



# HINKLE + LANDERS

Certified Public Accountants + Business Consultants

DEPARTMENT OF MILITARY AFFAIRS  
AND STATE ARMORY BOARD

FINANCIAL STATEMENTS

For the year ended June 30, 2011  
With Comparative for 2010

**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD**  
**Independent Auditors' Report and**  
**Financial Statements**  
**For The Year Ended June 30, 2011**

**TABLE OF CONTENTS**

<b>INFORMATIONAL SECTION</b>	<b>Page</b>
Table of Contents	i-ii
Official Roster	1
<b>FINANCIAL SECTION</b>	
Independent auditors' report	2-3
<b><u>Basic Financial Statements:</u></b>	
<b>Government-Wide Statements:</b>	
Statement of net assets	4
Statement of activities	5
<b>Fund Financial Statements:</b>	
<b>Governmental Funds</b>	
Balance sheet – governmental funds	6
Reconciliation of the governmental funds balance sheet to the statement of net assets	7
Statement of revenues, expenditures, and changes in fund balances – governmental funds	8
Reconciliation of the statement of revenues, expenditures, and changes in fund balances of governmental funds to the statement of activities	9
Statement of revenues, expenditures and changes fund balances – budget and actual – major governmental funds – General fund	10
Statement of revenues, expenditures and changes fund balances – budget and actual – major governmental funds – special revenue funds – Adjutant General Emergency	11
Statement of revenues, expenditures and changes fund balances – budget and actual – major governmental funds – special revenue fund – Service Members' Life Insurance Reimbursement Fund	12
<b>Fiduciary Funds</b>	
Statement of fiduciary assets and liabilities – agency funds	13
<b>Notes to Financial Statements</b>	14-37
<b>SUPPLEMENTAL INFORMATION:</b>	
Fund Descriptions	38-39
Combining balance sheet – General fund – All accounts	40
Combining statement of revenues, expenditures, and changes in fund balances – General fund – All accounts	41
Combining balance sheet – non-major governmental funds	42
Combining statement of revenues, expenditures, and changes in fund balances – non-major governmental funds	43
Statement of revenues, expenditures and changes fund balances – budget and actual – special revenue fund – NM Military Family Assistance Fund	44

**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD**  
**Independent Auditors' Report and**  
**Financial Statements**  
**For The Year Ended June 30, 2011**

	<u>Page</u>
Statement of revenues, expenditures and changes fund balances – multi-year budget and actual – capital projects fund – STB Capital Outlay	45
Statement of revenues, expenditures and changes fund balances – multi-year budget and actual – major governmental fund – capital projects fund – Armory Improvements	46-47
Schedule of changes in assets and liabilities – agency funds	48
 <b>OTHER SUPPLEMENTAL INFORMATION:</b>	
Schedule of expenditures of federal awards	49-50
Schedule of Special, Deficiency, Specific and Capital Outlay Appropriations	51
Schedule of Joint Powers Agreements	52-53
 <b>COMPLIANCE SECTION</b>	
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	54-55
 <b>FEDERAL FINANCIAL ASSISTANCE</b>	
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	56-57
Schedule of findings and questioned costs	58-62
 <b>OTHER DISCLOSURES</b>	
Exit conference	63

**STATE OF NEW MEXICO  
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD**

**Official Roster  
As Of June 30, 2011**

**DEPARTMENT OF MILITARY AFFAIRS**

<b>Name</b>	<b>Title</b>
Major General Kenny C. Montoya	Adjutant General
Brigadier General Paul Pena	Deputy Adjutant General
Brigadier General (NM) Richard A. Clark Jr	Assistant 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
LTG (Ret.) Melvyn Montano	Member
SCSM (Ret) John B. Torres	Member
CSM (Ret) Kevin Myers	Member
Danny Hawkes	Member
LTC J.D. Sedillo	Member – (Comm. Officer)



---

**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, 2011, 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, 2011, 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, 2011, 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, 2011, 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, 2011 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, 2011 in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2 to the financial statements, the Board implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 13, 2011, 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.



Hinkle + Landers, P.C.  
December 13, 2011

**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD**  
**STATEMENT OF NET ASSETS**  
**GOVERNMENT-WIDE**  
**As of June 30, 2011**

	<b>Governmental Activities</b>
<b><u>ASSETS</u></b>	
Current assets:	
Investment in State Treasurer General Fund Investment Pool	\$ 388,456
Petty cash	200
Receivable	14,656
Due from other state agencies	1,389,021
Due from federal government	2,479,615
Total current assets	4,271,948
Non-current assets:	
Capital assets not being depreciated	8,644,078
Capital assets being depreciated	117,537,541
Less accumulated depreciation	(83,134,458)
Total capital assets, net of depreciation	43,047,161
Total assets	\$ 47,319,109
<b><u>LIABILITIES &amp; NET ASSETS</u></b>	
Current liabilities:	
Accounts payable	\$ 1,388,125
Accrued salaries payable	143,090
Payroll taxes payable	14,346
Other payroll liabilities payable	29,658
Due to other state agencies	3,984
Due to State General Fund	2,217,535
Receipts held in suspense	35
Compensated absences payable	218,139
Total current liabilities	4,014,912
Long-term liabilities:	
Compensated absences payable	70,575
Total liabilities	4,085,487
Net assets:	
Invested in capital assets	43,047,161
Restricted	
Special revenue funds	541,736
Unrestricted	(355,275)
Total net assets	43,233,622
Total liabilities and net assets	\$ 47,319,109

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, 2011**

	<u><b>Governmental Activities</b></u>
<b>Expenses:</b>	
Public Safety	\$ 15,215,542
Depreciation expense	3,832,665
Total program expenses	<u>19,048,207</u>
<b>Program revenues:</b>	
Federal grants - operating	9,655,464
State-federal pass-through grants	<u>1,221,743</u>
Total program revenues	<u>10,877,207</u>
Net program (expense) revenue	<u>(8,171,000)</u>
<b>General revenues and (expenses):</b>	
Transfer - State General Fund appropriations	7,928,300
Transfer - Severance tax bond appropriations (capital projects)	284,866
Transfer - Reversions to state general fund - FY11	(1,837,439)
Interest income	1,280
Miscellaneous revenue	<u>117,910</u>
Total general revenues and expenses	<u>6,494,917</u>
Change in net assets	(1,676,083)
Beginning net assets	44,909,705
Ending net assets	<u>\$ <u>43,233,622</u></u>

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



**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**As of June 30, 2011**

	<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>Service Members' Life Insurance (93200)</u>	<u>Armory Improv. Capital Projects (89700)</u>	<u>Other Funds</u>	
<b><u>ASSETS</u></b>						
Investment in State Treasurer General Fund Investment Pool	\$ 1,329	203,056	85,406	-	98,664	388,455
Petty cash	200	-	-	-	-	200
Receivables	13,304	1,352	-	-	-	14,656
Due from other funds	-	522,759	500,000	-	-	1,022,759
Due from other state agencies	1,159	1,177,810	74	178,571	31,407	1,389,021
Due from federal government	2,281,810	-	-	197,805	-	2,479,615
Prepaid expenses	-	-	-	-	-	-
<b>Total assets</b>	<b>\$ 2,297,802</b>	<b>1,904,977</b>	<b>585,480</b>	<b>376,376</b>	<b>130,071</b>	<b>5,294,706</b>
<b><u>LIABILITIES &amp; FUND BALANCE</u></b>						
Liabilities:						
Accounts payable	\$ 869,392	455,797	-	48,385	14,552	1,388,126
Accrued salaries payable	143,090	-	-	-	-	143,090
Payroll taxes payable	10,127	4,219	-	-	-	14,346
Other payroll liabilities payable	10,793	18,853	12	-	-	29,658
Due to other funds	753,607	-	-	252,297	16,855	1,022,759
Due to other state agencies	-	-	-	-	3,984	3,984
Due to State General Fund	577,321	1,426,108	138,412	75,694	-	2,217,535
Receipts held in suspense	35	-	-	-	-	35
<b>Total liabilities</b>	<b>2,364,365</b>	<b>1,904,977</b>	<b>138,424</b>	<b>376,376</b>	<b>35,391</b>	<b>4,819,533</b>
Fund balance:						
Nonspendable	-	-	-	-	-	-
Restricted						
Service Members' Life Insurance Reimbursements	-	-	447,056	-	-	447,056
Financial assistance for NM Guard members' families	-	-	-	-	94,680	94,680
Committed	-	-	-	-	-	-
Assigned	-	-	-	-	-	-
Unassigned	(66,563)	-	-	-	-	(66,563)
<b>Total fund balance</b>	<b>(66,563)</b>	<b>-</b>	<b>447,056</b>	<b>-</b>	<b>94,680</b>	<b>475,173</b>
<b>Total liabilities and fund balance \$</b>	<b>2,297,802</b>	<b>1,904,977</b>	<b>585,480</b>	<b>376,376</b>	<b>130,071</b>	<b>5,294,706</b>

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, 2011**

Total fund balance - Governmental funds	\$	475,173
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.		43,047,161
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.		(218,139)
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.		(70,575)
Differences due to rounding		<u>2</u>
Net assets of governmental activities	\$	<u><u>43,233,622</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, 2011**

