

**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, 2009**

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

**STATE OF NEW MEXICO  
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD  
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FOR THE YEAR ENDED JUNE 30, 2009**

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**STATE OF NEW MEXICO  
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD  
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**STATE OF NEW MEXICO  
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD  
OFFICIAL ROSTER  
AS OF JUNE 30, 2009**

**DEPARTMENT OF MILITARY AFFAIRS**

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

**STATE ARMORY BOARD**

Major General Kenny C. Montoya..... Chairman  
SCSM Richard Bryant..... Secretary/Treasurer  
Mr. George Jeantete ..... Executive Director  
Mr. Danny Hawkes..... Member  
LTC S. Vincent Martinez ..... Member  
LTG (Ret.) Melvyn Montano ..... Member  
CSM (Ret) Kevin Myers ..... Member  
CSM (Ret) John Torres ..... 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, 2009, 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, 2009, 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, 2009, 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, 2009, 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, 2009 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, 2009 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 18, the Department adopted the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* in 2009.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 15, 2009, 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 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.

The image shows a handwritten signature in black ink that reads "Hinkle & Landers, P.C.". The signature is written in a cursive, flowing style.

Hinkle & Landers, P.C.  
December 15, 2009

**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD**  
**STATEMENT OF NET ASSETS**  
**GOVERNMENT-WIDE**  
**AS OF JUNE 30, 2009**

	<u>Governmental Activities</u>
<b><u>ASSETS</u></b>	
Current assets:	
Investment in State Treasurer General Fund Investment Pool	\$ 2,701,885
Petty cash	200
Accounts receivable	16,679
Due from other state agencies	67,846
Due from Federal government	3,558,154
Total current assets	<u>6,344,764</u>
Non-current assets:	
Capital assets not being depreciated	8,644,078
Capital assets being depreciated	113,082,556
Less accumulated depreciation	<u>(75,458,974)</u>
Total capital assets, net of depreciation	<u>46,267,660</u>
Total assets	<u>\$ 52,612,424</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>	
Current liabilities:	
Accounts payable	\$ 1,243,094
Accrued salaries payable	169,011
Payroll taxes payable	60,154
Other payroll liabilities payable	107,726
Due to State General Fund	2,189,727
Receipts held in suspense	281
Compensated absences payable	252,955
Long-term Liabilities:	
Compensated absences payable	<u>77,766</u>
Total liabilities	<u>4,100,714</u>
Net assets:	
Invested in capital assets	46,267,660
Restricted	
Special revenue funds	376,181
Capital outlay funds	2,220,716
Unrestricted	<u>(352,847)</u>
Total net assets	<u>48,511,710</u>
Total liabilities and net assets	<u>\$ 52,612,424</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, 2009**

	<u>Governmental Activities</u>
<b>Expenses:</b>	
Public Safety	\$ 17,014,910
Depreciation expense	9,433,118
Total program expenses	<u>26,448,028</u>
 <b>Program revenues:</b>	
Federal grants - operating	10,512,851
State-federal pass-through grants	168,801
Total program revenues	<u>10,681,652</u>
Net program (expense) revenue	<u>(15,766,376)</u>
 <b>General revenues and (expenses):</b>	
Transfer - State General Fund appropriations	7,653,500
Transfer - Severance tax bond appropriations (capital projects)	247,486
Transfer - Compensation appropriation	69,300
Transfer - Reversions to state general fund - FY09	(812,540)
Interest income	4,404
Miscellaneous revenue	1,116,680
Total general revenues and expenses	<u>8,278,830</u>
Change in net assets	(7,487,546)
Beginning net assets	59,734,191
Restatement	(3,734,935)
Beginning net assets, as restated	<u>55,999,256</u>
Ending net assets	<u>\$ 48,511,710</u>

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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, 2009**

	Major Funds			Non-Major Funds	Total Governmental Funds
	General Fund (06900 + 99200)	Adjutant General Emergency (07000)	Armory Improvements Capital Projects (89700)	Other Funds	
<b><u>ASSETS</u></b>					
Investment in State Treasurer General Fund Investment Pool	\$ 567,451	226,292	1,527,441	380,701	2,701,885
Petty cash	200	-	-	-	200
Receivables	15,701	978	-	-	16,679
Due from other funds	-	1,597,548	1,102,047	-	2,699,595
Due from other state agencies	21,531	46,164	-	151	67,846
Due from Federal government	3,558,154	-	-	-	3,558,154
Total assets	\$ 4,163,037	1,870,982	2,629,488	380,852	9,044,359
<b><u>LIABILITIES and FUND BALANCE</u></b>					
Liabilities:					
Accounts payable	\$ 1,021,140	24,797	197,157	-	1,243,094
Accrued salaries payable	165,492	3,519	-	-	169,011
Payroll taxes payable	56,396	3,759	-	-	60,155
Other payroll liabilities payable	90,348	17,378	-	-	107,726
Due to other funds	1,597,548	1,102,047	-	-	2,699,595
Due to State General Fund	1,256,863	719,482	208,712	4,671	2,189,728
Receipts held in suspense	281	-	-	-	281
Total liabilities	4,188,068	1,870,982	405,869	4,671	6,469,590
Fund balance:					
Reserved for:					
Encumbrances - multi-year	-	-	2,903	-	2,903
Petty cash	200	-	-	-	200
Capital projects	-	-	2,220,716	-	2,220,716
Unreserved reported in:					
General fund	(25,231)	-	-	-	(25,231)
Special Revenue Funds	-	-	-	376,181	376,181
Total fund balance	(25,031)	-	2,223,619	376,181	2,574,769
Total liabilities and fund balance	\$ 4,163,037	1,870,982	2,629,488	380,852	9,044,359

See independent auditors' report  
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**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, 2009**

Total fund balance - Governmental funds	\$	2,574,769
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.		46,267,660
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.		(252,955)
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.		(77,766)
Differences due to rounding		<u>2</u>
Net assets of governmental activities	\$	<u><u>48,511,710</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, 2009**

	Major Funds			Non-Major Funds	Total Governmental Funds
	General Fund (06900 + 99200)	Adjutant General Emergency (07000)	Armory Improvements Capital Projects (89700)	Other Funds	
<b>Revenues:</b>					
Federal sources	\$ 10,681,652	-	-	-	10,681,652
Interest on investments	-	-	-	4,404	4,404
Miscellaneous revenue	282,618	819,393	-	14,668	1,116,679
Total revenues	10,964,270	819,393	-	19,072	11,802,735
<b>Expenditures:</b>					
Public Safety					
Current:					
Personal services and benefits	8,262,226	173,523	-	-	8,435,749
Contractual services	2,063,756	612,643	16,013	-	2,692,412
Other costs	6,055,700	37,183	994,934	1,205,717	8,293,534
Capital outlay	450,646	-	110,617	-	561,263
Total expenditures	16,832,328	823,349	1,121,564	1,205,717	19,982,958
Excess (deficiency) of revenue over expenditures	(5,868,058)	(3,956)	(1,121,564)	(1,186,645)	(8,180,223)
<b>Other financing sources (uses)</b>					
Severance tax bonds					
proceeds appropriations	-	-	247,486	-	247,486
Transfer - State General Fund appropriations	6,175,500	250,000	-	1,228,000	7,653,500
Transfer - Compensation appropriation	69,300	-	-	-	69,300
Transfer - Reversions to state general fund - FY09	(365,691)	(245,985)	(200,864)	-	(812,540)
Total other financing sources (uses):	5,879,109	4,015	46,622	1,228,000	7,157,746
Net change in fund balance	11,051	59	(1,074,942)	41,355	(1,022,477)
Beginning fund balance	(36,082)	(59)	7,033,496	334,826	7,332,181
Restatement	-	-	(3,734,935)	-	(3,734,935)
Beginning fund balance, as restated	(36,082)	(59)	3,298,561	334,826	3,597,246
Ending fund balance	\$ (25,031)	-	2,223,619	376,181	2,574,769

