

**STATE OF NEW MEXICO**

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

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

**FOR THE YEAR ENDED JUNE 30, 2010**

**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, 2010**

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DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD  
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**STATE OF NEW MEXICO  
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD  
OFFICIAL ROSTER  
AS OF JUNE 30, 2010**

**DEPARTMENT OF MILITARY AFFAIRS**

<b>Name</b>	<b>Title</b>
Major General Kenny C. Montoya	Adjutant General
Brigadier General Jack Fox	Deputy Adjutant General
George Jeantete	Director of State Programs
Lawrence Montano	Chief Financial Officer

**STATE ARMORY BOARD**

Major General Kenny C. Montoya	Chairman
SCSM Kenneth R. Adair	Secretary/Treasurer
George Jeantete	Executive Director
Col. Vince Martinez	Member – (Comm. Officer)
LTG (Ret.) Melvyn Montano	Member
SCSM (Ret) John B. Torres	Member
SCSM (Ret) Kevin Myers	Member
Danny Hawkes	Member

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons of the general and major special revenue funds of the Department of Military Affairs/State Armory Board (Department) as of and for the year ended June 30, 2010, which collectively comprise the Department's basic financial statements as listed in the Table of Contents. We have also audited the financial statements of each of the Department's nonmajor governmental funds and the budgetary comparisons for the major capital project fund and all nonmajor funds presented as supplemental information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2010, 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, 2010, 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, 2010, and the respective changes in financial position thereof, and the respective budgetary comparisons for the general fund and major special revenue funds 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 respective financial

position of each nonmajor governmental fund of the Department as of June 30, 2010 and the respective changes in financial position thereof and the respective budgetary comparisons for the major capital projects fund and all nonmajor funds for the year ended June 30, 2010 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 15, 2010, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of 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 budgetary comparisons. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. 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, 2010

**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD**  
**STATEMENT OF NET ASSETS**  
**GOVERNMENT-WIDE**  
**AS OF JUNE 30, 2010**

	<b>Governmental Activities</b>
<b><u>ASSETS</u></b>	
Current assets:	
Investment in State Treasurer General Fund Investment Pool	\$ 2,829,359
Petty cash	200
Receivable	7,541
Due from other state agencies	278,160
Due from federal government	1,905,281
Prepaid expenses	2,911
Total current assets	5,023,452
Non-current assets:	
Capital assets not being depreciated	8,644,078
Capital assets being depreciated	115,250,957
Less accumulated depreciation	(79,301,793)
Total capital assets, net of depreciation	44,593,242
Total assets	\$ 49,616,694
<b><u>LIABILITIES &amp; NET ASSETS</u></b>	
Current liabilities:	
Accounts payable	\$ 1,047,209
Accrued salaries payable	170,946
Payroll taxes payable	67,590
Other payroll liabilities payable	117,813
Due to State General Fund	2,977,693
Receipts held in suspense	281
Compensated absences payable	226,234
Total current liabilities	4,607,766
Long-term liabilities:	
Compensated absences payable	99,223
Total liabilities	4,706,989
Net assets:	
Invested in capital assets	44,593,242
Restricted	
Special revenue funds	519,308
Capital outlay funds	135,990
Unrestricted	(338,835)
Total net assets	44,909,705
Total liabilities and net assets	\$ 49,616,694

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, 2010**

	<u>Governmental Activities</u>
<b>Expenses:</b>	
Public Safety	\$ 16,597,483
Depreciation expense	3,842,819
Total program expenses	<u>20,440,302</u>
<b>Program revenues:</b>	
Federal grants - operating	10,750,236
State-federal pass-through grants	<u>113,541</u>
Total program revenues	<u>10,863,777</u>
Net program (expense) revenue	<u>(9,576,525)</u>
<b>General revenues and (expenses):</b>	
Transfer - State General Fund appropriations	7,942,100
Transfer - Severance tax bond appropriations (capital projects)	410,066
Transfer - Reversions to state general fund - FY10	(2,643,867)
Interest income	1,002
Miscellaneous revenue	<u>265,219</u>
Total general revenues and expenses	<u>5,974,520</u>
Change in net assets	(3,602,005)
Beginning net assets	48,511,710
Ending net assets	<u>\$ 44,909,705</u>

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



**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**AS OF JUNE 30, 2010**

	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	\$ 2,152,725	152,543	-	524,091	2,829,359
Petty cash	200	-	-	-	200
Receivables	6,563	978	-	-	7,541
Due from other funds	874,152	1,629,482	1,102,047	-	3,605,681
Due from other state agencies	10,862	-	267,164	134	278,160
Due from federal government	1,905,281	-	-	-	1,905,281
Prepaid expenses	-	-	2,911	-	2,911
Total assets	\$ 4,949,783	1,783,003	1,372,122	524,225	8,629,133
<b><u>LIABILITIES &amp; FUND BALANCE</u></b>					
Liabilities:					
Accounts payable	\$ 869,573	28,779	148,858	-	1,047,210
Accrued salaries payable	170,946	-	-	-	170,946
Payroll taxes payable	64,326	3,264	-	-	67,590
Other payroll liabilities payable	100,422	17,378	-	12	117,812
Due to other funds	1,629,482	1,102,047	874,152	-	3,605,681
Due to State General Fund	2,131,042	631,535	210,211	4,905	2,977,693
Receipts held in suspense	281	-	-	-	281
Total liabilities	4,966,072	1,783,003	1,233,221	4,917	7,987,213
Fund balance:					
Reserved for:					
Petty cash	200	-	-	-	200
Prepaid expenses	-	-	2,911	-	2,911
Capital projects	-	-	135,990	-	135,990
Unreserved reported in:					
General fund	(16,489)	-	-	-	(16,489)
Special revenue funds	-	-	-	519,308	519,308
Total fund balance	(16,289)	-	138,901	519,308	641,920
Total liabilities and fund balance	\$ 4,949,783	1,783,003	1,372,122	524,225	8,629,133

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

**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE**  
**GOVERNMENT-WIDE STATEMENT OF NET ASSETS**  
**AS OF JUNE 30, 2010**

Total fund balance - Governmental funds	\$ 641,920
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.	44,593,242
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.	(226,234)
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.	<u>(99,223)</u>
Net assets of governmental activities	\$ <u><u>44,909,705</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, 2010**