	<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>Service Members' Life Insurance (93200)</u>	<u>Armory Improv. Capital Projects (89700)</u>	<u>Other Funds</u>	
<b>Revenues:</b>						
Federal sources	\$ 9,116,663	1,177,810	-	582,734	-	10,877,207
Interest on investments	-	-	1,280	-	-	1,280
Miscellaneous revenue	101,270	2,813	-	-	13,823	117,906
<b>Total revenues</b>	<u>9,217,933</u>	<u>1,180,623</u>	<u>1,280</u>	<u>582,734</u>	<u>13,823</u>	<u>10,996,393</u>
<b>Expenditures:</b>						
Public Safety						
Current:						
Personal services and benefits	6,154,748	546,717	-	-	-	6,701,465
Contractual services	2,230,521	570,453	-	636,344	31,407	3,468,725
Other costs	3,732,963	137,541	1,147,505	25,735	3,170	5,046,914
Capital outlay	2,082,943	-	-	238,819	-	2,321,762
<b>Total expenditures</b>	<u>14,201,175</u>	<u>1,254,711</u>	<u>1,147,505</u>	<u>900,898</u>	<u>34,577</u>	<u>17,538,866</u>
Excess (deficiency) of revenue over expenditures	<u>(4,983,242)</u>	<u>(74,088)</u>	<u>(1,146,225)</u>	<u>(318,164)</u>	<u>(20,754)</u>	<u>(6,542,473)</u>
<b>Other financing sources (uses)</b>						
Severance tax bond						
proceed appropriations	-	-	-	253,459	31,407	284,866
Transfer - State General Fund appropriations	5,270,300	1,500,000	1,158,000	-	-	7,928,300
Transfer - Reversions to state general fund - FY11	(337,332)	(1,425,912)	-	(74,196)	-	(1,837,440)
<b>Total other financing sources (uses):</b>	<u>4,932,968</u>	<u>74,088</u>	<u>1,158,000</u>	<u>179,263</u>	<u>31,407</u>	<u>6,375,726</u>
Net change in fund balance	<u>(50,274)</u>	<u>-</u>	<u>11,775</u>	<u>(138,901)</u>	<u>10,653</u>	<u>(166,747)</u>
Beginning fund balance	<u>(16,289)</u>	<u>-</u>	<u>435,281</u>	<u>138,901</u>	<u>84,027</u>	<u>641,920</u>
Ending fund balance	<u>\$ (66,563)</u>	<u>-</u>	<u>447,056</u>	<u>-</u>	<u>94,680</u>	<u>475,173</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, 2011**

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

Net change in fund balances (deficit) - total governmental funds	\$	(166,747)
--	----	-----------

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	\$	2,286,584	
Other capitalized expenditures not recorded as capital outlay		-	
Depreciation	\$	<u>(3,832,665)</u>	
Excess (shortage) of capital outlay over depreciation expense			(1,546,081)

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		36,742
Differences due to rounding		<u>3</u>

Change in net assets of governmental activities	\$	<u><u>(1,676,083)</u></u>
---	----	---------------------------

**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, 2011**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual (Budgetary Basis)</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Revenues</b>				
Federal grants-operating	\$ 11,942,500	11,962,500	9,072,730	(2,889,770)
State-federal pass through grants	-	38,854	43,933	5,079
Miscellaneous revenue	194,700	192,213	101,270	(90,943)
Building - Rental or Lease	22,300	23,493	-	(23,493)
Land - Rental or Lease	10,800	-	-	-
Land royalties	-	2,999	-	(2,999)
Total revenues	12,170,300	12,220,059	9,217,933	(3,002,126)
<b>Expenditures</b>				
Current (Public Safety):				
Personal services and employee benefits	7,977,400	7,159,600	6,154,748	1,004,852
Contractual services	3,903,000	3,255,313	2,230,521	1,024,792
Other	5,705,800	7,075,446	5,765,631	1,309,815
Total expenditures	17,586,200	17,490,359	14,150,900	3,339,459
Excess (deficiency) of revenues over expenditures	(5,415,900)	(5,270,300)	(4,932,967)	337,333
<b>Other Financing Sources (Uses)</b>				
State general fund appropriations	5,415,900	5,270,300	5,270,300	-
Compensation appropriation	-	-	-	-
Intraagency transfer	-	-	-	-
Reversion to state general fund FY11	-	-	(337,332)	(337,332)
Net interagency transfers and financial sources (uses)	5,415,900	5,270,300	4,932,968	(337,332)
Net change in fund balance	\$ -	-	1	1

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

Total budget basis expenditures for fiscal year 2011:	\$ 14,150,900
Adjustments:	
Accounts payable that required a request to pay prior-year bills out of the FY2012 budget	66,763
Prior year accounts payable paid out of FY2011 budget	(16,490)
Rounding	2
Total GAAP Basis Expenditures for the fiscal year ended June 30, 2011:	\$ 14,201,175

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, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues</b>				
State-federal pass through grants	\$ -	-	1,177,810	1,177,810
Miscellaneous revenue	-	-	2,813	2,813
Total revenues	<u>-</u>	<u>-</u>	<u>1,180,623</u>	<u>1,180,623</u>
Reissued prior year budget	-	-	-	
Total resources	<u>-</u>	<u>-</u>	<u>1,180,623</u>	
<b>Expenditures</b>				
Current (Public Safety):				
Personal services and employee benefits	278,725	549,725	546,717	3,008
Contractual services	1,027,305	697,305	570,453	126,852
Other	193,970	252,970	137,541	115,429
Total expenditures	<u>1,500,000</u>	<u>1,500,000</u>	<u>1,254,711</u>	<u>245,289</u>
Excess (deficiency) of revenues over expenditures	<u>(1,500,000)</u>	<u>(1,500,000)</u>	<u>(74,088)</u>	<u>1,425,912</u>
<b>Other Financing Sources (Uses)</b>				
State general fund appropriations	1,500,000	1,500,000	1,500,000	-
Intraagency transfer	-	-	-	-
Reversion to state general fund FY11	-	-	(1,425,912)	(1,425,912)
Net interagency transfers and financial sources (uses)	<u>1,500,000</u>	<u>1,500,000</u>	<u>74,088</u>	<u>(1,425,912)</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 2011:			\$ 1,254,711	
Adjustments:				
No adjustment necessary			<u>-</u>	
Total GAAP Basis Expenditures for the fiscal year ended June 30, 2011:			<u>\$ 1,254,711</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) - 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, 2011**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual (Budgetary Basis)</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Expenditures</b>				
Current (Public Safety):				
Personal services and employee benefits	\$ -	-	-	-
Contractual services	-	-	-	-
Other	1,228,000	1,158,000	1,147,505	10,495
<b>Total expenditures</b>	<b>1,228,000</b>	<b>1,158,000</b>	<b>1,147,505</b>	<b>10,495</b>
 Excess (deficiency) of revenues over expenditures	 (1,228,000)	 (1,158,000)	 (1,147,505)	 10,495
 <b>Other Financing Sources (Uses)</b>				
State general fund appropriations	1,228,000	1,158,000	1,158,000	-
Intraagency transfer	-	-	-	-
Reversion to state general fund FY11	-	-	-	-
Net interagency transfers and financial sources (uses)	1,228,000	1,158,000	1,158,000	-
<b>Net change in fund balance</b>	<b>\$ -</b>	<b>-</b>	<b>10,495</b>	<b>10,495</b>
 <b>Reconciliation of Budgetary Basis to Fund Financial Statement</b>				
Total budget basis expenditures for fiscal year 2011:			\$ 1,147,505	
Adjustments:				
No adjustment necessary			-	
 Total GAAP Basis Expenditures for the fiscal year ended June 30, 2011:			 \$ 1,147,505	

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, 2011**

	<b>Agency Funds</b>
<b>Assets</b>	
Cash in local banks	\$ <u>78,388</u>
Total assets	\$ <u><u>78,388</u></u>
<b>Liabilities</b>	
Deposits held for others	\$ <u>78,388</u>
Total liabilities	\$ <u><u>78,388</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 Financial Statements**  
**For the Year Ended June 30, 2011**

**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)

**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2011**

pronouncements and 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.

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.

**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2011**

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.

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

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

**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2011**

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.

This 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 Funds**

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.

**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2011**

The Department presents the following types of governmental funds.

- 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 separate funds: the Department of Military Affairs and the State Armory Board. The general operations of the Department are being consolidated into one account 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.
- Special Revenue Funds – The special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The special revenue funds are also reported by a generic fund type classification known as governmental funds.
- Capital Projects Funds – The capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital expenditures. The capital projects funds are reported by a generic fund type classification known as governmental funds.

**Fiduciary Funds (Agency)** – The Department's fiduciary funds (agency funds) are presented in the fund financial statements and use the *economic resources measurement focus* and the *accrual basis of accounting*. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the Department, these funds are not incorporated in the government-wide financial statements. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Department has one agency fund, as described below:

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

**Major Funds**

Funds are classified as major or non-major, with emphasis placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the General fund of the Department, deemed as major by the Department due to its importance, or meets the following criteria:

- Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least ten percent of the corresponding total for all funds of that category or type; and

**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2011**

- Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least five percent of the corresponding total for all governmental and enterprise funds combined.