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, 2009**

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

Net change in fund balances (deficit) - total governmental funds \$ (1,022,477)

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	\$ 561,263	
Other capitalized expenditures not recorded as capital outlay	2,448,083	
Depreciation	<u>(9,433,118)</u>	
Excess (shortage) of capital outlay over depreciation expense		(6,423,772)

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	(41,298)
Differences due to rounding	<u>1</u>

Change in net assets of governmental activities \$ (7,487,546)

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 (GAAP BASIS) AND ACTUAL (GAAP BASIS)**  
**FOR THE YEAR ENDED JUNE 30, 2009**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues</b>				
Federal grants-operating	\$ 18,642,500	21,660,168	10,512,851	(11,147,317)
State-federal pass through grants	-	-	168,801	168,801
Miscellaneous revenue	96,900	96,900	240,851	143,951
Building - Rental or Lease	28,200	28,200	30,956	2,756
Land royalties	12,400	12,400	10,811	(1,589)
Total revenues	<u>\$ 18,780,000</u>	<u>21,797,668</u>	<u>10,964,270</u>	<u>(10,833,398)</u>
<b>Expenditures</b>				
Current (Public Safety):				
Personal services and employee benefits	\$ 8,791,600	9,173,424	8,262,226	911,198
Contractual services	2,355,400	3,292,500	2,063,756	1,228,744
Other	7,663,000	9,361,744	6,517,397	2,844,347
Total expenditures	<u>18,810,000</u>	<u>21,827,668</u>	<u>16,843,379</u>	<u>4,984,289</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (30,000)</u>	<u>(30,000)</u>	<u>(5,879,109)</u>	<u>(5,849,109)</u>
<b>Other Financing Sources (Uses)</b>				
State general fund appropriations	6,081,100	6,081,100	6,175,500	94,400
Compensation appropriation	127,800	127,800	69,300	(58,500)
Reversion to state general fund FY09	-	-	(365,691)	(365,691)
Net interagency transfers and financial sources (uses)	<u>6,208,900</u>	<u>6,208,900</u>	<u>5,879,109</u>	<u>(329,791)</u>
Net change in fund balance	<u>\$ 6,178,900</u>	<u>6,178,900</u>	<u>-</u>	<u>(6,178,900)</u>
<b>Reconciliation of Budgetary Basis to Fund Financial Statement</b>				
Total budget basis expenditures for fiscal year 2009:			\$ 16,843,379	
Adjustments:				
Accounts payable that required a request to pay prior-year bills out of the FY2010 budget			25,231	
Prior year accounts payable paid out of FY2009 budget			<u>(36,282)</u>	
Total GAAP Basis Expenditures for the fiscal year ended June 30, 2009:			<u>\$ 16,832,328</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**  
**ADJUTANT GENERAL EMERGENCY SPECIAL REVENUE FUND (07000) - MAJOR FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND NET ASSETS BUDGET (GAAP BASIS) AND ACTUAL (GAAP BASIS)**  
**FOR THE YEAR ENDED JUNE 30, 2009**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Revenues</b>				
Miscellaneous revenue	250,000	1,023,228	819,393	(203,835)
Total revenues	250,000	1,023,228	819,393	(203,835)
<b>Expenditures</b>				
Current (Public Safety):				
Personal services and employee benefits	70,000	197,118	173,523	23,595
Contractual services	165,000	675,520	612,643	62,877
Other	15,000	150,590	37,242	113,348
Total expenditures	250,000	1,023,228	823,408	199,820
Excess (deficiency) of revenues over expenditures	\$ -	-	(4,015)	(4,015)
<b>Other Financing Sources (Uses)</b>				
State general fund appropriations	250,000	250,000	250,000	-
Reversion to state general fund FY09	-	-	(245,985)	(245,985)
Net interagency transfers and financial sources (uses)	250,000	250,000	4,015	(245,985)
Net change in fund balance	\$ 250,000	250,000	-	(250,000)
<b>Reconciliation of Budgetary Basis to Fund Financial Statement</b>				
Total budget basis expenditures for fiscal year 2009:			\$ 823,408	
Adjustments:				
Accounts payable that required a request to pay prior-year bills out of the FY2010 budget			-	
Prior year accounts payable paid out of FY2009 budget			(59)	
Total GAAP Basis Expenditures for the fiscal year ended June 30, 2009:			\$ 823,349	

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, 2009**

	<u>Agency Funds</u>
<b>Assets</b>	
Cash in local banks	\$ <u>108,256</u>
Total assets	\$ <u><u>108,256</u></u>
<b>Liabilities</b>	
Deposits held in custody for others	\$ <u>108,256</u>
Total liabilities	\$ <u><u>108,256</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, 2009**

**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, 2009**

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.

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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.

In the government-wide statement of net assets, the governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting, 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.

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**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 resources measurement focus 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 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 or fund liabilities.

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**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.

10580 *NM Member Family Assistance Fund* – Provide financial assistance to families of soldiers suffering financial hardships as a result of active duty or a line-of-duty related injury or illness. Authorized by Section 7-1-6.50, NMSA, 1978 Comp, the Laws of 2005, Chapter 220 and Laws of 2008, Chapter 13. The fund was created as a non-reverting fund. No formal budget was created or nor has one been presented for the year ended June 30, 2009 as the fund is currently only receiving funds and is not yet authorized to make any distributions of those funds.

93200 *Service Members' Life Insurance Reimbursement Fund* – To account for state appropriations for reimbursement to New Mexico armed service members' life insurance premiums. The fund was created by Sec. 20-4-7.3, NMSA 1978 as a non-reverting fund.

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*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 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. The fund is currently inactive and as a result no formal budget was created or has been presented for the year ended June 30, 2009.

*Fiduciary Funds (Agency)* – Agency funds are used to account for assets held by the Department as an agent for individuals, private organizations, other governments and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency has one agency fund and is also the fiduciary for two escrow accounts, as described below:

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

**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. 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

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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, *Accounting and Financial Reporting for Nonexchange Transactions*, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenues when the applicable eligibility requirements including time requirements, are met. Resources transmitted before the eligibility requirement are met, under most circumstances, should be reported as advances by the provider and deferred revenue by the recipient.

**F. Budgets and Budgetary Accounting**

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

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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 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 30<sup>th</sup>.

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

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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.

**H. Accrued Compensated Absences – Annual Leave**

Qualified employees accumulate annual leave as follows:

Qualified employees accumulate annual leave as follows:

Years of <u>Service</u>	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 <u>Service</u>	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, 2009, 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.



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**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. 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.

*Invested 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), with constraints placed on their use by either: 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. These are assets which have a legally enforceable third-party (statutory or granting agency) limitation on their use. Legally

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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 \$2,596,897 of restricted net assets that are considered as restricted by enabling legislation under the alternative dispute resolution and domestic relations mediation act.

*Unrestricted Assets* – represent unrestricted liquid assets. These are comprised off all net assets that are not otherwise classified as restricted or invested in capital assets.

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

**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

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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):

<u>Fund</u>	<u>SHARE</u> <u>Agency-Account</u>	<u>Location</u>	<u>Balance Per</u> <u>State</u> <u>Treasurer</u>	<u>Balance Per</u> <u>Financials</u>
Dept. of Military Affairs	70500-06900	STO	\$ 281	281
State Armory Board	70500-99200	STO	567,170	567,170
Subtotal General Fund			567,451	567,451
Adjutant General's Emergency Fund	70500-07000	STO	226,292	226,292
NM Military Family Relief Fund	70500-10580	STO	14,668	14,668
Service Members' Life Insurance				
Reimbursement Fund	70500-93200	STO	361,362	361,362
Armory Improvements	70500-89700	STO	1,527,441	1,527,441
Laws of 1994	70500-85000	STO	4,671	4,671
Total			\$ <u>2,701,885</u>	<u>2,701,885</u>

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;

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- 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 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 un-certificated 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.