	<u>Major Funds</u>			<u>Non-Major Funds</u>	<u>Total Governmental Funds</u>
	<u>General Fund (06900 + 99200)</u>	<u>Adjutant General Emergency (07000)</u>	<u>Armory Improvements Capital Projects (89700)</u>	<u>Other Funds</u>	
<b>Revenues:</b>					
Federal sources	\$ 10,863,777	-	-	-	10,863,777
Interest on investments	-	-	-	1,002	1,002
Miscellaneous revenue	124,138	71,726	-	69,359	265,223
<b>Total revenues</b>	<u>10,987,915</u>	<u>71,726</u>	<u>-</u>	<u>70,361</u>	<u>11,130,002</u>
<b>Expenditures:</b>					
Public Safety					
Current:					
Personal services and benefits	7,421,069	61,931	-	-	7,483,000
Contractual services	2,463,947	370,662	27,849	-	2,862,458
Other costs	5,003,776	5,937	342,170	1,155,234	6,507,117
Capital outlay	1,376,350	-	542,225	-	1,918,575
<b>Total expenditures</b>	<u>16,265,142</u>	<u>438,530</u>	<u>912,244</u>	<u>1,155,234</u>	<u>18,771,150</u>
Excess (deficiency) of revenue over expenditures	<u>(5,277,227)</u>	<u>(366,804)</u>	<u>(912,244)</u>	<u>(1,084,873)</u>	<u>(7,641,148)</u>
<b>Other financing sources (uses)</b>					
Severance tax bond					
proceed appropriations	-	-	410,066	-	410,066
Transfer - State General Fund appropriations	6,214,100	500,000	-	1,228,000	7,942,100
Transfer - Reversions to state general fund - FY10	(928,131)	(133,196)	(1,582,540)	-	(2,643,867)
<b>Total other financing sources (uses):</b>	<u>5,285,969</u>	<u>366,804</u>	<u>(1,172,474)</u>	<u>1,228,000</u>	<u>5,708,299</u>
Net change in fund balance	<u>8,742</u>	<u>-</u>	<u>(2,084,718)</u>	<u>143,127</u>	<u>(1,932,849)</u>
Beginning fund balance	<u>(25,031)</u>	<u>-</u>	<u>2,223,619</u>	<u>376,181</u>	<u>2,574,769</u>
Ending fund balance	<u>\$ (16,289)</u>	<u>-</u>	<u>138,901</u>	<u>519,308</u>	<u>641,920</u>

See independent auditors' report.

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

**STATE OF NEW MEXICO  
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD  
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2010**

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

Net change in fund balances (deficit) - total governmental funds \$ (1,932,849)

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	\$ 1,918,575	
Other capitalized expenditures not recorded as capital outlay	249,826	
Depreciation	<u>(3,842,819)</u>	
Excess (shortage) of capital outlay over depreciation expense		(1,674,418)

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	5,265	
Differences due to rounding	<u>(3)</u>	

Change in net assets of governmental activities \$ (3,602,005)

**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 AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues</b>				
Federal grants-operating	\$ 12,467,900	15,635,100	10,750,236	(4,884,864)
State-federal pass through grants	-	104,522	113,541	9,019
Miscellaneous revenue	169,000	169,000	96,263	(72,737)
Building - Rental or Lease	28,200	20,676	22,438	1,762
Land royalties	13,200	4,695	5,437	742
Total revenues	<u>\$ 12,678,300</u>	<u>15,933,993</u>	<u>10,987,915</u>	<u>(4,946,078)</u>
<b>Expenditures</b>				
Current (Public Safety):				
Personal services and employee benefits	\$ 8,773,200	8,732,600	7,421,069	1,311,531
Contractual services	2,632,900	5,014,973	2,463,947	2,551,026
Other	7,486,300	8,400,520	6,388,868	2,011,652
Total expenditures	<u>18,892,400</u>	<u>22,148,093</u>	<u>16,273,884</u>	<u>5,874,209</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (6,214,100)</u>	<u>(6,214,100)</u>	<u>(5,285,969)</u>	<u>928,131</u>
<b>Other Financing Sources (Uses)</b>				
State general fund appropriations	6,214,100	6,214,100	6,214,100	-
Compensation appropriation	-	-	-	-
Reversion to state general fund FY10	-	-	(928,131)	(928,131)
Net interagency transfers and financial sources (uses)	<u>6,214,100</u>	<u>6,214,100</u>	<u>5,285,969</u>	<u>(928,131)</u>
Net change in fund balance	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Reconciliation of Budgetary Basis to Fund Financial Statement</b>				
Total budget basis expenditures for fiscal year 2010:			\$ 16,273,884	
Adjustments:				
Accounts payable that required a request to pay prior-year bills out of the FY2011 budget			16,490	
Prior year accounts payable paid out of FY2010 budget			(25,231)	
Rounding			<u>(1)</u>	
Total GAAP Basis Expenditures for the fiscal year ended June 30, 2010:			<u>\$ 16,265,142</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 AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual (Budgetary Basis)</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Revenues</b>				
Miscellaneous revenue	-	71,727	71,726	(1)
Total revenues	-	71,727	71,726	(1)
<b>Expenditures</b>				
Current (Public Safety):				
Personal services and employee benefits	50,000	65,000	61,931	3,069
Contractual services	400,000	433,129	370,662	62,467
Other	50,000	73,598	5,937	67,661
Total expenditures	500,000	571,727	438,530	133,197
Excess (deficiency) of revenues over expenditures	\$ (500,000)	(500,000)	(366,804)	133,196
<b>Other Financing Sources (Uses)</b>				
State general fund appropriations	500,000	500,000	500,000	-
Reversion to state general fund FY10	-	-	(133,196)	(133,196)
Net interagency transfers and financial sources (uses)	500,000	500,000	366,804	(133,196)
Net change in fund balance	\$ -	-	-	-
<b>Reconciliation of Budgetary Basis to Fund Financial Statement</b>				
Total budget basis expenditures for fiscal year 2010:			\$ 438,530	
Adjustments:				
No adjustment necessary			-	
Total GAAP Basis Expenditures for the fiscal year ended June 30, 2010:			\$ 438,530	

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, 2010**

	<u>Agency Funds</u>
<b>Assets</b>	
Cash in local banks	\$ <u>50,057</u>
Total assets	\$ <u><u>50,057</u></u>
<b>Liabilities</b>	
Deposits held in custody for others	\$ <u>50,057</u>
Total liabilities	\$ <u><u>50,057</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, 2010**

**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, 2010**

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.

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.

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.

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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 of 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. The fund is now largely defunct and currently only has a small amount of petty cash and receipts held in suspense that need to be resolved before the fund can be eliminated. 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.

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, upgrades, and improvements on statewide armories and other NM National Guard facilities. 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, 2010.

*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, 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 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.

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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.
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

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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 2011 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 goods and services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budget integration in the capital projects government funds which have multi-year appropriations. Encumbrances outstanding at year-end are reported as reservations of fund balance and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. Unused and excess

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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:

<u>Years of Service</u>	<u>Hours Earned Per Month</u>	<u>Days Earned Per Month</u>	<u>Days of Maximum Accrual</u>
1-2	6.67	0.83	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:

<u>Years of Service</u>	<u>Hours Earned Per Month</u>	<u>Days Earned Per Month</u>	<u>Days of Maximum 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 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, 2010, 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 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 yearend 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. There was no related debt as of year end.

*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 \$655,298 of restricted net assets that are considered as restricted by enabling legislation.

*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.

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Depreciation on all assets is provided on the straight-line basis over the following estimated useful life with no salvage value.

<u>Asset Type</u>	<u>Years</u>
Land	Perpetuity
Machinery and equipment	3 - 7
Buildings and improvements	10 - 25
Leasehold improvements	45

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>Location</u>	<u>Balance Per</u>	<u>Balance Per</u>
	<u>Agency-Account</u>		<u>State</u>	<u>Financials</u>
			<u>Treasurer</u>	
Dept. of Military Affairs	70500-06900	STO	\$ 281	281
State Armory Board	70500-99200	STO	2,152,444	2,152,444
Subtotal General Fund			2,152,725	2,152,725
Adjutant General's Emergency Fund	70500-07000	STO	152,543	152,543
NM Military Family Relief Fund	70500-10580	STO	84,027	84,027
Service Members' Life Insurance				
Reimbursement Fund	70500-93200	STO	435,393	435,393
Armory Improvements	70500-89700	STO	-	-
Laws of 1994	70500-85000	STO	4,671	4,671
Total			\$ 2,829,359	2,829,359

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

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

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

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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.