Since the Department does not have any enterprise funds, only the first criterion is applied. The Department's major funds are identified on page 38 of this report.

**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.

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

**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2011**

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 yearend. Legal compliance is monitored through the establishment of a budget and a financial control system which permits a budget-to-actual expenditure comparison. Expenditures may not legally exceed appropriations for each budget at the appropriation program level. Budgeted appropriation unit amounts may be amended upon approval from the Budget Division of the State of New Mexico Department of Finance and Administration within the limitations as specified in the General Appropriations Act. The budget amounts shown in the financial statements are the original and final authorized amounts as legally revised during the year. The legal level of budgetary control is at the appropriation program level.

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

1. No later than September 1, the Department submits to the Legislative Finance Committee (LFC) and the Budget Division of the Department of Finance and Administration (DFA) an appropriation request for the fiscal year commencing the following July 1. The appropriation request includes proposed expenditures and the means of financing them.
2. Budget hearings are scheduled before the New Mexico House Appropriations and Senate Finance Committees. The final outcome of those hearings is incorporated into the state's General Appropriations Act.
3. The Act is signed into Law by the Governor of the State of New Mexico within the legally prescribed time limit, at which time the approved budget becomes a legally binding document.
4. No later than May 1, the Department submits to DFA an annual operating budget by appropriation program and object code based upon the appropriation made by the Legislature. The DFA Budget Division reviews and approves the operating budget which becomes effective on July 1.
5. Formal budgetary integration is employed as a management control device during the fiscal year for the General and Special Revenue Funds. Budgets are prepared for each project within a capital projects fund. These budgets are for the entire project and may span two or more years, depending on the project.
6. The budget for the General Fund and all special revenue funds are adopted on a modified accrual basis of accounting. Per the General Appropriations Act, Laws of 2006, Chapter 109, Section 3, Subsections O and N, the budgetary basis is modified accrual. However, there is statutory exception. The budget is adopted on the modified accrual basis of accounting except for accounts payable accrued

**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2011**

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 2012 budget. The Armory Improvements Capital Projects Fund and the STB Capital Outlay Fund operate under a multiyear budget.

7. The original budgets differ from the final budgets presented in the budget comparison statements by amendments made during the fiscal year. All budgetary adjustments must be approved by the Department of Finance and Administration Budget Division and the Legislative Finance Committees.
8. Appropriations lapse at the end of the fiscal year for those goods and services received by June 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 statements prepared on the modified accrual basis have 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 restricted fund balance and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. Unused and excess encumbrances are adjusted in the year it is determined the funds will not be spent.

**H. Receivables**

In accordance with Article IV Section 32 of the New Mexico Constitution [Remission of debts due state or municipalities], the Department does not write-off amounts owed to it by any individual, association, company, or other agency. The Department maintains a list of all amounts owed to it to ensure no amounts are erroneously written off.



**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2011**

**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. Capital Assets**

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

Assets are carried at historical costs or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. Computer software which is purchased with data processing computer equipment is included as part of the capitalized computer equipment data processing in accordance with 2.20.1.9 C (5). Also, the Department does not develop any software. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed when incurred.

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

<u>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.

**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2011**

**K. 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, 2011, 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.

**L. Fund Balance – Governmental Funds**

GASB Statement No. 54 clarifies the existing governmental fund type definitions and provides clearer fund balance categories and classifications. The new hierarchical fund balance classifications are based primarily upon the extent to which a government is bound to follow constraints on resources in governmental funds. GASB Statement No. 54 was implemented in the current fiscal year. Details of the Department's fund balance classifications and policies follows.

In the governmental fund financial statements, fund balances are classified as nonspendable, restricted, or unrestricted (committed, assigned, or unassigned). Restricted represents those portions of fund balance where constraints placed on the

**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2011**

resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Committed fund balance represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislative and Executive branches of the State. Assigned fund balance is constrained by the Legislature's and Executive Branch's intent to be used for specific purposes or in some cases by legislation, but are neither restricted or committed..

Spending policy

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Department considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Department considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed.

**M. 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 fiscal 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 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 \$541,736 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.

**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2011**

**N. 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.

**NOTE 3 – CASH AND INVESTMENT POLICY**

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

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

<u>Fund</u>	<u>SHARE</u> <u>Agency-Acct</u>	<u>Location</u>	<u>Balance Per</u> <u>State</u> <u>Treasurer</u>	<u>Balance Per</u> <u>Financials</u>
Dept. of Military Affairs	70500-06900	STO	\$ 1,329	1,329
State Armory Board	70500-99200	STO	-	-
Subtotal General Fund			1,329	1,329
Adjutant General's Emergency Fund	70500-07000	STO	203,056	203,056
NM Military Family Relief Fund	70500-10580	STO	98,664	98,664
Service Members' Life Insurance				
Reimbursement Fund	70500-93200	STO	85,406	85,406
Armory Improvements	70500-89700	STO	-	-
STB Capital Outlay	70500-89200	STO	-	-
Laws of 1994	70500-85000	STO	-	-
Total			\$ <u>388,455</u>	<u>388,455</u>

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

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

**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2011**

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

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

**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2011**

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, 2011, cash (checking) accounts for the armory boards consisted of the following:

<u>Armory</u>	<u>Bank Name</u>	<u>Balance</u> <u>06/30/11</u>	<u>Armory</u>	<u>Bank Name</u>	<u>Balance</u> <u>06/30/11</u>
Alamogordo	Western Bank	\$ 1,063	Joint Forces HQ	Century Bank	30,295
Albuquerque	Wells Fargo	619	Las Cruces	Bank of America	2,627
Belen	Wells Fargo	761	Las Vegas	Bank of Las Vegas	1,736
Carlsbad	Eddy Fed CU	534	Rio Rancho	US NM Fed CU	3,412
Clayton	Farmers & Stockmens	2,352	Roswell	Wells Fargo	11,951
Clovis	Western Bank	1,385	Santa Clara	AM Bank	581
Deming	First Savings	591	Santa Fe	First National	10,536
Espanola	Del Norte CU	2,627	Santa Rosa	Wells Fargo	651
Farmington	Citizens Bank	905	Socorro	Wells Fargo	851
Gallup	First Community Bank	59	Springer	Wells Fargo	700
Grants	Wells Fargo	282	Taos	Peoples Bank	625
Hobbs	Western Commerce	2,983	Tucumcari	Everyone's Fed CU	262
				Total	\$ <u>78,388</u>

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

**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2011**

**C. Summary of Cash**

<u>Type</u>	<u>Amount</u>
<b>Governmental funds:</b>	
Investment in State Treasurer General Fund	
Investment Pool	\$ 388,455
Petty cash - held onsite	200
Subtotal governmental funds	<u>388,655</u>
Agency funds:	
Local Armory Board accounts	<u>78,388</u>
Subtotal agency funds	<u>78,388</u>
Total cash and investments	<u><u>\$ 467,043</u></u>

**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, 2011 relate only to those amounts in which applicable eligibility requirements have been met, but the drawdowns have not yet been received by the Department. As of June 30, 2011, the amounts receivable totaled \$209,978.

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, 2011.

<u>Project Title</u>	<u>Fund</u>	<u>Appr. ID</u>	<u>Pool</u>	<u>Amount</u>	<u>Amount</u>	<u>Balance Held</u>
				<u>Sold</u>	<u>Drawn</u>	<u>by State Board</u>
						<u>of Finance</u>
State Armory Board Project	89700	08-3005	2008	\$ 1,000,000	291,640	708,360
Aviation Readiness Center	89200	08-3281	2008	2,500,000	75,417	2,424,583
Armory Improvements	89700	09-3755	2009	1,500,000	9,600	1,490,400
Armory Improvements	89700	09-3066	2009	500,000	117,307	382,693
STB subtotals				<u>\$ 5,500,000</u>	<u>493,964</u>	<u>5,006,036</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, \$1,177,810 is due from the NM Department of Homeland Security & Emergency Management for services provided (related to a federal pass-thru grant shown on the schedule of federal awards), \$1,159 is due from NM Public Education Department as part of the School Lunch Program (a

**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2011**

federal pass-thru program shown on the schedule of federal awards), and \$74 in interest earnings from the SGFIP. The total amount due from other state agencies at June 30, 2011 is \$1,389,021. 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	\$ 178,571	STB draws receivables
34100/60901	70500/89200	31,407	STB draws receivables
79500/00000	70500/07000	1,177,810	Emergency responder services
92400/00000	70500/99200	1,159	School lunch program
39400/80100	70500/93200	74	SGFIP interest receivable
Receivable from other agencies		<u>\$ 1,389,021</u>	

**B. Due From Federal Government**

At June 30, 2011, \$2,479,615 was due from the Federal Government.

Of this amount, \$2,479,290 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 are the receivables from NM DHSEM for \$1,177,810 and the NM PED for \$1,159 to bring the total receivables related to federal programs to \$3,658,259.

The remaining amount of \$325, was due from federal agencies for services provided during the year.