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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.

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

At June 30, 2009, cash (checking) accounts for the armory boards consisted of the following:

<u>Armory</u>	<u>Bank Name</u>	<u>Balance 06/30/09</u>	<u>Armory</u>	<u>Bank Name</u>	<u>Balance 06/30/09</u>
Alamogordo	Western Bank	\$ 2,374	Las Cruces	Bank of America	834
Albuquerque	Wells Fargo	425	Las Vegas	Bank of Las Vegas	2,496
Belen	Wells Fargo	2,400	Portales	Wells Fargo	1,201
Carlsbad	Eddy Federal CU	152	Rio Rancho	US NM Fed Credit Union	1,790
Clayton	Farmers & Stockmens	1,713	Roswell	Wells Fargo	8,650
Clovis	Western Bank	57	Santa Clara	AM Bank	1,019
Deming	First Savings	112	Santa Fe	First National	9,118
Espanola	Del Norte Credit Union	6,377	Santa Rosa	Wells Fargo	2,089
Farmington	Citizens Bank	1,433	Socorro	Wells Fargo	742
Gallup	First Community Bank	659	Springer	Wells Fargo	5,376
Grants	Wells Fargo	225	Taos	Peoples Bank	1,090
Hobbs	Western Commerce	425	Tucumcari	Everyone's Fed CU	646
Joint Forces HQ	Century Bank	53,296	200th PAD	Century Bank	3,557
			Total		\$ <u><u>108,256</u></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	\$ 2,701,885
Agency funds	108,256
Petty cash - held onsite	200
Total cash and investments	\$ <u><u>2,810,341</u></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. In accordance with GASBS 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the Department recognizes revenue and any related expenses related to severance tax bonds when all applicable eligibility requirements have been met. As a result, no amounts have been recorded as receivable for any outstanding severance tax bonds as of June 30, 2009.

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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, 2009.

<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>
Las Cruces Armory Imp.	89700	05-0032	2005	\$ 50,000	-	50,000
Farmington Hangar	89700	07-3770	2005	150,000	148,500	1,500
State Armory Board Project	89700	08-3005	2008	1,000,000	48,689	951,311
DMA Project	89700	08-3281	2008	2,500,000	-	2,500,000
Las Cruces CAP Hangar & Office	89700	08-5407	2006	150,000	-	150,000
Armory Improvements	89700	09-3066	2009	500,000	-	500,000
STB subtotals				<u>\$ 4,350,000</u>	<u>197,189</u>	<u>4,152,811</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, \$48,428 is due from the NM Department of Homeland Security & Emergency Management for services provided, \$19,269 is due from NM Public Education Department as part of the School Lunch Program, and \$151 in interest earnings from the SGFIP. The total amount due from other state agencies at June 30, 2009 is \$67,847. 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>
79500/00000	70500/07000	\$ 48,426	Emergency responder services
92400/00000	70500/99200	19,269	School lunch program
39400/80100	70500/93200	151	SGFIP interest receivable
Receivable from other agencies		<u>\$ 67,846</u>	

**B. Due From Federal Government**

At June 30, 2009, \$3,557,715 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 schedule of expenditures of federal awards.

Additional amounts receivable from federal agencies for services rendered total \$439. These amounts are expected to be collected within the next year.

**C. Due From Others**

Additional receivables from others totaled \$16,679 as of June 30, 2009. These amounts are all considered to be collectible and as a result, no allowance had been created for potential uncollectible amounts.

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**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, 2009, were as follows:

<b>General Fund - State Armory Board (99200)</b>		
Cash/investment balance, June 30, 2009		\$ 567,170
Additions:		
Due from other agencies	\$ 37,232	
Due from federal government	<u>3,558,154</u>	3,595,386
Deductions:		
Accounts payable	(995,909)	
Accrued payroll	(165,492)	
Payroll taxes payable	(56,396)	
Other liabilities payable	(90,348)	
Due to other funds	<u>(1,597,548)</u>	<u>(2,905,693)</u>
<b>Due to State General Fund from Fund 99200</b>		<b>\$ <u>1,256,863</u></b>
Reversion identified by fiscal year appropriation		
Fiscal year 2006, not reverted	61,702	
Fiscal year 2007, not reverted	734,364	
Fiscal year 2008, not reverted	94,096	
Fiscal year 2009	365,691	
Stale-dated warrants	<u>1,010</u>	
Total reversions - Fund 99200	<u>\$ 1,256,863</u>	
<b>Adjutant General's Emergency Fund (07000)</b>		
Cash/investment balance, June 30, 2009		\$ 226,292
Additions:		
Accounts receivable	\$ 978	
Due from other funds	1,597,548	
Due from other agencies	<u>46,164</u>	1,644,690
Deductions:		
Accounts payable	(24,797)	
Accrued payroll	(3,519)	
Payroll taxes payable	(3,759)	
Other liabilities payable	(17,378)	
Due to other funds	<u>(1,102,047)</u>	<u>(1,151,500)</u>
<b>Due to State General Fund from Fund 07000</b>		<b>\$ <u>719,482</u></b>
Reversion identified by fiscal year appropriation		
Fiscal year 2006, not reverted	294,725	
Fiscal year 2007, not reverted	48,027	
Fiscal year 2008, not reverted	130,745	
Fiscal year 2009	<u>245,985</u>	
Total reversions - Fund 07000	<u>\$ 719,482</u>	

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<b>Armory Improvements - Capital Projects Fund (89700)</b>			
Cash/investment balance, June 30, 2009		\$	1,527,441
Additions:			
Due from other funds	\$	<u>1,102,047</u>	
Total additions			1,102,047
Deductions:			
Accounts payable		(197,157)	
Reserved for future years expenditures		(2,220,716)	
Encumbered amounts		<u>(2,903)</u>	
Total deductions			<u>(2,420,776)</u>
<b>Due to State General Fund from Fund 89700</b>		\$	<u>208,712</u>
Reversion identified by fiscal year appropriation			
Fiscal year 2008, not reverted		7,848	
Fiscal year 2009		<u>200,864</u>	
Total reversions - Fund 89700	\$		<u><u>208,712</u></u>
<b>Laws of 1994 - Capital Projects Fund (85000)</b>			
Cash/investment balance, June 30, 2009		\$	4,671
<b>Due to State General Fund from Fund 85000</b>			<u>4,671</u>
Reversion identified by fiscal year appropriation			
Fiscal year 2008, not reverted	\$	<u>4,671</u>	
Total reversions - Fund 85000	\$	<u>4,671</u>	
Total amount due to State General Fund, June 30, 2009		\$	<u><u>2,189,728</u></u>

**NOTE 6 – INTRA-AGENCY BALANCES**

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 an overdraft in that fund of the combined agency investment balances. 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.