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, 2010, cash (checking) accounts for the armory boards consisted of the following:

<u>Armory</u>	<u>Bank Name</u>	<u>Balance 06/30/10</u>	<u>Armory</u>	<u>Bank Name</u>	<u>Balance 06/30/10</u>
Alamogordo	Western Bank	\$ 733	Joint Forces HQ	Century Bank	19,062
Albuquerque	Wells Fargo	309	Las Cruces	Bank of America	1,338
Belen	Wells Fargo	1,103	Las Vegas	Bank of Las Vegas	1,653
Carlsbad	Eddy Federal CU	174	Rio Rancho	US NM Fed Credit Union	1,773
Clayton	Farmers & Stockmens	526	Roswell	Wells Fargo	8,463
Clovis	Western Bank	1,691	Santa Clara	AM Bank	20
Deming	First Savings	57	Santa Fe	First National	3,066
Espanola	Del Norte Credit Union	798	Santa Rosa	Wells Fargo	1,804
Farmington	Citizens Bank	1,706	Socorro	Wells Fargo	1,734
Gallup	First Community Bank	162	Springer	Wells Fargo	699
Grants	Wells Fargo	167	Taos	Peoples Bank	1,757
Hobbs	Western Commerce	946	Tucumcari	Everyone's Fed CU	316
			Total		\$ <u>50,057</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>
<b>Governmental funds:</b>	
Investment in State Treasurer General Fund	
Investment Pool	\$ 2,829,359
Petty cash - held onsite	200
Subtotal governmental funds	<u>2,829,559</u>
Agency funds:	
Local Armory Board accounts	50,057
Subtotal agency funds	<u>50,057</u>
Total cash and investments	\$ <u>2,879,616</u>

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**NOTE 4 – RECEIVABLES**

**A. Due From Other State Agencies**

*Severance tax bonds:*

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, amounts shown as receivable at June 30, 2010 relate only to those amounts in which applicable eligibility requirements have been met, but the draw downs have not yet been received by the Department. As of June 30, 2010, the amounts receivable totaled \$267,164.

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, 2010.

<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	\$ 49,900	49,900	-
Farmington Hangar	89700	07-3770	2005	150,000	150,000	-
Las Cruces CAP Hangar & Office	89700	06-0558	2006	150,000	149,857	143
State Armory Board Project	89700	08-3005	2008	1,000,000	141,690	858,310
Aviation Readiness Center	89700	08-3281	2008	2,500,000	-	2,500,000
Armory Improvements	89700	09-3755	2009	1,500,000	-	1,500,000
Armory Improvements	89700	09-3066	2009	500,000	117,307	382,693
STB subtotals				<u>\$ 5,849,900</u>	<u>608,754</u>	<u>5,241,146</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.

*Other:*

In addition, \$1,843 is due from the NM Department of Homeland Security & Emergency Management for services provided, \$9,019 is due from NM Public Education Department as part of the School Lunch Program (a federal pass-thru program shown on the schedule of federal awards), and \$134 in interest earnings from the SGFIP. The total amount due from other state agencies at June 30, 2010 is \$278,160. A summary of receivables from other agencies follows:

<u>Due From Agency/Fund</u>	<u>Due To Agency/Fund</u>	<u>Amount</u>	<u>Purpose of Receivable</u>
34100/60900	70500/89700	\$ 267,164	STB draws receivables
79500/00000	70500/07000	1,843	Emergency responder services
92400/00000	70500/99200	9,019	School lunch program
39400/80100	70500/93200	134	SGFIP interest receivable
Receivable from other agencies		<u>\$ 278,160</u>	

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**B. Due From Federal Government**

At June 30, 2010, \$1,905,281 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.

Also included in the schedule of expenditure of federal awards is the receivable from the NM PED for \$9,019 to bring the total receivables related to federal programs to \$1,914,300.

**C. Due From Others**

Additional receivables from others totaled \$7,541 as of June 30, 2010. These amounts are all considered to be collectible and as a result, no allowance had been created for potential uncollectible amounts.

**NOTE 5 – 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 \$874,152 relates to an overdraft of funds from the SGFIP in Fund 89700. The amount represents the transfer of funds from Fund 99200 to Fund 89700 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 \$1,629,482 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</u>	<u>Fund Number</u>	<u>Due to</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
Armory Improvement Fund - Major Capital Projects Fund	89700	General Fund - Major Fund	99200	874,152
General Fund - Major Fund	99200	Adjutant General's Emergency Fund - Major Special Revenue Fund	07000	<u>1,629,482</u>
				<u>\$ 3,605,681</u>

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**NOTE 6 – DUE TO STATE GENERAL FUND (REVERSIONS)**

Unexpended cash balances of State General Fund monies appropriated to the Department, as well as various other miscellaneous funds collected by the Department, are reverted to the State General Fund. Amounts due from reverting funds to the State General Fund at June 30, 2010, were as follows:

<b>General Fund - State Armory Board (99200)</b>		
Cash/investment balance, June 30, 2010		\$ 2,152,444
Additions:		
Due from other agencies	\$ 891,577	
Due from federal government	<u>1,905,281</u>	2,796,858
Deductions:		
Accounts payable	(853,084)	
Accrued payroll	(170,946)	
Payroll taxes payable	(64,326)	
Other liabilities payable	(100,422)	
Due to other funds	<u>(1,629,482)</u>	<u>(2,818,260)</u>
<b>Due to State General Fund from Fund 99200</b>		<b>\$ <u>2,131,042</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, not reverted	311,739	
Fiscal year 2010	928,131	
Stale-dated warrants	1,010	
Total reversions - Fund 99200	<u>\$ 2,131,042</u>	
<b>Adjutant General's Emergency Fund (07000)</b>		
Cash/investment balance, June 30, 2010		\$ 152,543
Additions:		
Accounts receivable	\$ 978	
Due from other funds	<u>1,629,482</u>	1,630,460
Deductions:		
Accounts payable	(28,779)	
Payroll taxes payable	(3,264)	
Other liabilities payable	(17,378)	
Due to other funds	<u>(1,102,047)</u>	<u>(1,151,468)</u>
<b>Due to State General Fund from Fund 07000</b>		<b>\$ <u>631,535</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, not reverted	24,842	
Fiscal year 2010	<u>133,196</u>	
Total reversions - Fund 07000	<u>\$ 631,535</u>	



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**Armory Improvements - Capital Projects Fund (89700)**

Cash/investment balance, June 30, 2010	\$	-
Additions:		
Due from other agencies	267,164	
Due from other funds	\$ <u>1,102,047</u>	
Total additions		1,369,211
Deductions:		
Accounts payable	(148,858)	
Due to other funds	(874,152)	
Reserved for future years expenditures	<u>(135,990)</u>	
Total deductions		<u>(1,159,000)</u>

**Due to State General Fund from Fund 89700** \$ 210,211

Reversion identified by fiscal year appropriation		
Fiscal year 2008, not reverted	7,848	
Fiscal year 2009, not reverted	200,864	
Fiscal year 2010	<u>1,499</u>	
Total reversions - Fund 89700	\$ <u><u>210,211</u></u>	

**Laws of 1994 - Capital Projects Fund (85000)**

Cash/investment balance, June 30, 2010 \$ 4,671

**Due to State General Fund from Fund 85000** 4,671

Reversion identified by fiscal year appropriation		
Fiscal year 2008, not reverted	\$ <u>4,671</u>	
Total reversions - Fund 85000	\$ <u><u>4,671</u></u>	
Total amount due to State General Fund, June 30, 2010	\$	<u><u>2,977,459</u></u>