**C. Due From Others**

Additional receivables from others totaled \$14,656 as of June 30, 2011. 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 \$31,935 relates to a deposit made into fund 99200 that should have been deposited into Fund 07000. The amount is expected to be paid within the next fiscal year.

The remaining intra-agency balances are related to cash overdrafts at the individual fund level as a result of the Department's cost reimbursement grants. These shortages were covered by cash balances available from other funds and will be repaid as reimbursements owed to the Department are received.



**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2011**

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

<u>Due from</u>	<u>Fund #</u>	<u>Due to</u>	<u>Fund #</u>	<u>Amount</u>
General Fund - Major Fund	99200	Adjutant General's Emergency Fund - Major Special Revenue Fund	07000	\$ 253,607
General Fund - Major Fund	99200	Service Members' Life Insurance Fund - Major Special Revenue Fund	93200	500,000
Armory Improvement Fund - Major Capital Projects Fund	89700	Adjutant General's Emergency Fund - Major Special Revenue Fund	07000	252,297
STB Capital Outlay Fund - Non-Major Capital Projects Fund	89200	Adjutant General's Emergency Fund - Major Special Revenue Fund	07000	16,855
				<u>\$ 1,022,759</u>

**NOTE 6 – CAPITAL ASSETS – GOVERNMENTAL FUNDS**

The capital assets activity for the year ended June 30, 2011, is as follows:

<u>Capital Asset Description</u>	<u>Balance June 30, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2011</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	111,331,932	2,101,540	-	<b>113,433,472</b>
Machinery and Equipment	2,039,025	185,044	-	<b>2,224,069</b>
Leasehold Improvements	1,880,000	-	-	<b>1,880,000</b>
Subtotal capital assets being depreciated	123,935,394	2,286,584	-	<b>117,537,541</b>
Less accumulated depreciation:				
Buildings and Improvements	(77,451,711)	(3,619,466)	-	<b>(81,071,177)</b>
Machinery and Equipment	(1,478,213)	(171,880)	-	<b>(1,650,093)</b>
Leasehold Improvements	(371,869)	(41,319)	-	<b>(413,188)</b>
Total accumulated depreciation	(79,301,793)	(3,832,665)	-	<b>(83,134,458)</b>
Total capital assets being depreciated	44,633,601	(1,546,081)	-	<b>34,403,083</b>
Total capital assets (net)	\$ 53,277,679	(1,546,081)	-	<b>43,047,161</b>

The Department does not have any debt related to capital assets at June 30, 2011. Depreciation expense for the year was \$3,832,665 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 7 – 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.

**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2011**

Amounts due to the State General Fund at June 30, 2011, were as follows:

<b>General Fund - State Armory Board (99200)</b>		
Cash/investment balance, June 30, 2011	\$	-
Additions:		
Due from other agencies	\$ 14,463	
Due from federal government	<u>2,281,810</u>	2,296,273
Deductions:		
Accounts payable	(802,629)	
Accrued payroll	(143,090)	
Payroll taxes payable	(10,127)	
Other liabilities payable	(10,793)	
Due to other funds	(753,607)	
Receipts held in suspense	<u>246</u>	<u>(1,720,000)</u>
<b>Due to State General Fund from Fund 99200</b>	<b>\$</b>	<b><u>576,273</u></b>
Reversion identified by fiscal year appropriation		
Fiscal year 2010, not fully reverted	237,931	
Fiscal year 2011	337,332	
Stale-dated warrants	<u>1,010</u>	
Total reversions - Fund 99200	<u>\$ 576,273</u>	
<b>Department of Military Affairs Fund (06900)</b>		
Stale-dated warrants	\$	<u>1,048</u>
<b>Due to State General Fund from Fund 06900</b>	<b>\$</b>	<b><u>1,048</u></b>
<b>Adjutant General's Emergency Fund (07000)</b>		
Cash/investment balance, June 30, 2011	\$	203,056
Additions:		
Accounts receivable	\$ 1,352	
Due from other funds	522,759	
Due from other agencies	<u>1,177,810</u>	1,701,921
Deductions:		
Accounts payable	(455,797)	
Payroll taxes payable	(4,219)	
Other liabilities payable	<u>(18,853)</u>	<u>(478,869)</u>
<b>Due to State General Fund from Fund 07000</b>	<b>\$</b>	<b><u>1,426,108</u></b>
Reversion identified by fiscal year appropriation		
Fiscal year 2010, not fully reverted	196	
Fiscal year 2011	<u>1,425,912</u>	
Total reversions - Fund 07000	<u>\$ 1,426,108</u>	
<b>Service Members' Life Insurance Reimbursement (93200)</b>		
Stale-dated warrants	\$	<u>138,412</u>
<b>Due to State General Fund from Fund 93200</b>	<b>\$</b>	<b><u>138,412</u></b>

**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2011**

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

Cash/investment balance, June 30, 2011	\$	-
Additions:		
Due from other agencies	\$	178,571
Due from federal government		197,805
Total additions		376,376
Deductions:		
Accounts payable		(48,385)
Due to other funds		(252,297)
Total deductions		(300,682)
<b>Due to State General Fund from Fund 89700</b>	<b>\$</b>	<b>75,694</b>
Reversion identified by fiscal year appropriation		
Fiscal year 2010, not fully reverted		1,498
Fiscal year 2011		74,196
Total reversions - Fund 89700	<b>\$</b>	<b>75,694</b>

**STB Capital Outlay - Capital Projects Fund (89200)**

Cash/investment balance, June 30, 2011	\$	-
Additions:		
Due from other agencies		31,407
Total additions		31,407
Deductions:		
Accounts payable		(14,552)
Due to other funds		(16,855)
Total deductions		(31,407)
<b>Due to State General Fund from Fund 89200</b>	<b>\$</b>	<b>-</b>
Total amount due to State General Fund, June 30, 2011	<b>\$</b>	<b>2,217,535</b>

**NOTE 8 – DUE TO OTHER STATE AGENCIES**

A total of \$3,984 was due to the Department of Veterans Services (Agency 67000/Fund 55300) in relation to the over-transfer of funds from that agency to the Department in prior years. The amounts are expected to be repaid in the current year.

**NOTE 9 – CHANGES IN COMPENSATED ABSENCES**

A summary of changes in the compensated absences payable for the year ended June 30, 2011, is as follows:

<u>Governmental Activities</u>	<u>Balance 06/30/10</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance 06/30/11</u>	<u>Current due within one year</u>
Annual Leave	\$ 300,976	203,013	(231,661)	272,328	201,753
Sick Leave	3,655	172,292	(174,145)	1,802	1,802
Compensatory	20,826	102,505	(108,747)	14,584	14,584
Total	<u>\$ 325,457</u>	<u>477,810</u>	<u>(514,553)</u>	<u>288,714</u>	<u>218,139</u>

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

**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2011**

**NOTE 10 – ENCUMBRANCES – MULTI-YEAR PROJECTS AND APPROPRIATIONS**

There were no outstanding encumbrances related to the Department’s multi-year projects as of June 30, 2011.

**NOTE 11 – OPERATING LEASES**

The Department leases certain office equipment and an airport hangar 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 multiple vehicles on an annual basis from the New Mexico General Services Department.

The cumulative expenditures for operating leases for the year ended June 30, 2011, were \$171,840. Future minimum rental payments under these operating leases are as follows:

<b>For the Year</b>		<b>Total</b>
<b>Ended June 30</b>		<b>Total</b>
2012	\$	<b>176,338</b>
2013		<b>33,490</b>
2014		<b>3,417</b>
2015		-
2016		-
Thereafter		-
<b>Total</b>	<b>\$</b>	<b><u>213,245</u></b>

**NOTE 12 – 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	\$ 956
Cricket	Santa Fe - Tower site	12/01/2010 - 12/01/2015	\$ 1024

**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2011**

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

<u>Year Ended</u> <u>30-Jun</u>	<u>Amount</u>
2012	\$ 23,943
2013	24,255
2014	24,574
2015	24,902
2016	<u>13,762</u>
Total	<u>\$ 111,436</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, 2011, the total royalties recognized from this lease was \$3,419. The amounts earned vary depending upon the production rates achieved, so any amounts related to this lease have not been included in the above expected future lease revenue.

**NOTE 13 – PERA PENSION PLAN**

**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 8.92% of their gross salary. The Department is required to contribute 15.09% 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, 2011, 2010 and 2009 were \$614,116, \$748,698, and \$926,830, respectively, which equal the amount of the required contributions for each fiscal year.

**NOTE 14 – 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

**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2011**

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

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

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

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. During the fiscal year ended June 30, 2011, the statute required each participating employer to contribute 1.666% of each participating employee's annual salary; each participating employee is required to contribute .8333% of their salary. In the fiscal years ending June 30, 2012 and 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>
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]) during the fiscal year ended June 30, 2011, the statute required each participating employer to contribute 2.084% of each participating employee's annual salary, and each participating employee was required to contribute 1.042% of their salary. In the fiscal years ending June 30, 2012 and June 30, 2013 the contributions rates for both employees and employers will rise as follows:

**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2011**

<b>Fiscal Year</b>	<b>Employer Contribution Rate</b>	<b>Employee Contribution Rate</b>
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.