A summary of the total intra-agency balances is as follows:

<u>Due from other funds</u>	<u>Fund Number</u>	<u>Due to other funds</u>	<u>Fund Number</u>	<u>Amount</u>
Adjutant General's Emergency Fund - Major Special Revenue Fund	07000	Armory Improvement Fund - Major Capital Projects Fund	89700	\$ 1,102,047
General Fund - Major Fund	99200	Adjutant General's Emergency Fund - Major Special Revenue Fund	07000	<u>1,597,548</u>
				<u><u>\$ 2,699,595</u></u>



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**NOTE 7 – CAPITAL ASSETS – GOVERNMENTAL FUNDS**

The capital assets activity for the year ended June 30, 2009, is as follows:

<u>Capital Asset Description</u>	<u>Balance June 30, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2009</u>
<b>Capital assets not being depreciated:</b>				
Land	\$ 8,644,078	-	-	<b>8,644,078</b>
<b>Capital assets being depreciated:</b>				
Buildings and Improvements	106,710,681	2,730,826	-	<b>109,441,507</b>
Machinery and Equipment	1,482,529	278,520	-	<b>1,761,049</b>
Leasehold Improvements	1,880,000	-	-	<b>1,880,000</b>
Subtotal capital assets being depreciated	110,073,210	3,009,346	-	<b>113,082,556</b>
Less accumulated depreciation:				
Buildings and Improvements	(64,612,295)	(9,208,823)	-	<b>(73,821,118)</b>
Machinery and Equipment	(1,124,330)	(182,976)	-	<b>(1,307,306)</b>
Leasehold Improvements	(289,231)	(41,319)	-	<b>(330,550)</b>
Total accumulated depreciation	(66,025,856)	(9,433,118)	-	<b>(75,458,974)</b>
Total capital assets being depreciated	44,047,354	(6,423,772)	-	<b>37,623,582</b>
Total capital assets (net)	\$ 52,691,432	(6,423,772)	-	<b>46,267,660</b>

The Department does not have any debt related to capital assets at June 30, 2009. Depreciation expense for the year was \$9,433,118 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.

**NOTE 8 – 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 2009</u>	
Armory Improvements (89700)				
Contractual services	\$ -	-	-	-
Other costs	2,903	2,903	-	2,903
Total Armory improvements	2,903	2,903	-	2,903
Total all funds	\$ 2,903	2,903	-	2,903

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**NOTE 9 – CHANGES IN COMPENSATED ABSENCES**

A summary of changes in the compensated absences payable for the year ended June 30, 2009, is as follows:

<u>Governmental Activities</u>	<u>Balance June 30, 2008</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2009</u>	<u>Current due within one year</u>
Annual Leave	\$ 239,686	278,299	(242,179)	275,806	198,040
Sick Leave	1,519	242,995	(241,341)	3,173	3,173
Compensatory	48,219	338,045	(334,522)	51,742	51,742
Total	<u>\$ 289,424</u>	<u>859,339</u>	<u>(818,042)</u>	<u>330,721</u>	<u>252,955</u>

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 18 vehicles on an annual basis from the New Mexico General Services Department.

The cumulative expenditures for operating leases for the year ended June 30, 2009, were \$180,022. Future minimum rental payments under these operating leases are as follows:

<u>For the Year Ended June 30</u>	<u>Total</u>
2010	\$ 162,674
2011	96,850
2012	85,235
2013	26,657
2014	-
Thereafter	-
<b>Total</b>	<b>\$ <u>371,416</u></b>

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**NOTE 11 – 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	999
Alltel	Santa Fe - Tower site	10/22/2005 - 10/22/2010	\$ 884

Expected future lease revenue under for the next five years is as follows:

<u>Year Ended</u>	
<u>30-Jun</u>	<u>Amount</u>
2009	\$ 28,118
2010	15,564
2011	5,120
Total	<u>\$ 48,802</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, 2009, the total royalties recognized from this lease was \$10,811. 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 12 – 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](http://www.pera.state.nm.us).

**Funding Policy.** Plan members are required to contribute 7.42% of their gross salary. The Department is required to contribute 16.59% of the gross covered salary. The contribution requirements of plan members and the (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, 2009, 2008 and 2007 were \$926,830, \$916,902, and \$843,995, respectively, which equal the amount of the required contributions for each fiscal year.

**NOTE 13 – 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

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**NOTES TO AUDITED FINANCIAL STATEMENTS**  
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10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

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

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

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

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, 2009, 2008 and 2007 were \$71,493, \$70,915 and \$63,522 , respectively, which equal the required contributions for each year.

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**NOTE 14 – 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 2008-034
Subtotal Fund 07000		250,000	
34100/01900	70500/89700	247,486	Laws 2009, STB revenue recognized
Subtotal Fund 89700		247,486	
36900/85300	70500/93200	1,228,000	General Appropriation - Laws 2008, Ch 28, Sec 4
39400/80100	70500/93200	4,404	SGFIP interest
Subtotal Fund 93200		1,232,404	
36900/85300	70500/99200	6,175,500	General Appropriation - Laws 2008, Ch 28, Sec 4
34100/62000	70500/99200	69,300	FY2009 Compensation appropriation
Subtotal Fund 99200		6,244,800	
Total other financing sources		\$ 7,974,690	
36900/85300	70500/89700	\$ 200,000	Special Appropriation, Laws 2008, Chapter 3, Section 5
39400/80100	70500/93200	5,096	SGFIP interest
Total payments on receivables from prior years		\$ 205,096	

**NOTE 15 – 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, 2008, through June 30, 2009.

**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 99200 shows a deficit fund balance total of \$(25,031) as a result of accounts payable at year end which will be paid out of the FY 2010 budget. These accounts payable required approval from the DFA Budget Division to be paid out of the FY 2010 budget.

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**NOTE 18 – FUND BALANCE -PRIOR-PERIOD ADJUSTMENTS**

To comply with Governmental Accounting Standards Board Statement No. 33 (GASBS 33), *Accounting and Financial Reporting for Nonexchange Transactions*, the Department has changed its accounting treatment of capital project appropriations financed with bond proceeds.

Prior to the change, the Department recognized—in the year the capital project appropriations were authorized by the Legislature—the entire amount of bond proceeds related to capital project appropriations. It also recognized a corresponding receivable for the full amount of the bond proceeds. It did not take into account the impact of eligibility requirements: Under the modified accrual basis of accounting, GASBS 33 requires that the recognition of revenues and expenditures occur only when all applicable eligibility requirements have been met. Since all of the eligibility requirements established by the State Board of Finance had not been met by the end of last fiscal year, the Department’s recognition of bond proceeds and the related liability to recipients was premature.

The related restatement to fund balance was as follows:

<u>Description</u>	<u>Fund</u>	<u>Reason</u>	<u>Amount</u>
Armory Improvements Fund	89700	Fund balance, June 30, 2008, as previously reported	\$ 7,033,496
		Restatement	<u>(3,734,935)</u>
		Fund balance, June 30, 2008, as restated	<u>\$ 3,298,561</u>

## **COMBINING STATEMENTS**

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**MAJOR GOVERNMENTAL FUNDS**  
**BALANCE SHEET**  
**GENERAL FUND - ALL SUBFUNDS**  
**AS OF JUNE 30, 2009**

	<b>Department of Military Affairs Fund 06900</b>	<b>State Armory Board Fund 99200</b>	<b>Total General Fund</b>
<b><u>ASSETS</u></b>			
Investment in State Treasurer General			
Fund Investment Pool	\$ 281	567,170	567,451
Petty cash	200	-	200
Receivables	-	15,701	15,701
Due from other state agencies	-	21,531	21,531
Due from Federal government	-	3,558,154	3,558,154
	<hr/>	<hr/>	<hr/>
Total assets	\$ 481	4,162,556	4,163,037
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b><u>LIABILITIES and FUND BALANCE</u></b>			
Liabilities:			
Accounts payable	\$ -	1,021,140	1,021,140
Accrued salaries payable	-	165,492	165,492
Payroll taxes payable	-	56,396	56,396
Other payroll liabilities payable	-	90,348	90,348
Due to other funds	-	1,597,548	1,597,548
Due to State General Fund	-	1,256,863	1,256,863
Receipts held in suspense	281	-	281
	<hr/>	<hr/>	<hr/>
Total liabilities	281	4,187,787	4,188,068
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Fund Balance:			
Reserved for:			
Petty cash	200	-	200
Unreserved, undesignated	-	(25,231)	(25,231)
	<hr/>	<hr/>	<hr/>
Total fund balance	200	(25,231)	(25,031)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Total liabilities and fund balance	\$ 481	4,162,556	4,163,037
	<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, 2009**