Amounts due from non-reverting funds to the State General Fund at June 30, 2010, were as follows:

**Service Members' Life Insurance Reimbursement (93200)**

State-dated warrants \$ 234

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

The capital assets activity for the year ended June 30, 2010, is as follows:

<u>Capital Asset Description</u>	<u>Balance June 30, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2010</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	109,441,507	1,890,425	-	<b>111,331,932</b>
Machinery and Equipment	1,761,049	277,976	-	<b>2,039,025</b>
Leasehold Improvements	1,880,000	-	-	<b>1,880,000</b>
Subtotal capital assets being depreciated	113,082,556	2,168,401	-	<b>115,250,957</b>
Less accumulated depreciation:				
Buildings and Improvements	(73,821,118)	(3,630,593)	-	<b>(77,451,711)</b>
Machinery and Equipment	(1,307,306)	(170,907)	-	<b>(1,478,213)</b>
Leasehold Improvements	(330,550)	(41,319)	-	<b>(371,869)</b>
Total accumulated depreciation	(75,458,974)	(3,842,819)	-	<b>(79,301,793)</b>
Total capital assets being depreciated	37,623,582	(1,674,418)	-	<b>35,949,164</b>
Total capital assets (net)	\$ 46,267,660	(1,674,418)	-	<b>44,593,242</b>

The Department does not have any debt related to capital assets at June 30, 2010. Depreciation expense for the year was \$3,842,819 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 – CHANGES IN COMPENSATED ABSENCES**

A summary of changes in the compensated absences payable for the year ended June 30, 2010, is as follows:

<u>Governmental Activities</u>	<u>Balance 06/30/09</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance 06/30/10</u>	<u>Current due within one year</u>
Annual Leave	\$ 275,806	231,608	(206,438)	300,976	201,753
Sick Leave	3,173	197,975	(197,493)	3,655	3,655
Compensatory	51,742	98,204	(129,120)	20,826	20,826
Total	\$ 330,721	527,787	(533,051)	325,457	226,234

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

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**NOTE 9 – ENCUMBRANCES – MULTI-YEAR PROJECTS AND APPROPRIATIONS**

There were no outstanding encumbrances related to the Department’s multi-year projects as of June 30, 2010.

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

The cumulative expenditures for operating leases for the year ended June 30, 2010, were \$187,659. Future minimum rental payments under these operating leases are as follows:

<b>For the Year Ended June 30</b>	<b>Total</b>
2011	\$ 193,463
2012	93,670
2013	33,490
2014	3,417
2015	-
Thereafter	-
<b>Total</b>	<b>\$ 324,040</b>

**NOTE 11 – LEASE REVENUE**

Details of leases follow:

<u>Tenant</u>	<u>Site</u>	<u>Term</u>	<u>Monthly Rent</u>
Verizon	Santa Fe - Tower site	04/19/2010 - 04/19/2015	\$ 919
Cricket	Santa Fe - Tower site	12/01/2005 - 12/01/2010	999

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

<u>Year Ended</u>		<u>Amount</u>
<u>30-Jun</u>		
2,011.00	\$	23,197
2,012.00		23,502
2,013.00		23,813
2,014.00		24,133
2,015.00		24,460
Total	\$	<u>119,105</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, 2010, the total royalties recognized from this lease was \$5,437. 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 Department are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Department’s contributions to PERA for the fiscal years ending June 30, 2010, 2009 and 2008 were \$748,698, \$926,830, and \$916,902, 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 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

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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. During the fiscal year ended June 30, 2010, the statute required 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. In the fiscal years ending June 30, 2011 through June 30, 2013 the contribution rates for employees and employers will rise as follows:

For employees who are not members of an enhanced retirement plan the contribution rates will be:

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
FY11	1.666%	0.833%
FY12	1.834%	0.917%
FY13	2.000%	1.000%

For employees who are members of an enhanced retirement plan (state police and adult correctional officer coverage plan 1; municipal police member coverage plans 3, 4 and 5; municipal fire member coverage plan 3, 4 and 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act [10-12B-1 NMSA 1978]) the contribution rates will be:

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
FY11	2.084%	1.042%
FY12	2.292%	1.146%
FY13	2.500%	1.250%

Also, 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.

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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, 2010, 2009 and 2008 were \$63,989, \$71,493 and \$70,915, respectively, which equal the required contributions for each year.

**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	\$ 500,000	Executive Order 2009-029
Subtotal Fund 07000		500,000	
34100/60900	70500/89700	410,066	Laws 2009, STB revenue recognized
Subtotal Fund 89700		410,066	
36900/85300	70500/93200	1,228,000	General Appropriation - Laws 2009, Ch 124, Sec 4
39400/80100	70500/93200	1,002	SGFIP interest
Subtotal Fund 93200		1,229,002	
36900/85300	70500/99200	6,214,100	General Appropriation - Laws 2009, Ch 124, Sec 4
Subtotal Fund 99200		6,214,100	
Total other financing sources		\$ 8,353,168	

**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, 2009, through June 30, 2010.

**NOTE 16 – COMMITMENTS**

The Department has entered into a cooperative 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.

The Department has committed with the National Guard Bureau under the terms of a Military Construction Cooperative Agreement to assist in the design and construction of an Army Aviation Support Facility in Santa Fe, NM. The terms of the agreement call for estimated federal support of \$35,851,000 to complete 100% the project. The agreement does not currently call for any match in funding from the Department. At the conclusion of the

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project, the property will be transferred to the Department to be depreciated over its useful life.

In addition, the Department has entered into a Military Construction Cooperative Agreement with the National Guard Bureau to assist in the design and construction of the Farmington Readiness Center and Santa Fe Readiness Center. The estimated costs for the Farmington project call for \$12,300,000 in federal/state construction costs with the state portion totaling \$1,575,000. The Santa Fe project has an estimated total cost of \$7,500,000 with the state's share being \$1,875,000. Severance tax bonds totaling \$2,000,000 have been authorized to assist in funding the Department's share of the construction costs. At the conclusion of the projects, the property will be transferred to the Department to be depreciated over its useful life.

**NOTE 17 – DEFICIT FUND BALANCE**

Fund 99200 shows a deficit fund balance total of \$(16,289) as a result of accounts payable at year end which will be paid out of the FY 2011 budget. These accounts payable required approval from the DFA Budget Division to be paid out of the FY 2011 budget.

**SUPPLEMENTAL INFORMATION**



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DESCRIPTION OF MAJOR FUNDS  
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**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, upgrades, and improvements on statewide armories and other NM National Guard facilities. (*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, 2010**

**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**  
**MAJOR GOVERNMENTAL FUNDS**  
**BALANCE SHEET**  
**GENERAL FUND - ALL SUBFUNDS**  
**AS OF JUNE 30, 2010**