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, 2011, 2010 and 2009 were \$67,344, \$63,989 and \$71,493 , respectively, which equal the required contributions for each year.

**NOTE 15 – INTER-AGENCY TRANSFERS & OTHER FINANCING SOURCES (USES)**

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

<b>Transferring Agency/Fund</b>	<b>Receiving Agency/Fund</b>	<b>Amount</b>	<b>Purpose of Transfer/Laws</b>
36900/85400	70500/07000	\$ 500,000	Executive Order 2010-026
36900/85400	70500/07000	500,000	Executive Order 2011-029
36900/85400	70500/07000	500,000	Executive Order 2011-054
Subtotal Fund 07000		1,500,000	
34100/60900	70500/89700	253,459	STB revenue recognized
Subtotal Fund 89700		253,459	
34100/60900	70500/89200	31,407	STB revenue recognized
Subtotal Fund 89200		31,407	
36900/85300	70500/93200	1,158,000	General Appropriation - Laws 2010, Ch 6, Sec 4
39400/80100	70500/93200	1,280	SGFIP interest
Subtotal Fund 93200		1,159,280	
36900/85300	70500/99200	5,270,300	General Appropriation - Laws 2010, Ch 6, Sec 4
Subtotal Fund 99200		5,270,300	
Total other financing sources		\$ 8,214,446	

**NOTE 16 – INSURANCE COVERAGE**

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

The coverage provided by the Risk Management Division includes liability and civil rights, property, vehicle, employer bond, workers' compensation, group insurance and state unemployment. These coverages are designed to satisfy the requirements of the State Tort Claims Act. All employees of the Department are covered by blanket fidelity bond up to \$5,000,000 with a \$1,000 deductible per

**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2011**

occurrence by the State of New Mexico for the period July 01, 2010, through June 30, 2011. The primary area where the Department may retain the risk of loss is liability for breach of contract. The Department has not experienced any losses for breach of contract.

**NOTE 17 – CONTINGENCIES**

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

The Department is party to various legal proceedings, which normally occur in the course of governmental operations. The financial statements do not include accrual or provisions for loss contingencies that may result from these proceedings. While the outcome of the proceedings cannot be predicted, the Department believes that any potential liability would be covered through insurance, supplemental appropriation or would be immaterial to the financial statements.

**NOTE 18 – 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 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 19 – DEFICIT FUND BALANCE**

Fund 99200 shows a deficit fund balance total of \$(66,764) as a result of accounts payable at year end which will be paid out of the FY 2012 budget. These accounts payable required approval from the DFA Budget Division to be paid out of the future year's budget.



**SUPPLEMENTAL INFORMATION**

**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD**  
**Description of Major Funds**  
**For The Year Ended June 30, 2011**

**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. The fund 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. (*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. Unobligated and unused state funds are reverting to the State General Fund. (*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. Unobligated and unused state funds are reverting to the State General Fund. (*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. Unused and unobligated state funds are reverting to the State General Fund. (*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, 2011**

**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. This fund is non-reverting to the State General Fund. (*SHARE Fund #10580*)

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. This fund is non-reverting to the State General Fund. (*SHARE Fund #93200*)

**Capital Projects Funds**

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

STB Capital Outlay – To account for expenditures related to the severance tax bond issuance 08-3281 (reissued as 11-1214) for construction, upgrades, and improvements on statewide armories and other NM National Guard facilities. Unused and unobligated state funds are reverting to the State General Fund at the conclusion of the appropriation period. (*SHARE Fund #89200*)

**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD**  
**MAJOR GOVERNMENTAL FUNDS**  
**BALANCE SHEET**  
**GENERAL FUND - ALL SUBFUNDS**  
**As of June 30, 2011**

	<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	\$ 1,329	-	1,329
Petty cash	200	-	200
Receivables	-	13,304	13,304
Due from other state agencies	-	1,159	1,159
Due from Federal government	-	2,281,810	2,281,810
	<hr/>	<hr/>	<hr/>
Total assets	\$ 1,529	2,296,273	2,297,802
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b><u>LIABILITIES and FUND BALANCE</u></b>			
Liabilities:			
Accounts payable	\$ -	869,392	869,392
Accrued salaries payable	-	143,090	143,090
Payroll taxes payable	-	10,127	10,127
Other payroll liabilities payable	-	10,793	10,793
Due to other funds	-	753,607	753,607
Due to State General Fund	1,048	576,273	577,321
Receipts held in suspense	281	(246)	35
	<hr/>	<hr/>	<hr/>
Total liabilities	1,329	2,363,036	2,364,365
	<hr/>	<hr/>	<hr/>
Fund balance:			
Nonspendable	-	-	-
Restricted	-	-	-
Committed	-	-	-
Assigned	-	-	-
Unassigned	200	(66,763)	(66,563)
	<hr/>	<hr/>	<hr/>
Total fund balance	200	(66,763)	(66,563)
	<hr/>	<hr/>	<hr/>
Total liabilities and fund balance	\$ 1,529	2,296,273	2,297,802
	<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, 2011**

	<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	\$ -	9,116,663	9,116,663
Interest on investments	-	-	-
Miscellaneous revenue	-	101,270	101,270
<b>Total revenues</b>	<b>-</b>	<b>9,217,933</b>	<b>9,217,933</b>
<b>Expenditures:</b>			
Public Safety			
Current:			
Personal services and benefits	-	6,154,748	6,154,748
Contractual services	-	2,230,521	2,230,521
Other costs	-	3,732,963	3,732,963
Capital outlay	-	2,082,943	2,082,943
<b>Total expenditures</b>	<b>-</b>	<b>14,201,175</b>	<b>14,201,175</b>
Excess (deficiency) of revenue over expenditures	-	(4,983,242)	(4,983,242)
<b>Other financing sources (uses)</b>			
State General Fund appropriations	-	5,270,300	5,270,300
Compensation appropriation	-	-	-
Transfers in	-	-	-
Other miscellaneous	-	-	-
Transfers out	-	-	-
Reversions to state general fund FY11	-	(337,332)	(337,332)
<b>Total other financing sources (uses):</b>	<b>-</b>	<b>4,932,968</b>	<b>4,932,968</b>
Net change in fund balance	-	(50,274)	(50,274)
Beginning fund balance	200	(16,489)	(16,289)
Ending fund balance	\$ 200	(66,763)	(66,563)

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

**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**COMBINING BALANCE SHEET**  
**As of June 30, 2011**

	<b>Special Revenue</b>	<b>Capital Projects</b>	
	<b>NM Member Family Assistance Fund Fund 10580</b>	<b>STB Capital Outlay Fund 89200</b>	<b>Total Other Governmental Funds</b>
<b><u>ASSETS</u></b>			
Investment in State Treasurer General			
Fund Investment Pool	\$ 98,664	-	98,664
Due from other state agencies	-	31,407	31,407
	<hr/>	<hr/>	<hr/>
Total assets	\$ 98,664	31,407	130,071
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b><u>LIABILITIES and FUND BALANCE</u></b>			
Liabilities:			-
Accounts payable	\$ -	14,552	14,552
Due to other funds	-	16,855	16,855
Due to other state agencies	3,984	-	3,984
	<hr/>	<hr/>	<hr/>
Total liabilities	3,984	31,407	35,391
	<hr/>	<hr/>	<hr/>
Fund balance:			
Nonspendable	-	-	-
Restricted			
Financial assistance for NM			
Guard members' families	94,680	-	94,680
Committed	-	-	-
Assigned-petty cash	-	-	-
Unassigned	-	-	-
	<hr/>	<hr/>	<hr/>
Total fund balance	94,680	-	94,680
	<hr/>	<hr/>	<hr/>
Total liabilities and fund balance \$	98,664	31,407	130,071
	<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**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**OMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**For The Year Ended June 30, 2011**

	<b>Special Revenue</b>	<b>Capital Projects</b>	
	<b>NM Member Family Assistance Fund Fund 10580</b>	<b>STB Capital Outlay Fund 89200</b>	<b>Total Other Governmental Funds</b>
<b>Revenues:</b>			
Federal sources	\$ -	-	-
Interest on investments	-	-	-
Miscellaneous revenue	13,823	-	13,823
	<hr/>	<hr/>	<hr/>
Total revenues	13,823	-	13,823
<b>Expenditures:</b>			
Public Safety			
Current:			
Personal services and benefits	-	-	-
Contractual services	-	31,407	31,407
Other costs	3,170	-	3,170
Capital outlay	-	-	-
	<hr/>	<hr/>	<hr/>
Total expenditures	3,170	31,407	34,577
Excess (deficiency) of revenue over expenditures	10,653	(31,407)	(20,754)
<b>Other financing sources (uses)</b>			
State General Fund appropriations	-	-	-
Severance tax bond proceed appropriations	-	31,407	31,407
Compensation appropriation	-	-	-
Other miscellaneous	-	-	-
Reversions to state general fund FY11	-	-	-
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses):	-	31,407	31,407
Net change in fund balance	10,653	-	10,653
Beginning fund balance	84,027	-	84,027
Ending fund balance	\$ 94,680	-	94,680