	<b>Department of Military Affairs Fund 06900</b>	<b>State Armory Board Fund 99200</b>	<b>Total General Fund</b>
<b>Revenues:</b>			
Federal sources	\$ -	10,681,652	10,681,652
Interest on investments	-	-	-
Miscellaneous revenue	-	282,618	282,618
<b>Total revenues</b>	<b>-</b>	<b>10,964,270</b>	<b>10,964,270</b>
<b>Expenditures:</b>			
Public Safety			
Current:			
Personal services and benefits	-	8,262,226	8,262,226
Contractual services	-	2,063,756	2,063,756
Other costs	-	6,055,700	6,055,700
Capital outlay	-	450,646	450,646
<b>Total expenditures</b>	<b>-</b>	<b>16,832,328</b>	<b>16,832,328</b>
Excess (deficiency) of revenue over expenditures	-	(5,868,058)	(5,868,058)
<b>Other financing sources (uses)</b>			
State General Fund appropriations	-	6,175,500	6,175,500
Compensation appropriation	-	69,300	69,300
Transfers in	-	-	-
Other miscellaneous	-	-	-
Transfers out	-	-	-
Reversions to state general fund	-	(365,691)	(365,691)
<b>Total other financing sources (uses):</b>	<b>-</b>	<b>5,879,109</b>	<b>5,879,109</b>
Net change in fund balance	-	11,051	11,051
Beginning fund balance	200	(36,282)	(36,082)
Ending fund balance	\$ 200	(25,231)	(25,031)

**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 (GAAP BASIS) AND ACTUAL (GAAP BASIS)**  
**FOR THE YEAR ENDED JUNE 30, 2009**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance from</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
<b>Revenues</b>				<b>Favorable</b>
				<b>(Unfavorable)</b>
Severance tax bond appropriations	\$ 3,931,845	4,066,145	247,486	(3,818,659)
General fund appropriations	-	-	-	-
<b>Total revenues</b>	<b>3,931,845</b>	<b>4,066,145</b>	<b>247,486</b>	<b>(3,818,659)</b>
 Fund balance	 3,298,561	 3,298,561	 -	
 Total resources	 \$ 7,230,406	 7,364,706	 247,486	
 <b>Expenditures</b>				
DMA GSD MOU SF Perf Arts				
GF: A041323				
Other Costs	\$ 17,555	17,555	-	17,555
Total DMA MOU SF Perf Arts	17,555	17,555	-	17,555
 DMA 100% STB Las Cruces Armory				
Improvement: A050032				
Other Costs	-	50,000	-	50,000
Total STB Las Cruces Armory	-	50,000	-	50,000
 Statewide Armory Renovation				
100% GF: A051001				
Contractual Services	-	56,610	16,013	40,597
Other Costs	-	12,690	8,513	4,177
Other Uses	-	5,000	-	5,000
Total Statewide Armory GF	-	74,300	24,526	49,774
 Las Cruces Armory Renovation				
100% GF: A051002				
Other Costs	-	10,000	9,932	68
Total Las Cruces Armory	-	10,000	9,932	68
 Santa Fe AASF				
GF: A061978				
Capital Outlay	155,000	155,000	-	155,000
Total Santa Fe AASF	155,000	155,000	-	155,000
 Statewide Armory Renovation				
GF: A073026				
Other Costs	2,787,863	2,787,863	838,417	1,949,446
Other Uses	31,988	31,988	-	31,988
Total Statewide Armory GF	\$ 2,819,851	2,819,851	838,417	1,981,434

**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 (GAAP BASIS) AND ACTUAL (GAAP BASIS)**  
**FOR THE YEAR ENDED JUNE 30, 2009**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance from</u> <u>Final Budget</u> <u>Favorable</u> <u>(Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Farmington Hangar 100% STB STB: A073770				
Capital Outlay	\$ -	-	-	-
Other Uses	1,500	1,500	-	1,500
Total Farmington Hangar STB	<u>1,500</u>	<u>1,500</u>	<u>-</u>	<u>1,500</u>
Farmington Hangar 100% GF GF: A075644				
Capital Outlay	-	-	-	-
Other Uses	1,500	1,500	-	1,500
Total Farmington Hangar 100% GF	<u>1,500</u>	<u>1,500</u>	<u>-</u>	<u>1,500</u>
DMA STB Armories Upgrades Rio Rancho & Statewide A083005				
Other Costs	1,000,000	1,000,000	48,689	951,311
Total STB Armories Upgrades	<u>1,000,000</u>	<u>1,000,000</u>	<u>48,689</u>	<u>951,311</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 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>200,000</u>	<u>-</u>
DMA Laws 2008 - Chapter 28, Section 4				
Other Costs	500,000	500,000	-	500,000
Total STB Armories Upgrades	<u>500,000</u>	<u>500,000</u>	<u>-</u>	<u>500,000</u>
Total expenditures	<u>7,230,406</u>	<u>7,364,706</u>	<u>1,121,564</u>	<u>6,243,142</u>
Excess (deficiency) of revenues over expenditures	\$ -	-	<u>(874,078)</u>	<u>(6,243,142)</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 (GAAP BASIS) AND ACTUAL (GAAP BASIS)**  
**FOR THE YEAR ENDED JUNE 30, 2009**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance from Final Budget Favorable (Unfavorable)</b>
	<b>Original</b>	<b>Final</b>		
Excess (deficiency) of revenues over expenditures from prior page	\$ -	-	(874,078)	(6,243,142)
<b>Other Financing Sources (Uses)</b>				
Reversion to state general fund FY08	-	-	(200,864)	(200,864)
Net interagency transfers and financial sources (uses)	-	-	(200,864)	(200,864)
Net change in fund balance	\$ -	-	(1,074,942)	(6,042,278)
<b>Reconciliation of Budgetary Basis to Fund Financial Statement</b>				
Total budget basis expenditures for fiscal year 2009:			\$ 1,121,564	
Adjustments:				
No adjustments			-	
Total GAAP Basis Expenditures for the fiscal year ended June 30, 2009:			\$ 1,121,564	

**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**COMBINING BALANCE SHEET**  
**AS OF JUNE 30, 2009**

	<b>Special Revenue</b>	<b>Special Revenue</b>	<b>Capital Projects</b>	<b>Total Other Governmental Funds</b>
	<b>NM Member Family Assistance Fund Fund 10580</b>	<b>Service Members' Life Insurance Reimbursement Fund 93200</b>	<b>Laws of 1994 Fund 85000</b>	
<b><u>ASSETS</u></b>				
Investment in State Treasurer General Fund Investment Pool	\$ 14,668	361,362	4,671	380,701
Due from other state agencies	-	151	-	151
Total assets	<u>\$ 14,668</u>	<u>361,513</u>	<u>4,671</u>	<u>380,852</u>
<b><u>LIABILITIES and FUND BALANCE</u></b>				
Due to State General Fund	\$ -	-	4,671	4,671
Total liabilities	-	-	4,671	4,671
Fund balance:				
Unreserved reported in:				
Special Revenue Funds	14,668	361,513	-	376,181
Total fund balance	<u>14,668</u>	<u>361,513</u>	<u>-</u>	<u>376,181</u>
Total liabilities and fund balance	<u>\$ 14,668</u>	<u>361,513</u>	<u>4,671</u>	<u>380,852</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, 2009**