	<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	2,152,444	2,152,725
Petty cash	200	-	200
Receivables	-	6,563	6,563
Due from other state agencies	-	10,862	10,862
Due from Federal government	-	1,905,281	1,905,281
	<hr/>	<hr/>	<hr/>
Total assets	\$ 481	4,949,302	4,949,783
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b><u>LIABILITIES and FUND BALANCE</u></b>			
Liabilities:			
Accounts payable	\$ -	869,573	869,573
Accrued salaries payable	-	170,946	170,946
Payroll taxes payable	-	64,326	64,326
Other payroll liabilities payable	-	100,422	100,422
Due to other funds	-	1,629,482	1,629,482
Due to State General Fund	-	2,131,042	2,131,042
Receipts held in suspense	281	-	281
	<hr/>	<hr/>	<hr/>
Total liabilities	281	4,965,791	4,966,072
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Fund Balance:			
Reserved for:			
Petty cash	200	-	200
Unreserved, undesignated	-	(16,489)	(16,489)
	<hr/>	<hr/>	<hr/>
Total fund balance	200	(16,489)	(16,289)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Total liabilities and fund balance	\$ 481	4,949,302	4,949,783
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD**  
**MAJOR GOVERNMENTAL FUNDS**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**GENERAL FUND - ALL SUBFUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	<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	\$ -	10,863,777	10,863,777
Interest on investments	-	-	-
Miscellaneous revenue	-	124,138	124,138
	<hr/>	<hr/>	<hr/>
Total revenues	-	10,987,915	10,987,915
	<hr/>	<hr/>	<hr/>
<b>Expenditures:</b>			
Public Safety			
Current:			
Personal services and benefits	-	7,421,069	7,421,069
Contractual services	-	2,463,947	2,463,947
Other costs	-	5,003,776	5,003,776
Capital outlay	-	1,376,350	1,376,350
	<hr/>	<hr/>	<hr/>
Total expenditures	-	16,265,142	16,265,142
	<hr/>	<hr/>	<hr/>
Excess (deficiency) of revenue over expenditures	-	(5,277,227)	(5,277,227)
	<hr/>	<hr/>	<hr/>
<b>Other financing sources (uses)</b>			
State General Fund appropriations	-	6,214,100	6,214,100
Compensation appropriation	-	-	-
Transfers in	-	-	-
Other miscellaneous	-	-	-
Transfers out	-	-	-
Reversions to state general fund	-	(928,131)	(928,131)
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses):	-	5,285,969	5,285,969
	<hr/>	<hr/>	<hr/>
Net change in fund balance	-	8,742	8,742
	<hr/>	<hr/>	<hr/>
Beginning fund balance	200	(25,231)	(25,031)
Ending fund balance	\$ 200	(16,489)	(16,289)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**COMBINING BALANCE SHEET**  
**AS OF JUNE 30, 2010**

	<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><u>ASSETS</u></b>				
Investment in State Treasurer General Fund Investment Pool	\$ 84,027	435,393	4,671	524,091
Due from other state agencies	-	134	-	134
Total assets	<u>\$ 84,027</u>	<u>435,527</u>	<u>4,671</u>	<u>524,225</u>
<b><u>LIABILITIES and FUND BALANCE</u></b>				
Liabilities:				-
Other payroll liabilities payable	-	12	-	12
Due to State General Fund	-	234	4,671	4,905
Receipts held in suspense	-	-	-	-
Total liabilities	<u>-</u>	<u>246</u>	<u>4,671</u>	<u>4,917</u>
Fund balance:				
Unreserved reported in:				
Special Revenue Funds	<u>84,027</u>	<u>435,281</u>	<u>-</u>	<u>519,308</u>
Total fund balance	<u>84,027</u>	<u>435,281</u>	<u>-</u>	<u>519,308</u>
Total liabilities and fund balance	<u>\$ 84,027</u>	<u>435,527</u>	<u>4,671</u>	<u>524,225</u>

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**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, 2010**

	<u>Special Revenue</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total Other Governmental Funds</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>	
<b>Revenues:</b>				
Federal sources	\$ -	-	-	-
Interest on investments	-	1,002	-	1,002
Miscellaneous revenue	69,359	-	-	69,359
	<u>69,359</u>	<u>-</u>	<u>-</u>	<u>69,359</u>
Total revenues	<u>69,359</u>	<u>1,002</u>	<u>-</u>	<u>70,361</u>
<b>Expenditures:</b>				
Public Safety				
Current:				
Other costs	-	1,155,234	-	1,155,234
	<u>-</u>	<u>1,155,234</u>	<u>-</u>	<u>1,155,234</u>
Total expenditures	<u>-</u>	<u>1,155,234</u>	<u>-</u>	<u>1,155,234</u>
Excess (deficiency) of revenue over expenditures	<u>69,359</u>	<u>(1,154,232)</u>	<u>-</u>	<u>(1,084,873)</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):	<u>-</u>	<u>1,228,000</u>	<u>-</u>	<u>1,228,000</u>
Net change in fund balance	69,359	73,768	-	143,127
Beginning fund balance	14,668	361,513	-	376,181
Ending fund balance	<u>\$ 84,027</u>	<u>435,281</u>	<u>-</u>	<u>519,308</u>

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**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD**  
**NEW MEXICO MEMBER FAMILY ASSISTANCE FUND (10580)**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND NET ASSETS BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues</b>				
Miscellaneous revenue	\$ -	70,318	69,359	(959)
Total revenues	<u>-</u>	<u>70,318</u>	<u>69,359</u>	<u>(959)</u>
<b>Expenditures</b>				
Current (Public Safety):				
Other costs	-	70,318	-	70,318
Total expenditures	<u>-</u>	<u>70,318</u>	<u>-</u>	<u>70,318</u>
Excess (deficiency) of revenues over expenditures	\$ <u>-</u>	<u>-</u>	<u>69,359</u>	<u>69,359</u>

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

Total budget basis expenditures for fiscal year 2010:	\$ -
Adjustments:	
No adjustments necessary.	<u>-</u>
Total GAAP Basis Expenditures for the fiscal year ended June 30, 2010:	<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**  
**SERVICE MEMBERS' LIFE INSURANCE REIMBURSEMENT FUND (93200)**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND NET ASSETS BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	<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	<u>-</u>	<u>-</u>	<u>1,002</u>	<u>1,002</u>
Total revenues	<u>1,228,000</u>	<u>1,228,000</u>	<u>1,229,002</u>	<u>1,002</u>
<b>Expenditures</b>				
Current (Public Safety):				
Other costs	<u>1,228,000</u>	<u>1,228,000</u>	<u>1,155,234</u>	<u>72,766</u>
Total expenditures	<u>1,228,000</u>	<u>1,228,000</u>	<u>1,155,234</u>	<u>72,766</u>
Excess (deficiency) of revenues over expenditures	<u>\$ -</u>	<u>-</u>	<u>73,768</u>	<u>73,768</u>

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

Total budget basis expenditures for fiscal year 2010:	\$ 1,155,234
Adjustments:	
No adjustments necessary.	<u>-</u>
Total GAAP Basis Expenditures for the fiscal year ended June 30, 2010:	<u>\$ 1,155,234</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**  
**ARMORY IMPROVEMENTS FUND - CAPITAL PROJECTS (89700) - MAJOR FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND NET ASSETS BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance from Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Severance tax bond appropriations	\$ 5,651,069	5,651,069	410,066	(5,241,003)
General fund appropriations	-	-	-	-
Total revenues	<u>5,651,069</u>	<u>5,651,069</u>	<u>410,066</u>	<u>(5,241,003)</u>
<b>Expenditures</b>				
DMA 100% STB Las Cruces Armory Improvement: A050032				
Other Costs	49,900	49,900	49,900	-
Total STB Las Cruces Armory	<u>49,900</u>	<u>49,900</u>	<u>49,900</u>	<u>-</u>
Statewide Armory Renovation				
100% GF: A051001				
Contractual Services	40,597	40,597	-	40,597
Other Costs	1,273	1,273	1,043	230
Other Uses	5,000	5,000	-	5,000
Total Statewide Armory GF	<u>46,870</u>	<u>46,870</u>	<u>1,043</u>	<u>45,827</u>
Las Cruces Armory Renovation				
100% GF: A051002				
Other Costs	68	68	-	68
Total Las Cruces Armory	<u>68</u>	<u>68</u>	<u>-</u>	<u>68</u>
Las Cruces Civil Air Patrol				
100% STB: A060558 Reauth as A085407				
Other Costs	150,000	150,000	149,857	143
Total LC Civil Air Patrol	<u>150,000</u>	<u>150,000</u>	<u>149,857</u>	<u>143</u>
Santa Fe AASF				
GF: A061978				
Capital Outlay	155,000	155,000	122,643	32,357
Total Santa Fe AASF	<u>155,000</u>	<u>155,000</u>	<u>122,643</u>	<u>32,357</u>
Statewide Armory Renovation				
GF: A073026				
Other Costs	1,948,783	1,948,783	346,281	1,602,502
Other Uses	31,988	31,988	-	31,988
Total Statewide Armory GF	<u>1,980,771</u>	<u>1,980,771</u>	<u>346,281</u>	<u>1,634,490</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>