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**  
**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, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues</b>				
State-federal pass through grants	\$ -	-	-	-
Miscellaneous revenue	-	95,053	13,823	(81,230)
Total revenues	<u>-</u>	<u>95,053</u>	<u>13,823</u>	<u>(81,230)</u>
<b>Expenditures</b>				
Current (Public Safety):				
Personal services and employee benefits	-	-	-	-
Contractual services	-	-	-	-
Other	-	95,053	3,170	91,883
Total expenditures	<u>-</u>	<u>95,053</u>	<u>3,170</u>	<u>91,883</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>10,653</u>	<u>10,653</u>
Net change in fund balance	<u>\$ -</u>	<u>-</u>	<u>10,653</u>	<u>10,653</u>
<b>Reconciliation of Budgetary Basis to Fund Financial Statement</b>				
Total budget basis expenditures for fiscal year 2011:			\$ 3,170	
Adjustments:				
No adjustment necessary			<u>-</u>	
Total GAAP Basis Expenditures for the fiscal year ended June 30, 2011:			<u>\$ 3,170</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**  
**STB CAPITAL OUTLAY FUND - CAPITAL PROJECTS (89200)**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND NET ASSETS BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
**For The Year Ended June 30, 2011**

	<b>Budgeted Amounts</b>		<b>Actual (Budgetary Basis)</b>	<b>Variance from Final Budget Favorable (Unfavorable)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
Severance tax bond appropriations	\$ 2,455,990	2,455,990	31,407	(2,424,583)
Total revenues	2,455,990	2,455,990	31,407	(2,424,583)
<b>Expenditures</b>				
DMA STB SF Aviation Readiness Center: A083281				
Other Costs	2,455,990	2,455,990	31,407	2,424,583
Total Statewide Armory GF	2,455,990	2,455,990	31,407	2,424,583
Total expenditures	2,455,990	2,455,990	31,407	2,424,583
Excess (deficiency) of revenues over expenditures	-	-	-	-
<b>Other Financing Sources (Uses)</b>				
Reversion to state general fund FY11	-	-	-	-
Net other financing sources (uses)	-	-	-	-
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	-	-	-	-
Fund balance carryover	-	-	-	-
Total	\$ -	-	-	-
<b>Reconciliation of Budgetary Basis to Fund Financial Statement</b>				
Total budget basis expenditures for fiscal year 2011:			\$ 31,407	
Adjustments:				
No adjustment necessary			-	
Total GAAP Basis Expenditures for the fiscal year ended June 30, 2011:			\$ 31,407	

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, 2011**

	<b>Budgeted Amounts</b>		<b>Actual (Budgetary Basis)</b>	<b>Variance from Final Budget Favorable (Unfavorable)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
Federal grants-capital	\$ 1,566,679	1,694,487	582,734	(1,111,753)
Severance tax bond appropriations	2,785,013	2,785,013	253,459	(2,531,554)
General fund appropriations	-	-	-	-
Total revenues	<u>4,351,692</u>	<u>4,479,500</u>	<u>836,193</u>	<u>(3,643,307)</u>
<b>Expenditures</b>				
Statewide Armory Renovation				
GF: A073026				
Other Costs	134,490	134,490	113,990	20,500
Other Uses	-	-	-	-
Total Statewide Armory GF	<u>134,490</u>	<u>134,490</u>	<u>113,990</u>	<u>20,500</u>
Farmington Hangar 100% GF				
GF: A075644				
Capital Outlay	-	-	-	-
Other Uses	615	615	615	-
Total Farmington Hangar 100% GF	<u>615</u>	<u>615</u>	<u>615</u>	<u>-</u>
DMA STB Armories Upgrades				
Rio Rancho & Statewide A083005				
Other Costs	858,310	858,310	149,949	708,361
Total STB Armories Upgrades	<u>858,310</u>	<u>858,310</u>	<u>149,949</u>	<u>708,361</u>
DMA STB SF Aviation Readiness				
Center A083281				
Other Costs	44,010	44,010	44,010	-
Other Uses	-	-	-	-
Total STB Armories Upgrades	<u>44,010</u>	<u>44,010</u>	<u>44,010</u>	<u>-</u>
DMA STB Armories Upgrades - A093066				
Other Costs	382,693	382,693	-	382,693
Total STB Armories Upgrades	<u>382,693</u>	<u>382,693</u>	<u>-</u>	<u>382,693</u>
DMA STB Armory Renovations				
A093755				
Other Costs	1,500,000	1,500,000	9,600	1,490,400
Total STB Armories Upgrades	<u>1,500,000</u>	<u>1,500,000</u>	<u>9,600</u>	<u>1,490,400</u>
Santa Fe AASF Readiness Center				
100% GF: A031320				
Contractual Services	302,600	430,408	226,251	204,157
Other Costs	-	-	-	-
Other Uses	-	-	-	-
Total Statewide Armory GF	<u>\$ 302,600</u>	<u>430,408</u>	<u>226,251</u>	<u>204,157</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, 2011**

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance from Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Farmington Readiness Center				
100% GF: A031321				
Contractual Services	\$ 1,264,079	1,264,079	356,483	907,596
Other Costs	-	-	-	-
Other Uses	-	-	-	-
Total Statewide Armory GF	<u>1,264,079</u>	<u>1,264,079</u>	<u>356,483</u>	<u>907,596</u>
 Total expenditures	 <u>4,486,797</u>	 <u>4,614,605</u>	 <u>900,898</u>	 <u>3,713,707</u>
 Excess (deficiency) of revenues over expenditures	 (135,105)	 (135,105)	 (64,705)	 70,400
 <b>Other Financing Sources (Uses)</b>				
Reversion to state general fund FY11	<u>-</u>	<u>-</u>	<u>(74,196)</u>	<u>(74,196)</u>
Net other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(74,196)</u>	<u>(74,196)</u>
 Excess (deficiency) of revenues over expenditures and other financing sources (uses)	 (135,105)	 (135,105)	 (138,901)	 <u>(3,796)</u>
 Fund balance carryover	 <u>138,901</u>	 <u>138,901</u>	 <u>138,901</u>	
 Total	 <u>\$ 3,796</u>	 <u>3,796</u>	 <u>-</u>	 <u>-</u>
 <b>Reconciliation of Budgetary Basis to Fund Financial Statement</b>				
Total budget basis expenditures for fiscal year 2011:			\$ 900,898	
Adjustments:				
Rounding			<u>-</u>	
Total GAAP Basis Expenditures for the fiscal year ended June 30, 2011:			<u>\$ 900,898</u>	

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

**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD**  
**SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUNDS**  
**For The Year Ended June 30, 2011**

	<b>Balance</b>			<b>Balance</b>
	<b>June 30, 2010</b>	<b>Additions</b>	<b>Deletions</b>	<b>June 30, 2011</b>
<b>Assets</b>				
Cash in local banks	\$ 50,057	198,137	(169,806)	<b>78,388</b>
Total assets	<u>50,057</u>	<u>198,137</u>	<u>(169,806)</u>	<u><b>78,388</b></u>
<b>Liabilities</b>				
Deposits held for others	50,057	198,137	(169,806)	<b>78,388</b>
Total liabilities	<u>\$ 50,057</u>	<u>198,137</u>	<u>(169,806)</u>	<u><b>78,388</b></u>
<b>Armory</b>				
	<b>Balance</b>			<b>Balance</b>
	<b>June 30, 2010</b>	<b>Additions</b>	<b>Deletions</b>	<b>June 30, 2011</b>
Alamogordo	\$ 733	2,400	(2,070)	<b>1,063</b>
Albuquerque	309	17,865	(17,555)	<b>619</b>
Belen	1,103	700	(1,042)	<b>761</b>
Carlsbad	174	1,400	(1,040)	<b>534</b>
Clayton	526	4,506	(2,680)	<b>2,352</b>
Clovis	1,691	8,869	(9,175)	<b>1,385</b>
Deming	57	4,100	(3,566)	<b>591</b>
Espanola	798	3,325	(1,496)	<b>2,627</b>
Farmington	1,706	11,525	(12,326)	<b>905</b>
Gallup	162	400	(503)	<b>59</b>
Grants	167	400	(285)	<b>282</b>
Hobbs	946	9,465	(7,428)	<b>2,983</b>
Joint Forces HQ	19,062	42,452	(31,219)	<b>30,295</b>
Las Cruces	1,338	13,131	(11,842)	<b>2,627</b>
Las Vegas	1,653	5,582	(5,499)	<b>1,736</b>
Rio Rancho	1,773	16,143	(14,504)	<b>3,412</b>
Roswell	8,463	17,502	(14,014)	<b>11,951</b>
Santa Clara	20	3,936	(3,375)	<b>581</b>
Santa Fe	3,066	28,397	(20,927)	<b>10,536</b>
Santa Rosa	1,804	739	(1,892)	<b>651</b>
Socorro	1,734	-	(883)	<b>851</b>
Springer	699	2,525	(2,524)	<b>700</b>
Taos	1,757	2,575	(3,707)	<b>625</b>
Tucumcari	316	200	(254)	<b>262</b>
Total	<u>\$ 50,057</u>	<u>198,137</u>	<u>(169,806)</u>	<u><b>78,388</b></u>