	<u>Special Revenue</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
	<u>NM Member Family Assistance Fund Fund 10580</u>	<u>Service Members' Life Insurance Reimbursement Fund 93200</u>	<u>Laws of 1994 Fund 85000</u>	<u>Total Other Governmental Funds</u>
<b>Revenues:</b>				
Federal sources	-	-	-	-
Interest on investments	-	4,404	-	4,404
Miscellaneous revenue	14,668	-	-	14,668
	<u>14,668</u>	<u>4,404</u>	<u>-</u>	<u>19,072</u>
<b>Expenditures:</b>				
Public Safety				
Current:				
Other costs	-	1,205,717	-	1,205,717
	<u>-</u>	<u>1,205,717</u>	<u>-</u>	<u>1,205,717</u>
Total expenditures	-	1,205,717	-	1,205,717
	<u>-</u>	<u>1,205,717</u>	<u>-</u>	<u>1,205,717</u>
Excess (deficiency) of revenue over expenditures	14,668	(1,201,313)	-	(1,186,645)
	<u>14,668</u>	<u>(1,201,313)</u>	<u>-</u>	<u>(1,186,645)</u>
<b>Other financing sources (uses)</b>				
State General Fund appropriations	-	1,228,000	-	1,228,000
	<u>-</u>	<u>1,228,000</u>	<u>-</u>	<u>1,228,000</u>
Total other financing sources (uses):	-	1,228,000	-	1,228,000
	<u>-</u>	<u>1,228,000</u>	<u>-</u>	<u>1,228,000</u>
Net change in fund balance	14,668	26,687	-	41,355
	<u>14,668</u>	<u>26,687</u>	<u>-</u>	<u>41,355</u>
Beginning fund balance	-	334,826	-	334,826
Ending fund balance	\$ 14,668	361,513	-	376,181
	<u><u>14,668</u></u>	<u><u>361,513</u></u>	<u><u>-</u></u>	<u><u>376,181</u></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 (GAAP BASIS) AND ACTUAL (GAAP BASIS)**  
**FOR THE YEAR ENDED JUNE 30, 2009**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues</b>				
State general fund				
appropriations	\$ 1,228,000	1,228,000	1,228,000	-
Interest on investments	-	-	4,404	4,404
	<u>1,228,000</u>	<u>1,228,000</u>	<u>1,232,404</u>	<u>4,404</u>
Total revenues				
	<u>1,228,000</u>	<u>1,228,000</u>	<u>1,232,404</u>	<u>4,404</u>
<b>Expenditures</b>				
Current (Public Safety):				
Other costs	1,228,000	1,228,000	1,205,717	22,283
	<u>1,228,000</u>	<u>1,228,000</u>	<u>1,205,717</u>	<u>22,283</u>
Total expenditures				
	<u>1,228,000</u>	<u>1,228,000</u>	<u>1,205,717</u>	<u>22,283</u>
Excess (deficiency) of revenues over expenditures	\$ -	-	26,687	26,687
	<u>-</u>	<u>-</u>	<u>26,687</u>	<u>26,687</u>

**Reconciliation of Budgetary Basis to Fund Financial Statement**

Total budget basis expenditures for fiscal year 2009:	\$ 1,205,717
Adjustments:	
No adjustments	<u>-</u>
Total GAAP Basis Expenditures for the fiscal year ended June 30, 2009:	\$ <u>1,205,717</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, 2009**

	<u>Balance</u> <u>June 30, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2009</u>
<b>Assets</b>				
Cash in local banks	\$ 72,894	481,807	(446,445)	<b>108,256</b>
Total assets	<u>72,894</u>	<u>481,807</u>	<u>(446,445)</u>	<u><b>108,256</b></u>
<b>Liabilities</b>				
Deposits held in custody for others	72,894	481,807	(446,445)	<b>108,256</b>
Total liabilities	<u>\$ 72,894</u>	<u>481,807</u>	<u>(446,445)</u>	<u><b>108,256</b></u>
<b>Armory</b>				
	<u>Balance</u> <u>June 30, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2009</u>
Alamogordo	\$ 2,553	4,709	(4,888)	<b>2,374</b>
Albuquerque	3,220	15,793	(18,588)	<b>425</b>
Artesia	-	-	-	-
Belen	216	5,214	(3,030)	<b>2,400</b>
Carlsbad	223	1,550	(1,621)	<b>152</b>
Clayton	3,655	2,145	(4,087)	<b>1,713</b>
Clovis	-	600	(543)	<b>57</b>
Deming	529	4,300	(4,717)	<b>112</b>
Espanola	2,953	10,907	(7,483)	<b>6,377</b>
Farmington	1,994	10,254	(10,815)	<b>1,433</b>
Gallup	17	1,078	(436)	<b>659</b>
Grants	2,641	53,402	(55,818)	<b>225</b>
Hobbs	104	345	(24)	<b>425</b>
Joint Forces HQ	1,475	65,434	(13,613)	<b>53,296</b>
Las Cruces	5,526	24,180	(28,872)	<b>834</b>
Las Vegas	4,040	2,200	(3,744)	<b>2,496</b>
Lordsburg	-	-	-	-
Portales	1,001	400	(200)	<b>1,201</b>
Raton	-	-	-	-
Rio Rancho	3,835	9,640	(11,685)	<b>1,790</b>
Roswell	7,862	12,510	(11,722)	<b>8,650</b>
Santa Clara	2,256	2,916	(4,153)	<b>1,019</b>
Santa Fe	17,298	36,889	(45,069)	<b>9,118</b>
Santa Rosa	2,556	4,225	(4,692)	<b>2,089</b>
Socorro	3,390	4,186	(6,834)	<b>742</b>
Springer	1,029	6,136	(1,789)	<b>5,376</b>
Truth or Consequences	-	-	-	-
Taos	278	3,620	(2,808)	<b>1,090</b>
Tucumcari	4,243	1,000	(4,597)	<b>646</b>
200th PAD	-	198,174	(194,617)	<b>3,557</b>
Total	<u>\$ 72,894</u>	<u>481,807</u>	<u>(446,445)</u>	<u><b>108,256</b></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, 2009**

**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, 2009**

**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.

NM Member Family Assistance – Provide financial assistance to families of soldiers suffering financial hardships as a result of active duty or a line-of-duty related injury or illness related to service in the global war on terrorism. Authorized by Section 7-1-6.50, NMSA, 1978 Comp, the Laws of 2005, Chapter 220 and Laws of 2008, Chapter 13. (*SHARE Fund #10580*) This fund is non-reverting to the State General Fund.

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 FY2009. (*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, 2009**

<u>Federal Grantor/Pass-Through Program Title</u>	<u>Federal CFDA Number</u>	<u>Report Category</u>	<u>Adjusted Grants Receivable 06/30/08</u>	<u>Adjusted Federal Awards Expended</u>	<u>Program Income (rec'd fr 3rd party but applied to grant)</u>	<u>Federal Receipts</u>	<u>Grants Receivable (Deferred Revenue) 06/30/09</u>
U.S. Department of Defense National Guard Bureau							
National Guard Military Operations and Maintenance Projects: * 12.401							
<b>WETS/MATES AND O&amp;M</b> A01100, A01075, A01050							
DAHA29-06-2-1001			\$ 86,921	-	-	(86,921)	\$ -
DAHA29-07-2-1001			238,206	-	-	(238,206)	-
W912J3-08-2-1001			1,937,632	2,027,013	(4,835)	(3,393,580)	566,230
W912J3-09-2-1001			-	3,393,591	(13,193)	(2,005,994)	1,374,404
<b>OPERATION JUMPSTART</b> A0110A							
W912J3-08-2-1001-A			43,806	14,911	-	(58,717)	-
<b>ENVIRONMENTAL RESOURCE MGMT:</b> A02100,A02075							
DAHA29-05-2-1002			-	15,151	-	(15,151)	-
DAHA29-06-2-1002			104,550	163,988	-	(219,113)	49,425
DAHA29-07-2-1002			11,132	102,626	-	(34,899)	78,859
W912J3-08-2-1002			109,037	229,918	-	(309,715)	29,240
W912J3-09-2-1002			-	316,235	-	(256,529)	59,706
<b>PHYSICAL SECURITY:</b> A03100							
W912J3-08-2-1003			229,809	231,151	-	(460,960)	-
W912J3-09-2-1003				557,852	-	(371,573)	186,279
<b>ELECTRONIC SECURITY:</b> A04100							
DAHA29-06-2-1004			747	-	-	(747)	-
DAHA29-07-2-1004			4,740	-	-	(4,740)	-
W912J3-08-2-1004			34,691	51,708	-	(84,446)	1,953
W912J3-09-2-1004			-	145,044	-	(103,319)	41,725
<b>TELECOMMUNICATION:</b> A05100							
DAHA29-01-2-1005			-	-	-	-	-
<b>SUSTAINABLE RANGE PROGRAM:</b> A07100							
W912J3-08-2-1007			50,141	58,339	-	(108,418)	62
W912J3-09-2-1007			-	30,266	-	(2,447)	27,819
<b>ANTI-TERRORISM PROGRAM MANAGER:</b> A10100							
W912J3-08-2-1010			15,091	42,257	-	(57,348)	-
W912J3-09-2-1010			-	65,984	-	(37,379)	28,605
<b>AIR NAT. GUARD O&amp;M:</b> A21000							
W912J3-08-2-1021			149,393	230,217	-	(379,610)	-
W912J3-09-2-1021			-	366,601	-	(121,354)	245,247
<b>AIR NAT. GUARD ENVIRONMENT:</b> A22075							
W912J3-08-2-1022			8,502	11,508	-	(20,010)	-
W912J3-09-2-1022			\$ -	34,805	-	(11,478)	\$ 23,327