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**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**  
**IN FUND NET ASSETS BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	<b>Budgeted Amounts</b>		<b>Actual (Budgetary Basis)</b>	<b>Variance from Final Budget Favorable (Unfavorable)</b>
	<b>Original</b>	<b>Final</b>		
DMA STB Armories Upgrades				
Rio Rancho & Statewide A083005				
Other Costs	951,311	951,311	93,001	858,310
Total STB Armories Upgrades	951,311	951,311	93,001	858,310
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	2,500,000	2,500,000	-	2,500,000
DMA Armory Repair/Improvement - A083396				
Other Costs	35,000	35,000	32,212	2,788
Total STB Armories Upgrades	35,000	35,000	32,212	2,788
DMA STB Armories Upgrades - A093066				
Other Costs	500,000	500,000	117,307	382,693
Total STB Armories Upgrades	500,000	500,000	117,307	382,693
DMA STB Armories Upgrades				
A093066				
Other Costs	1,500,000	1,500,000	-	1,500,000
Total STB Armories Upgrades	1,500,000	1,500,000	-	1,500,000
Total expenditures	7,870,420	7,870,420	912,244	6,958,176
Excess (deficiency) of revenues				
over expenditures	(2,219,351)	(2,219,351)	(502,178)	1,717,173
<b>Other Financing Sources (Uses)</b>				
Reversion to state general fund FY10	-	-	(1,582,540)	(1,582,540)
Net other financing sources (uses)	-	-	(1,582,540)	(1,582,540)
Excess (deficiency) of revenues over expenditures				
and other financing sources (uses)	\$ (2,219,351)	(2,219,351)	(2,084,718)	134,633
Fund balance carryover	2,223,619	2,223,619	2,084,718	
Total	\$ 4,268	4,268	-	-
<b>Reconciliation of Budgetary Basis to Fund Financial Statement</b>				
Total budget basis expenditures for fiscal year 2010:			\$ 2,494,784	
Adjustments:				
Rounding			-	
Total GAAP Basis Expenditures for the fiscal year ended June 30, 2010:			\$ 2,494,784	

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

**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD**  
**SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Balance</u> <u>June 30, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2010</u>
<b>Assets</b>				
Cash in local banks	\$ 108,256	182,584	(240,783)	<b>50,057</b>
Total assets	<u>108,256</u>	<u>182,584</u>	<u>(240,783)</u>	<u><b>50,057</b></u>
<b>Liabilities</b>				
Deposits held in custody for others	108,256	182,584	(240,783)	<b>50,057</b>
Total liabilities	<u>\$ 108,256</u>	<u>182,584</u>	<u>(240,783)</u>	<u><b>50,057</b></u>
<b>Armory</b>				
	<u>Balance</u> <u>June 30, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2010</u>
Alamogordo	\$ 2,374	3,903	(5,544)	<b>733</b>
Albuquerque	425	17,892	(18,008)	<b>309</b>
Artesia	-	-	-	-
Belen	2,400	500	(1,797)	<b>1,103</b>
Carlsbad	152	4,400	(4,378)	<b>174</b>
Clayton	1,713	4,665	(5,852)	<b>526</b>
Clovis	57	5,651	(4,017)	<b>1,691</b>
Deming	112	1,900	(1,955)	<b>57</b>
Espanola	6,377	1,100	(6,679)	<b>798</b>
Farmington	1,433	17,248	(16,975)	<b>1,706</b>
Gallup	659	300	(797)	<b>162</b>
Grants	225	200	(258)	<b>167</b>
Hobbs	425	4,650	(4,129)	<b>946</b>
Joint Forces HQ	53,296	26,278	(60,512)	<b>19,062</b>
Las Cruces	834	18,565	(18,061)	<b>1,338</b>
Las Vegas	2,496	7,100	(7,943)	<b>1,653</b>
Lordsburg	-	-	-	-
Portales	1,201	504	(1,705)	-
Raton	-	-	-	-
Rio Rancho	1,790	15,954	(15,971)	<b>1,773</b>
Roswell	8,650	8,817	(9,004)	<b>8,463</b>
Santa Clara	1,019	2,389	(3,388)	<b>20</b>
Santa Fe	9,118	31,692	(37,744)	<b>3,066</b>
Santa Rosa	2,089	1,700	(1,985)	<b>1,804</b>
Socorro	742	2,416	(1,424)	<b>1,734</b>
Springer	5,376	3,160	(7,837)	<b>699</b>
Truth or Consequences	-	-	-	-
Taos	1,090	1,600	(933)	<b>1,757</b>
Tucumcari	646	-	(330)	<b>316</b>
200th PAD	3,557	-	(3,557)	-
Total	<u>\$ 108,256</u>	<u>182,584</u>	<u>(240,783)</u>	<u><b>50,057</b></u>

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**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

