

Management Response

Concur. Local Armory Boards must comply with the State Armory Board policies and regulations. The Executive Director of the SAB will continue to brief this issue at the quarterly SAB meetings.

08-03 – SAS 112 - MATERIAL ADJUSTMENTS BY AUDITOR

Statement of Condition

During our audit we made several adjustments to the Department's books that SAS 112 requires to be reported as a finding. The adjustments consisted of the following:

- Accrual of unrecorded accounts receivable at June 30, 2008 totaling \$527,593
- Capitalization of assets not identified by client totaling \$813,210.

Criteria

Statement of Auditing Standards (SAS) 112 was implemented as of December 15, 2006. Some of the key underlying concepts of this standard are

- The auditor cannot be part of a client's internal control. Becoming part of a client's internal control impairs the auditor's independence.
- What the auditor does is independent of the client's internal control over financial reporting. Therefore, the auditor cannot be a compensating control for the client.
- A system of internal control over the financial reporting does not stop at the general ledger; rather it includes controls over the preparation of the financial statements.

Recording these adjustments is considered a significant process that the client needs to maintain. Also since significant adjustments to the financials were made it calls into question whether the Department staff has the qualifications and training to apply generally accepted accounting principles in recording the entity's financial transactions or preparing its financial statements.

Effect

Because these adjustments were made/identified by the auditor, and not by the City, it shows an internal control weakness in maintaining the general ledger and would potentially extend to the audit report. This significantly increases the potential for misstated financial statements.

**STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

Cause

The Department's personnel and internal control procedures were not effective in identifying and correcting material errors to the general ledger that would have resulted in material misstatement of the financial statements had they not been corrected by the auditor.

Recommendation

We recommend that the Department make adjustments to their general ledger in a timely manner. Asking for technical advice from the auditor or from someone else when these adjustments are needed is not considered a control deficiency as long as the staff of the Department initiates/makes the adjustment and understands how and why the adjustments were made.

Management Response

Concur. The Department will make the adjustments on a timely manner. The Department requests that the IPA work with the Department to prepare, review and make the adjustments for FY-08. The Department will request training from the Department of Finance and Administration.

**STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
EXIT CONFERENCE
FOR THE YEAR ENDED JUNE 30, 2008**

An exit conference was held on December 12, 2008. Present at the exit conference were:

For Department of Military Affairs/State Armory Board:

Colonel Jack Fox	Deputy Adjutant General
George Jeantete	Director of State Programs
Theresa V. Martinez	Senior Administrative Manager
Lawrence Montano	Chief Financial Officer
Sandra Gonzales-Bazan	Procurement Manager
Roberto Rojo, Jr	Human Resources Manager, State Programs

For Hinkle & Landers, P.C.:

Farley Vener, CPA, CFE	Audit Partner
Erick Robinson	Auditor

PREPARATION OF THE FINANCIAL STATEMENTS

The accompanying financial statements of the Agency have been prepared by Hinkle & Landers, P.C., the Department's independent public auditors, however, the financial statements are the responsibility of management.