**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2009**

<u>Federal Grantor/Pass-Through Program Title</u>	<u>Federal CFDA Number</u>	<u>Report Category</u>	<u>Adjusted Grants Receivable 06/30/08</u>	<u>Adjusted Federal Awards Expended</u>	<u>Program Income (rec'd fr 3rd party but applied to grant)</u>	<u>Federal Receipts</u>	<u>Grants Receivable (Deferred Revenue) 06/30/09</u>
<b>AIR NAT. GUARD SECURITY:</b>							
		A23100					
W912J3-08-2-1023			\$ 29,914	32,796	-	(62,710)	\$ -
W912J3-09-2-1023			-	59,568	-	(47,447)	12,121
<b>AIR NAT. FAMILY SUPPORT:</b>							
		A29100					
W912J3-08-2-1041-A			13,244	15,841	-	(29,085)	-
W912J3-09-2-1029			-	49,768	-	(31,749)	18,019
<b>DISTANCE LEARNING:</b>							
		A40100					
W912J3-08-2-1040			-	83,435	-	(83,435)	-
W912J3-09-2-1040			-	113,669	-	(69,313)	44,356
<b>ARMY NAT. GUARD FAMILY SUPPORT:</b>							
		A41100					
DAHA29-06-2-1041			1,719	-	-	(1,719)	-
W912J3-08-2-1041			59,827	92,301	-	(152,128)	-
W912J3-09-2-1041			-	208,214	-	(156,188)	52,026
<b>NATIONAL GUARD YOUTH CHALLENGE PROGRAM:</b>							
	12.404	360X00					
W912J3-08-2-4002			858,962	159,050	-	(1,018,012)	-
W912J3-09-2-4002			-	1,660,745	-	(942,433)	718,312
<b>TOTAL NATIONAL GUARD BUREAU</b>			<u>3,988,064</u>	<u>10,564,552</u>	<u>(18,028)</u>	<u>(10,976,873)</u>	<u>3,557,715</u>
<b>U.S. Department of Agriculture: Passed through the NM Public Education Department</b>							
National School Lunch Program (NSLP)	10.555	360100	-	162,866	-	(162,866)	-
School Breakfast Program (SBP)	10.553	360100	-	-	-	-	-
<b>TOTAL NM PUBLIC EDUCATION DEPT.</b>			<u>-</u>	<u>162,866</u>	<u>-</u>	<u>(162,866)</u>	<u>-</u>
<b>TOTAL FEDERAL AWARDS</b>			<u>3,988,064</u>	<u>10,727,418</u>	<u>(18,028)</u>	<u>(11,139,739)</u>	<u>3,557,715</u>
		Grants receivable	3,988,064	10,727,418	(18,028)	(11,139,739)	3,557,715
		Deferred revenue	-	-	-	-	-
		Net grants receivable	<u>\$ 3,988,064</u>	<u>10,727,418</u>	<u>(18,028)</u>	<u>(11,139,739)</u>	<u>\$ 3,557,715</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, 2009**

<u>Description</u>	<u>SHARE Identifier #</u>	<u>Appropriation Period</u>	<u>Original Appropriation</u>	<u>Expend- itures To Date</u>	<u>Out- standing Encumb- rances</u>	<u>Unencumb- ered Balances</u>
<b>Fund 89700</b>						
<b>Special, Deficiency, Specific and Capital Outlay Appropriations</b>						
Laws 2005 - Chapter 347, Section 24, Item 2	05-1001	07/01/2006 - 06/30/2010	\$ 500,000	450,227	2,903	46,870
Laws 2005 - Chapter 347, Section 24, Item 3	05-1002	07/01/2006 - 06/30/2010	10,000	9,932	-	68
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	1,216,522	-	1,982,278
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
Total special and capital outlay appropriations outstanding			<u>\$ 4,048,800</u>	<u>1,825,181</u>	<u>2,903</u>	<u>2,220,716</u>
		Total reserved for future years' expenditures				<u>2,220,716</u>
		Total encumbered amounts		<u>\$ 2,903</u>		
<b>Severance Tax Bonds Outstanding*</b>						
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	148,500	-	1,500
Laws 2008 - Chapter 83, Section 435	08-5407	07/01/2006 - 06/30/2010	150,000	-	-	150,000
Laws 2008 - Chapter 92, Section 4	08-3005	07/01/2007 - 06/30/2012	1,000,000	48,689	-	951,311
Laws 2008 - Chapter 92, Section 22	08-3281	07/01/2007 - 06/30/2012	2,500,000	-	-	2,500,000
Laws 2008 - Chapter 28, Section 4	09-3066	07/01/2008 - 06/30/2013	500,000	-	-	500,000
Total severance tax bonds outstanding			<u>4,350,000</u>	<u>197,189</u>	<u>-</u>	<u>4,152,811</u>
			<u>\$ 8,398,800</u>	<u>2,022,370</u>	<u>2,903</u>	<u>6,373,527</u>

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

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, 2009**

<b>Participants</b>	<b>Responsible Party for Operations</b>	<b>Description</b>	<b>Beginning &amp; Ending Dates</b>	<b>Total Estimated Amount of Project</b>	<b>Agency Contributions in FY 2009</b>	<b>Revenues &amp; Expenditures Reported On By:</b>	<b>Audit Responsibility</b>
Eastern NM University Roswell Youth Challenge #09-02, PO #2363	DMA & SAB	Food services for cadets attending	7/01/2008 to 6/30/2009	\$ 479,688	81,902	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) 07-08, PO #2624	DMA & SAB	Cultural resources management pgm. for NMANG sites	Ongoing to 6/30/2010	255,000	26,969	DMA & SAB	DMA & SAB
Eastern NM Univ. 09-01, PO#2364	DMA & SAB	Provide vocational training at ENMU for Youth Challenge cadets	7/01/2008 to 6/30/2009	180,000	-	DMA & SAB	DMA & SAB
University of NM 07-05, PO#2621	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#1413/2613 (PD OUT)	DMA & SAB	Roswell WETS site - Presence of rare protected, threatened & endangered species	9/11/2007 to 6/30/2010	66,150	66,150	DMA & SAB	DMA & SAB
University of NM PO#1414 (PD OUT)	DMA & SAB	Roswell WETS site - Data recovery	9/27/2007 to 6/30/2009	9,911	9,911	DMA & SAB	DMA & SAB
University of NM PO#1415/2615	DMA & SAB	Happy Valley - Data recovery	6/12/2008 to 6/30/2010	19,964	7,161	DMA & SAB	DMA & SAB
University of NM PO#1416/2616	DMA & SAB	Camel Tracks - To conduct site monitoring/species mgmt	9/26/07 to 6/30/2010	25,000	25,000	DMA & SAB	DMA & SAB
University of NM PO#1417/2617	DMA & SAB	Black Mountain - site monitoring/ species management	9/27/07 to 6/30/2010	50,000	12,785	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, 2009**