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

**STATE OF NEW MEXICO  
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Year Ended June 30, 2011**

Federal Grantor/Pass-Through Program Title	Federal CFDA Number	Report Category	Adjusted Grants Receivable 06/30/10	Adjusted Federal Awards Expended	Program Income (rec'd fr 3rd party but applied to grant)	Federal Receipts	Grants Receivable (Deferred Revenue) 06/30/11
<b>U.S. Department of Defense National Guard Bureau</b>							
<b>National Guard Military Operations and Maintenance Projects: *</b>							
	12.401						
<b>WETS/MATES AND O&amp;M:</b>							
	A01100, A01075, A01050						
W912J3-09-2-1001		S	44,539	-	-	(44,539)	\$ -
W912J3-10-2-1001			947,467	2,011,889	606	(2,870,199)	89,763
W912J3-11-2-1001			-	2,991,831	2,024	(1,752,449)	1,241,406
<b>ENVIRONMENTAL RESOURCE MGMT:</b>							
	A02100, A02075						
DAHA29-06-2-1002			57,203	31,358	-	(88,561)	-
DAHA29-07-2-1002			35,245	51,686	-	(66,245)	20,686
W912J3-08-2-1002			16,083	102,971	-	(93,369)	25,685
W912J3-09-2-1002			57,448	44,716	-	(87,749)	14,415
W912J3-10-2-1002			53,230	432,951	-	(364,200)	121,981
W912J3-11-2-1002			-	306,478	-	(215,605)	90,873
<b>PHYSICAL SECURITY:</b>							
	A03100						
W912J3-10-2-1003			126,490	96,814	-	(223,304)	-
W912J3-11-2-1003			-	306,246	-	(166,718)	139,528
<b>ELECTRONIC SECURITY:</b>							
	A04100						
W912J3-10-2-1004			26,919	68,162	-	(89,784)	5,297
W912J3-11-2-1004			-	127,171	-	(86,513)	40,658
<b>SUSTAINABLE RANGE PROGRAM:</b>							
	A07100						
W912J3-10-2-1007			9,188	102,373	-	(103,257)	8,304
W912J3-11-2-1007			-	48,168	-	(12,501)	35,667
<b>ANTI-TERRORISM PROGRAM MANAGER:</b>							
	A10100						
W912J3-10-2-1010			16,783	25,360	-	(42,143)	-
W912J3-11-2-1010			-	55,044	-	(40,611)	14,433
<b>AIR NAT. GUARD O&amp;M:</b>							
	A21000						
W912J3-09-2-1021			42,231	-	-	(42,231)	-
W912J3-10-2-1021			81,967	201,407	-	(283,374)	-
W912J3-11-2-1021			-	247,972	-	(194,372)	53,600
<b>AIR NAT. GUARD ENVIRONMENT:</b>							
	A22075						
W912J3-10-2-1022			7,543	11,867	-	(19,410)	-
W912J3-11-2-1022			-	32,869	-	(23,844)	9,025
<b>AIR NAT. GUARD SECURITY:</b>							
	A23100						
W912J3-10-2-1023			9,313	14,949	-	(24,262)	-
W912J3-11-2-1023			-	43,719	-	(36,212)	7,507
<b>DISTANCE LEARNING:</b>							
	A40100						
W912J3-10-2-1040			58,961	51,576	-	(109,707)	830
W912J3-11-2-1040			-	173,215	-	(120,022)	53,193
<b>ARMY NAT. GUARD FAMILY SUPPORT:</b>							
	A41100						
W912J3-10-2-1041			34,116	80,751	-	(114,867)	-
W912J3-11-2-1041			-	117,588	-	(78,411)	39,177
Subtotal CFDA # 12.401			\$ 1,624,726	7,779,131	2,630	(7,394,459)	\$ 2,012,028

**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For The Year Ended June 30, 2011**

Federal Grantor/Pass-Through Program Title	Federal CFDA Number	Report Category	Adjusted Grants Receivable 06/30/10	Adjusted Federal Awards Expended	Program Income (rec'd fr 3rd party but applied to grant)	Federal Receipts	Grants Receivable (Deferred Revenue) 06/30/11
<b>MILITARY CONSTRUCTION:</b>							
W912J3-10-2-2001 (Farmington Readiness)	12.400	A031321	\$ 105,519	805,629	-	(911,148)	-
W912J3-10-2-2002 (Santa Fe Readiness)		A031320	-	226,252	-	(28,447)	197,805
Subtotal CFDA # 12.400			<u>105,519</u>	<u>1,031,881</u>	<u>-</u>	<u>(939,595)</u>	<u>\$ 197,805</u>
<b>NATIONAL GUARD YOUTH CHALLENGE PROGRAM:</b>							
W912J3-10-2-4002	12.404	360X00	175,036	-	-	(175,036)	-
W912J3-11-2-4002			-	844,452	-	(574,995)	269,457
Subtotal CFDA # 12.404			<u>175,036</u>	<u>844,452</u>	<u>-</u>	<u>(750,031)</u>	<u>269,457</u>
TOTAL NATIONAL GUARD BUREAU			<u>1,905,281</u>	<u>9,655,464</u>	<u>2,630</u>	<u>(9,084,085)</u>	<u>2,479,290</u>
<b>U.S. Department of Homeland Security - FEMA Passed through the NM Department of Homeland Security and Emergency Management</b>							
Fire Management Assistance Grant	* 97.046		-	1,177,810	-	-	1,177,810
<b>U.S. Department of Agriculture: Passed through the NM Public Education Department</b>							
Child Nutrition Cluster:							
National School Lunch Program (NSI)	10.555	360100	9,019	43,933	-	(51,793)	1,159
School Breakfast Program (SBP)	10.553	360100	-	-	-	-	-
TOTAL NM PUBLIC EDUCATION DEPT.			<u>9,019</u>	<u>43,933</u>	<u>-</u>	<u>(51,793)</u>	<u>1,159</u>
TOTAL FEDERAL AWARDS			<u>1,914,300</u>	<u>10,877,207</u>	<u>2,630</u>	<u>(9,135,878)</u>	<u>3,658,259</u>
		Grants receivable	1,914,300	10,877,207	2,630	(9,135,878)	3,658,259
		Deferred revenue	-	-	-	-	-
		Net grants receivable	<u>\$ 1,914,300</u>	<u>10,877,207</u>	<u>2,630</u>	<u>(9,135,878)</u>	<u>\$ 3,658,259</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 \$0- in the form of federal non-cash assistance during the year.

**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 Department of Homeland Security and Emergency Management and 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, 2011**

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 2007 - Chapter 2, Section 3	07-3026	07/01/2005 - 06/30/2011	\$ 3,198,800	3,178,300	-	20,500	-
Laws 2007 - Chapter 42, Section 69, Item 2	07-5644	07/01/2007 - 06/30/2011	150,000	150,000	-	-	-
Total special and capital outlay appropriations outstanding			<u>3,348,800</u>	<u>3,328,300</u>	-	20,500	-
Total encumbered amounts					\$ -		
Total reverted amounts						<u>20,500</u>	
Total reserved for future years' expenditures							-
<b>Severance Tax Bonds Outstanding*</b>							
Laws 2007 - Chapter 42, Section 24	07-3770	07-01-2007 - 06/30/2011	150,000	150,000	-	-	-
Laws 2008 - Chapter 92, Section 4	08-3005	07/01/2007 - 06/30/2012	1,000,000	291,640	-	-	708,360
Laws 2009 - Chapter 7, Section 3	09-3755	07/01/2009 - 06/30/2013	1,500,000	9,600	-	-	1,490,400
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>3,150,000</u>	<u>568,547</u>	-	-	<u>2,581,453</u>
<b>Subtotal Fund 89700</b>			<u>6,498,800</u>	<u>3,896,847</u>	-	20,500	2,581,453
<b>Fund 89200</b>							
Laws 2008 - Chapter 92, Section 22	08-3281	07/01/2007 - 06/30/2012	2,500,000	75,417	-	-	2,424,583
<b>Total Amounts</b>			<u>\$ 8,998,800</u>	<u>3,972,264</u>	-	20,500	<u>5,006,036</u>

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

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

**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD**  
**SCHEDULE OF JOINT POWERS AGREEMENTS AND MEMORANDUMS OF UNDERSTANDING**  
**For The Year Ended June 30, 2011**