Federal Grantor/Pass-Through Program Title	Federal CFDA Number	Report Category	Adjusted Grants Receivable 06/30/09	Adjusted Federal Awards Expended	Program Income (rec'd fr 3rd party but applied to grant)	Federal Receipts	Grants Receivable (Deferred Revenue) 06/30/10
U.S. Department of Defense National Guard Bureau							
<b>National Guard Military Operations and Maintenance Projects:</b>							
	*	12.401					
<b>WETS/MATES AND O&amp;M:</b>							
	A01100, A01075, A01050						
W912J3-08-2-1001			\$ 566,230	-	-	(566,230)	\$ -
W912J3-09-2-1001			1,374,404	2,980,512	-	(4,310,377)	44,539
W912J3-10-2-1001			-	3,061,795	-	(2,114,328)	947,467
In-kind federal assistance			-	42,478	-	(42,478)	-
<b>ENVIRONMENTAL RESOURCE MGMT:</b>							
	A02100, A02075						
DAHA29-06-2-1002			49,425	98,409	-	(90,631)	57,203
DAHA29-07-2-1002			78,859	106,053	-	(149,667)	35,245
W912J3-08-2-1002			29,240	55,929	-	(69,086)	16,083
W912J3-09-2-1002			59,706	463,013	-	(465,271)	57,448
W912J3-10-2-1002			-	242,815	-	(189,585)	53,230
<b>PHYSICAL SECURITY:</b>							
	A03100						
W912J3-09-2-1003			186,279	185,739	-	(372,018)	-
W912J3-10-2-1003			-	493,840	-	(367,350)	126,490
<b>ELECTRONIC SECURITY:</b>							
	A04100						
W912J3-08-2-1004			1,953	-	-	(1,953)	-
W912J3-09-2-1004			41,725	60,361	-	(102,086)	-
W912J3-10-2-1004			-	123,338	-	(96,419)	26,919
<b>SUSTAINABLE RANGE PROGRAM:</b>							
	A07100						
W912J3-08-2-1007			62	-	-	(62)	-
W912J3-09-2-1007			27,819	11,947	-	(39,766)	-
W912J3-10-2-1007			-	24,996	-	(15,808)	9,188
In-kind federal assistance			-	40,000	-	(40,000)	-
<b>ANTI-TERRORISM PROGRAM MANAGER:</b>							
	A10100						
W912J3-09-2-1010			28,605	17,461	-	(46,066)	-
W912J3-10-2-1010			-	52,598	-	(35,815)	16,783
<b>AIR NAT. GUARD O&amp;M:</b>							
	A21000						
W912J3-08-2-1021			-	-	-	-	-
W912J3-09-2-1021			245,247	202,811	-	(405,827)	42,231
W912J3-10-2-1021			-	310,044	-	(228,077)	81,967
<b>AIR NAT. GUARD ENVIRONMENT:</b>							
	A22075						
W912J3-09-2-1022			23,327	11,532	-	(34,859)	\$ -
W912J3-10-2-1022			-	34,428	-	(26,885)	7,543
<b>AIR NAT. GUARD SECURITY:</b>							
	A23100						
W912J3-09-2-1023			12,121	16,574	-	(28,695)	-
W912J3-10-2-1023			-	45,633	-	(36,320)	9,313
<b>AIR NAT. FAMILY SUPPORT:</b>							
	A29100						
W912J3-09-2-1029			\$ 18,019	16,853	-	(34,872)	-

See independent auditors' report.

**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

Federal Grantor/Pass-Through Program Title	Federal CFDA Number	Report Category	Adjusted Grants Receivable 06/30/09	Adjusted Federal Awards Expended	Program Income (rec'd fr 3rd party but applied to grant)	Federal Receipts	Grants Receivable (Deferred Revenue) 06/30/10
<b>DISTANCE LEARNING:</b>		A40100					
W912J3-09-2-1040			\$ 44,356	67,021	-	(111,377)	-
W912J3-10-2-1040			-	140,803	-	(81,842)	58,961
In-kind federal assistance			-	55,000	-	(55,000)	-
<b>ARMY NAT. GUARD FAMILY SUPPORT:</b>		A41100					
W912J3-09-2-1041			52,026	73,046	-	(125,072)	-
W912J3-10-2-1041			-	211,129	-	(177,013)	34,116
Subtotal CFDA # 12.401			<u>2,839,403</u>	<u>9,246,158</u>	<u>-</u>	<u>(10,460,835)</u>	<u>1,624,726</u>
<b>MILITARY CONSTRUCTION:</b>		12.400 A0110A					
W912J3-08-2-2001 (AASF)			-	42,036	-	(42,036)	-
W912J3-10-2-2001 (Farmington Readiness)			-	105,519	-	-	105,519
In-kind federal assistance			-	60,000	-	(60,000)	-
Subtotal CFDA # 12.400			<u>-</u>	<u>207,555</u>	<u>-</u>	<u>(102,036)</u>	<u>105,519</u>
<b>NATIONAL GUARD YOUTH CHALLENGE PROGRAM:</b>		* 12.404 360X00					
W912J3-09-2-4002			718,312	-	-	(718,312)	-
W912J3-10-2-4002			-	1,295,598	-	(1,120,562)	175,036
Subtotal CFDA # 12.404			<u>718,312</u>	<u>1,295,598</u>	<u>-</u>	<u>(1,838,874)</u>	<u>175,036</u>
<b>TOTAL NATIONAL GUARD BUREAU</b>			<u>3,557,715</u>	<u>10,749,311</u>	<u>-</u>	<u>(12,401,745)</u>	<u>1,905,281</u>
<b>U.S. Department of Agriculture: Passed through the NM Public Education Department</b>							
Child Nutrition Cluster:							
National School Lunch Program (NSLP)	10.555	360100	-	113,541	-	(104,522)	9,019
School Breakfast Program (SBP)	10.553	360100	-	-	-	-	-
<b>TOTAL NM PUBLIC EDUCATION DEPT.</b>			<u>-</u>	<u>113,541</u>	<u>-</u>	<u>(104,522)</u>	<u>9,019</u>
<b>TOTAL FEDERAL AWARDS</b>			<u>3,557,715</u>	<u>10,862,852</u>	<u>-</u>	<u>(12,506,267)</u>	<u>1,914,300</u>
Net grants receivable			<u>\$ 3,557,715</u>	<u>10,862,852</u>	<u>-</u>	<u>(12,506,267)</u>	<u>\$ 1,914,300</u>

\*Major Program

**Note 1. Basis for Presentation**

The Schedule of Expenditures 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 received \$197,478 in the form of federal non-cash assistance during the year. These amounts are disclosed above in under the related appendix that received the in-kind assistance.

**Note 3 - Sub-recipients**

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

**Note 4 - NM Public Education Department**

The amounts shown as receivable from the NM Public Education Department are included as amounts due from other state agencies in the accompanying financial statements and are not shown as receivable from the federal government.

**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, 2010**

Description	SHARE Identifier #	Appropriation Period	Original Appropriation	Expend- itures To Date	Out- standing Encumb- rances	Approps Expired	Unencumb- ered Balances
<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	454,173	-	45,827	-
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	122,643	-	32,357	-
Laws 2007 - Chapter 2, Section 3	07-3026	07/01/2005 - 06/30/2011	3,198,800	1,564,310	-	1,500,000	134,490
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	32,212	-	2,788	-
							-
							-
Total special and capital outlay appropriations outstanding			\$ <u>4,048,800</u>	<u>2,331,770</u>	<u>-</u>	<u>1,581,040</u>	<u>135,990</u>
Total encumbered amounts					\$ <u>-</u>		
Total reverted amounts						<u>1,581,040</u>	
Total reserved for future years' expenditures							<u>135,990</u>
<b>Severance Tax Bonds Outstanding*</b>							
Laws 2005 - Chapter 347, Section 4, Item 1	05-0032	07/01/2005 - 06/30/2010	49,900	49,900	-	-	-
Laws 2007 - Chapter 42, Section 24	07-3770	07-01-2007 - 06/30/2011	150,000	150,000	-	-	-
Laws 2008 - Chapter 83, Section 435	06-0558	07/01/2006 - 06/30/2010	150,000	149,857	-	143	-
Laws 2008 - Chapter 92, Section 4	08-3005	07/01/2007 - 06/30/2012	1,000,000	141,690	-	-	858,310
Laws 2008 - Chapter 92, Section 22	08-3281	07/01/2007 - 06/30/2012	2,500,000	-	-	-	2,500,000
Laws 2009 - Chapter 7, Section 3	09-3755	07/01/2009 - 06/30/2013	1,500,000	-	-	-	1,500,000
Laws 2008 - Chapter 28, Section 4	09-3066	07/01/2009 - 06/30/2013	500,000	117,307	-	-	382,693
Total severance tax bonds outstanding			<u>5,849,900</u>	<u>608,754</u>	<u>-</u>	<u>143</u>	<u>5,241,003</u>
			\$ <u>9,898,700</u>	<u>2,940,524</u>	<u>-</u>	<u>1,581,183</u>	<u>5,376,993</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.

See independent auditors' report.