<b>Participants</b>	<b>Responsible Party for Operations</b>	<b>Description</b>	<b>Beginning &amp; Ending Dates</b>	<b>Total Estimated Amount of Project</b>	<b>Agency Contributions in FY 2009</b>	<b>Revenues &amp; Expenditures Reported On By:</b>	<b>Audit Responsibility</b>
University of NM PO#1418/2618	DMA & SAB	Camel Tracks - To conduct data recovery	9/26/07 to 6/30/2010	78,530	3,459	DMA & SAB	DMA & SAB
UNM/PSC 09-07 PO#2443	DMA & SAB	Tribal Consultation	1/14/2009 to 6/30/2010	25,000	46	DMA & SAB	DMA & SAB
UNM/PSC 09-08 PO #2444	DMA & SAB	Cutural Resource Project	1/14/2009 to 7/1/2010	30,000	46	DMA & SAB	DMA & SAB
UNM/PSC 09-09 PO #2445	DMA & SAB	Endangered Species Monitoring	2/3/2009 to 6/30/2010	49,000	-	DMA & SAB	DMA & SAB
UNM/PSC 09-12 PO #2446	DMA & SAB	Technical Support Blk. Mtn. Training Site	2/6/2009 to 6/30/2010	49,000	-	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, 2009, and have issued our report thereon dated December 15, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting: 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 item 08-03 to be a material weakness.

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 item 07-02.

We noted other certain matters that are required to be reported under *Government Auditing Standards* paragraph 5.14 and 5.16 and Section 12-6-5 NMSA 1978, which is described in the accompanying schedule of findings and questioned costs as finding 09-01.

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.



Hinkle & Landers, P.C.  
December 15, 2009

**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, 2009. 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, 2009.

## 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.



Hinkle & Landers, P.C.  
December 15, 2009

**STATE OF NEW MEXICO  
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2009**

**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? \_\_\_ Yes    X 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

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, 2009**

**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 Award Finding</u>	<u>State Auditor Finding</u>
<b>Prior Year Findings</b>				
07-02 REVERSIONS TO THE STATE GENERAL FUND	Modified/Repeated	Yes	No	Yes
08-01 PROPER MAINTENANCE OF CAPITAL ASSET LISTING	Resolved	Yes	No	Yes
08-02 OVERSIGHT OF LOCAL ARMORY BOARD ACTIVITIES AND FUNDS	Resolved	Yes	No	No
08-03 SAS 112 - MATERIAL ADJUSTMENTS BY AUDITOR	Modified/Repeated	Yes	No	No
08-04 UNBILLED RECEIVABLES AT YEAR END	Resolved	Yes	No	No
<b>Current Year Findings</b>				
09-01 COLLECTION OF TRAVEL ADVANCES	Current	Yes	No	Yes

**PRIOR YEAR FINDINGS**

**07-02 – REVERSIONS TO STATE GENERAL FUND – MODIFIED/REPEATED**

**Statement of Condition**

As of June 30, 2009, the Department had a liability of \$1,377,188 owing to the State General Fund for unreserved and undesignated fund balances of reverting funds related to reversions from prior years that had not yet been made.. These liabilities were not transferred to the State General Fund by the September 30 deadlines. In addition, reversions of unreserved and undesignated fund balances specifically related to the year ended June 30, 2009 totaling \$812,540 were also not made. The reversion amounts were comprised of the following:

Fiscal year 2006 reversion	\$356,427
Fiscal year 2007 reversion	783,401
Fiscal year 2008 reversion	237,360
Fiscal year 2009 reversion	812,540
Total	<u>\$2,189,728</u>

Discussion with Department finance personnel showed that an attempt had been made to revert the funds related to FY08 and prior, however due to a misunderstanding of the reversion process, the funds were not reverted by the end of the fiscal year. It was observed that by the date of the audit report a portion of the reversions had been made and the remaining reversions were in the process of being remitted to the State General Fund.

**Criteria**

The General Appropriations Act of 2008, Laws 2008, Chapter 28, Section 3 (General Provisions), requires any unencumbered balances in agency accounts remaining at the end of fiscal year 2008 shall revert to the general fund by September 30<sup>th</sup>. 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.

**STATE OF NEW MEXICO  
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2009**

**Effect**

The Department was in violation of the general provisions of the 2008 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 fully understand the process for remitting the reversion back to the State General Fund. As a result, errors were made during the process prevented the reversions from being made more timely.

**Recommendation**

We recommend that the Department obtain a further understanding of the reversion process in order to ensure the reversions are made timely in accordance with state statute. We also 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, 2010, based upon this (FY09) audit report. Future annual general fund reversions will be calculated in accordance with Department of Finance and Administration's direction. DMA did submit the FY-09 reversions on September 29, 2009. DMA will request additional training from DFA and the CAFR unit on the reversion process and timelines.

**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:

- |  |             |
|--|-------------|
| • Reverse prior year receivables recorded as current year revenues | \$1,531,479 |
| • Record donation of capital assets                                | 100,000     |
| • Record current year reversions                                   | 812,540     |

**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

**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2009**

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.

**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-09. The Department will request training from the Department of Finance and Administration and the CAFR unit.

**CURRENT YEAR FINDINGS**

**09-01 – COLLECTION OF TRAVEL ADVANCES**

**Statement of Condition**

While auditing the travel-related expenditures it was observed that in January 2009 an employee received a travel advance for \$1,732 was issued to an employee of the Department. Review of the recoupment voucher showed that an incorrect amount was used on the recoupment voucher for the original advance amount. This resulted in the employee being overpaid \$367 for the travel.

Discussion with Department personnel revealed that when the recoupment voucher was completed, the individual completing the voucher, used a subtotal line instead of the total advance line when calculating the recoupment. Further discussion with DMA personnel several weeks after making them aware of the error revealed that the employee subsequently repaid the overpayment once he was made aware to it.

**Criteria**

Proper accounting procedure requires that when a travel advance is issued to an employee for a specific amount, that same amount should be used when reconciling the actual travel expenses once the travel has been completed.

**Effect**

The Department is exposed to losses due to improperly calculated travel-related recoupment vouchers.



**STATE OF NEW MEXICO  
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2009**

**Cause**

During the recoupment process to account for the travel advance already issued, an incorrect figure was used in error instead of the actual advance amount. The oversight process for review of the recoupment vouchers prior to submittal was not effective in capturing the error.

**Recommendation**

It is recommended that the Department implement a process to verify that the travel advance amount is verified by a third-party when completing the recoupment voucher to ensure all funds potentially due to the Department related to travel advances are collected.

**Management Response**

Concur. Currently, the travel reimbursements are processed for payment by the Travel Administrator and verified by the Accounts Payable Manager. As an additional step, all travel recoupment vouchers will be reviewed by the CFO. In addition, all travel advances are verified by a third party (Internal Auditor at DFA). The Department will use the Summary Tab of the Payment Voucher (located on SHARE) as the source document in reconciling all recoupment vouchers. This change in policy requires that the finance employee verifies all travel advance amounts with SHARE.

**STATE OF NEW MEXICO  
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD  
EXIT CONFERENCE  
FOR THE YEAR ENDED JUNE 30, 2009**

An exit conference was held on December 15, 2009. Present at the exit conference were:

For Department of Military Affairs/State Armory Board:

Brigadier General 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
Terra Sanchez	Accounts Payable Manager
Gwen FitzGerald	Reimbursements Analyst
Miranda Rodriguez	Human Resources Specialist

For Hinkle & Landers, P.C.:

Farley Vener, CPA, CFE	Audit Partner
Erick Robinson, CPA	Audit Manager

**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.