**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, 2010**

<u>Participants</u>	<u>Responsible Party for Operations</u>	<u>Description</u>	<u>Beginning &amp; Ending Dates</u>	<u>Total Estimated Amount of Project</u>	<u>Agency Contributions in FY 2010</u>	<u>Revenues &amp; Expenditures Reported On By:</u>	<u>Audit Responsibility</u>
Eastern NM University Roswell Youth Challenge #10-01, PO #3603	DMA & SAB	Food services for cadets attending	7/01/2009 to 6/30/2010	\$ 283,000	273,265	DMA & SAB	DMA & SAB
University of NM Office of Cultural Affairs (NMOCA) #10-22, PO #4305	DMA & SAB	Cultural resources management pgm. for NMANG sites	Ongoing to 6/30/2010	-	-	DMA & SAB	DMA & SAB
Eastern NM Univ. #10-02, PO #3602	DMA & SAB	Provide vocational training at ENMU for Youth Challenge cadets	7/01/2009 to 6/30/2010	133,000	133,000	DMA & SAB	DMA & SAB
University of NM #08-04, PO #4004	DMA & SAB	Roswell WETS site - Presence of rare protected, threatened & endangered species	9/11/2007 to 12/31/2010	47,371	47,371	DMA & SAB	DMA & SAB
University of NM #08-05, PO #1414	DMA & SAB	Roswell WETS site - Data recovery cancelled	9/27/2007 to 6/30/2010	-	-	DMA & SAB	DMA & SAB
University of NM #08-06, PO #4004	DMA & SAB	Happy Valley - Data recovery	6/12/2008 to 12/31/2011	12,803	12,803	DMA & SAB	DMA & SAB
University of NM #08-08, PO #4004	DMA & SAB	Black Mountain - site monitoring/ species management	9/27/07 to 12/31/2010	20,664	20,664	DMA & SAB	DMA & SAB
University of NM #08-09, PO #4004	DMA & SAB	Camel Tracks - To conduct data recovery	9/26/07 to 12/31/2011	25,214	25,214	DMA & SAB	DMA & SAB
University of NM #09-07, PO #4004	DMA & SAB	Tribal Consultation	1/14/2009 to 12/31/2011	1,435	1,435	DMA & SAB	DMA & SAB
University of NM #09-08, PO #4004	DMA & SAB	Cultural Resource Project	1/14/2009 to 12/31/2011	188	188	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, 2010**

<u>Participants</u>	<u>Responsible Party for Operations</u>	<u>Description</u>	<u>Beginning &amp; Ending Dates</u>	<u>Total Estimated Amount of Project</u>	<u>Agency Contributions in FY 2010</u>	<u>Revenues &amp; Expenditures Reported On By:</u>	<u>Audit Responsibility</u>
University of NM #09-09, PO #4004	DMA & SAB	Endangered Species Monitoring	2/3/2009 to 12/30/2010	32,044	32,044	DMA & SAB	DMA & SAB
University of NM #09-12, PO #4004	DMA & SAB	Technical Support Blk. Mtn. Training Site	2/6/2009 to 12/31/2010	-	-	DMA & SAB	DMA & SAB
University of NM #10-05, PO #3577	DMA & SAB	Eligibility of NMARNG Structures - National Register	9/01/2009 to 12/31/2011	3,725	3,725	DMA & SAB	DMA & SAB
University of NM #10-22, PO #4303	DMA & SAB	Cultural Resource Support	6/11/2010 to 9/30/2010	-	-	DMA & SAB	DMA & SAB
University of NM #10-19, PO #4304	DMA & SAB	Support artifact stabilization & curation at Deming/Black Mountain	6/11/2010 to 9/30/2011	-	-	DMA & SAB	DMA & SAB
University of NM #10-09, PO #3578	DMA & SAB	Catalog/archive of Deming Armory adobe structures	8/26/09 to 12/31/2011	\$ 4,203	4,203	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, 2010, and have issued our report thereon dated December 15, 2010. 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness: 08-03

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency: 07-02

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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings and questioned costs as item 07-02.

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

This report is intended solely for the information and use of 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.

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

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT  
AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON 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 Department of Military Affairs/State Armory Board's (the Department's) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Department's major federal programs for the year ended June 30, 2010. 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.


## 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 and to test and report on internal controls over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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.

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

Hinkle & Landers, P.C.  
December 15, 2010

**STATE OF NEW MEXICO  
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2010**

**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
12.404	National Guard Civilian Youth Opportunities	U.S. Department of Defense/National Guard Bureau

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

Auditee qualified as low-risk auditee? \_\_\_ Yes    X No

**STATE OF NEW MEXICO  
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2010**

**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
08-03 SAS 115 - MATERIAL ADJUSTMENTS BY AUDITOR	Modified/Repeated	Yes	No	No
09-01 COLLECTION OF TRAVEL ADVANCES	Resolved	Yes	No	Yes

**Current Year Findings**  
NONE

**PRIOR YEAR FINDINGS**

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

**Statement of Condition**

As of June 30, 2010, the Department had a liability of \$1,914,633 owed 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 \$1,062,826 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	537,445
Fiscal year 2010 reversion	<u>1,062,826</u>
Total	<u><u>\$2,977,459</u></u>

Discussion with Department finance personnel showed reversions totaling \$275,095 were made by the Department during the year ended June 30, 2010. Additional reversions totaling \$823,200 were made after the fiscal year end, but prior to the issuance of the audit.

**Criteria**

The General Appropriations Act of 2009, Laws 2009, Chapter 124, Section 2 (General Provisions), requires any unencumbered balances in agency accounts remaining at the end of fiscal year 2010 shall revert to the general fund by October 1, 2010. In addition, Section 6-5-10, NMSA 1978 requires that all unreserved and undesignated fund balances in reverting funds and accounts as reflected in the central financial reporting and accounting system as of June 30, as adjusted, shall revert to the general fund within forty-five days of release of the audit report for that fiscal year.

**Effect**

The Department was in violation of the general provisions of the 2009 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.

**STATE OF NEW MEXICO  
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2010**

**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 its 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, 2011, based upon this (FY10) 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-10 reversions on August 31, 2010. DMA will request additional training from DFA and the CAFR unit on the reversion process and timelines.

**08-03 – SAS 115 - MATERIAL ADJUSTMENTS BY AUDITOR**

**Statement of Condition**

During our audit we made several adjustments to the Department's books that SAS 115 requires to be reported as a finding. The adjustments consisted of the following:

• Record current year reversions	\$ 445,626
• Correct accrued payroll	151,861
• Adjust cash and investments between funds	874,152
• Adjust STB receivables	\$ 117,307

**Criteria**

Some of the key underlying concepts of Statement of Auditing Standards (SAS) 115 are

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

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

**STATE OF NEW MEXICO  
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2010**

**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-10. The Department will request training from the Department of Finance and Administration and the CAFR unit.

**CURRENT YEAR FINDINGS**

**NONE**



**STATE OF NEW MEXICO  
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD  
EXIT CONFERENCE  
FOR THE YEAR ENDED JUNE 30, 2010**

An exit conference was held on December 15, 2010. Present at the exit conference were:

For Department of Military Affairs/State Armory Board:

George Jeantete	Director of State Programs/ Executive Director of the NM State Armory Board
Theresa V. Martinez	Senior Administrative Manager
Lawrence Montano	Chief Financial Officer
Sandra Gonzales-Bazan	Procurement Manager
Gwen FitzGerald	Reimbursements Analyst
Ernestine Apodaca	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.