<b>Participants</b>	<b>Responsible Party for Operations</b>	<b>Description</b>	<b>Beginning &amp; Ending Dates</b>	<b>Total Estimated Amount of Project</b>	<b>Agency Contributions in FY 2011</b>	<b>Revenues &amp; Expenditures Reported On By:</b>	<b>Audit Responsibility</b>
Eastern NM University Roswell Youth Challenge #11-01, PO #4675	DMA & SAB	Food services for cadets attending	7/01/2009 to 6/30/2011	\$ 171,000	171,000	DMA & SAB	DMA & SAB
University of NM Office of Cultural Affairs (NMOCA) #10-22, PO #4822	DMA & SAB	Cultural Resources Management Progarm for NMANG sites	6/11/2010 9/30/2012	25,321	25,321	DMA & SAB	DMA & SAB
Eastern NM Univ. #10-02, PO #4676	DMA & SAB	Provide vocational training at ENMU for Youth Challenge cadets	7/01/2009 to 6/30/2011	65,000	65,000	DMA & SAB	DMA & SAB
University of NM #08-04, PO #4822	DMA & SAB	Roswell WETS site - Presence of rare protected, threatened & endangered species	9/11/2007 to 12/31/2010	18,778	18,778	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	-	-	DMA & SAB	DMA & SAB
University of NM #08-08, PO #4822	DMA & SAB	Black Mountain - site monitoring/ species management	9/27/07 to 12/31/2010	16,551	16,551	DMA & SAB	DMA & SAB
University of NM #08-09, PO #4822	DMA & SAB	Camel Tracks - To conduct data recovery	9/26/07 to 12/31/2011	45,551	45,551	DMA & SAB	DMA & SAB
University of NM #09-07, PO #4822	DMA & SAB	Tribal Consultation	1/14/2009 to 12/31/2011	23,519	23,519	DMA & SAB	DMA & SAB
University of NM #09-08, PO #4822	DMA & SAB	Cultural Resource Project	1/14/2009 to 12/31/2011	29,766	29,776	DMA & SAB	DMA & SAB
University of NM #09-09, PO #4822	DMA & SAB	Endangered Species Monitoring	2/3/2009 to 12/30/2010	16,998	16,995	DMA & SAB	DMA & SAB
University of NM #09-12, PO #4822	DMA & & SAB	Technical Support Blk. Mtn. Training Site	2/6/2009 to 12/31/2011	\$ 47,000	47,000	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, 2011**

<b>Participants</b>	<b>Responsible Party for Operations</b>	<b>Description</b>	<b>Beginning &amp; Ending Dates</b>	<b>Total Estimated Amount of Project</b>	<b>Agency Contributions in FY 2011</b>	<b>Revenues &amp; Expenditures Reported On By:</b>	<b>Audit Responsibility</b>
University of NM #10-05, PO #4822	DMA & SAB	Eligibility of NMARNG Structures - National Register	9/01/2009 to 12/31/2011	\$ 67,650	67,650	DMA & SAB	DMA & SAB
University of NM #10-19, PO #4822	DMA & SAB	Support artifact stabilization & curatio at Deming/Black Mountain	6/11/2010 to 9/30/2011	14,726	14,726	DMA & SAB	DMA & SAB
University of NM #10-09, PO #4822	DMA & SAB	Catalog/archive of Deming Armory adobe structures	8/26/09 to 12/31/2011	37,825	37,825	DMA & SAB	DMA & SAB
University of NM #07-08, PO #4822	DMA & SAB	Revision of Integrated Cultural Resources Mgt Plan	09/29/06 to 9/28/2010	26,595	26,595	DMA & SAB	DMA & SAB
MOU BONANZA CREEK RANCH, LLC	DMA & SAB	Authorizes and permits tne NMNG to ingress and egress through and over those certain Bonanza Creek LLC Tracts Z, AA, and CE by military personnel	02/11/11 to 1/1/2014	-	-	DMA & SAB	DMA & SAB
MOU DPT OF CORRECTIONS	DMA & SAB	Is limited to the beneficial use of the "Old PNM Main" property as a military training and readiness facility by DMA	10/1/2010 Ongoing	\$ -	-	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, 2011, and have issued our report thereon dated December 13, 2011. 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 deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies: 07-02 and 11-02.

#### 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.

We also noted a certain other matter that is required to be reported pursuant to Government Auditing Standards paragraphs 5.14 and 5.16, and pursuant to Section 12-6-5, NMSA 1978, which is described in the accompanying schedule of findings and questioned costs as finding 11-01.

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, the Adjutant General, others within the Department, the State Auditor, the New Mexico Legislature, the New Mexico Department of Finance and Administration and applicable federal grantors, and is not intended to be and should not be used by anyone other than these specified parties.



Hinkle + Landers, P.C.  
December 13, 2011



---

**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, 2011. 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, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 11-02.

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. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 11-02. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 responses and, accordingly, we express no opinion on the responses.

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



Hinkle + Landers, P.C.  
December 13, 2011

**STATE OF NEW MEXICO  
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2011**

**SECTION I – SUMMARY OF AUDITORS’ RESULTS**

Financial Statements

Type of auditors' report issued Unqualified

Internal Control over financial reporting:

Material weaknesses identified? X Yes    \_\_\_ No

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

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

Federal Awards

Internal Control

Material weaknesses identified? \_\_\_ Yes    X No

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

Identification of major program as noted below:

<u>CFDA Numbers</u> <u>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
12.400	Military Construction, National Guard	U.S. Department of Defense/National Guard Bureau
97.046	Emergency Management-Fire Management Assistance Grant	Department of Homeland Security

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, 2011**

**SECTION II AND III- FINANCIAL STATEMENTS AND FEDERAL AWARD FINDINGS**

<u>Findings with Reference Number</u>	<u>Status of Prior Year Findings</u>	<u>Financial Statement Finding</u>	<u>Federal Award Finding</u>	<u>State Auditor Rule</u>	<u>Material Weakness</u>	<u>Significant Deficiency</u>	<u>Compliance</u>
<b>Prior Year Findings</b>							
07-02 – REVERSIONS TO THE STATE GENERAL FUND	Modified/ Repeated	Yes	No	Yes	No	Yes	No
08-03 – SAS 115 - MATERIAL ADJUSTMENTS BY AUDITOR	Modified/ Repeated	Yes	No	No	Yes	No	No
<b>Current Year Findings</b>							
11-01 – CASH RECEIPTS	Current	No	No	No	No	No	No
11-02 – PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	Current	No	Yes	No	No	Yes	No

**PRIOR YEAR FINDINGS**

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

**Statement of Condition**

As of June 30, 2011, the Department had a liability of \$2,217,535 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 deadline. In addition, reversions of unreserved and undesignated fund balances specifically related to the year ended June 30, 2011 totaling \$1,837,440 were also not made. The reversion amounts were comprised of the following:

State-dated warrants	\$ 139,460
Fiscal year 2010 reversion	239,625
Fiscal year 2011 reversion	<u>1,837,440</u>
Total	<u>\$2,217,535</u>

Discussion with Department finance personnel showed significant reversions were made by the Department during the year ended June 30, 2011 as available cash allowed. Due to the delay in the receipt of federal receivables, cash was not always readily available to make the reversion payments.

**Criteria**

The General Appropriations Act of 2010, Laws 2010, Chapter 6, Section 2 (General Provisions), requires any unencumbered balances in agency accounts remaining at the end of fiscal year 2011 shall revert to the general fund by October 1, 2011. 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 2010 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, 2011**

**Cause**

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

**Recommendation**

We 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. We also recommend that the Department seek ways to better manage its available funds in order to allow for timely remittance of amounts to be reverted to the State General Fund.

**Management Response**

Concur. The Department will prepare and submit general fund reversions no later than January 15, 2011, based upon this (FY11) audit report. Future annual general fund reversions will be calculated in accordance with Department of Finance and Administration's direction.

**08-03 – SAS 115 - MATERIAL ADJUSTMENTS BY AUDITOR – MATERIAL WEAKNESS – MODIFIED/REPEATED**

**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	\$ 1,893,113
• Adjust federal receivables for amounts received	136,496
• Adjust STB receivables	\$ 216,164

**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, 2011**

**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-11. The Department will request training from the Department of Finance and Administration and the CAFR unit.

**CURRENT YEAR FINDINGS**

**11-01 – CASH RECEIPTS – (OTHER FINDING)**

**Statement of Condition**

While testing the Department's compliance with the Public Money Act (6-10-1 thru 6-10-63 NMSA 1978), it was observed that there does not appear to be a date stamp on incoming checks received via the mail. This makes verifying compliance with the 24-hour rule

**Criteria**

One aspect of the Public Money Act is that all funds received should be deposited within 24 hours of receipt.

**Effect**

The lack of an observable date stamp make determining compliance with the 24-hour rule difficult to determine. Checks could potentially be held for an indeterminate amount of time without being deposited and there would be no easily observable indication of the delay.

**Cause**

The Department felt its cash receipting process was adequate.

**Recommendation**

We recommend the Department implement a method for time-stamping incoming checks to allow for better monitoring of compliance with state statutes related to cash receipts.

**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2011**

**Management Response**

Concur. The Department will date stamp on incoming checks received via the mail in order to verify compliance with the 24-hour rule.

**11-02 – PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – MATERIAL WEAKNESS**

Funding Agency: U. S. Department of Homeland Security  
Pass-thru Agency: N.M. Department of Homeland Security and Emergency Management  
Title: Fire Management Assistance Grant  
CFDA Number: 97.046  
Award Number: N/A  
Award Period: 07/01/2010 – 06/30/2011

**Statement of Condition**

While testing the Department's compliance with OMB Circular A-133, it was observed that there was a significant amount of federal pass-thru funds (\$1,177,801) related to assistance provided on the wildfire's last year that were not initially identified on the client provided Schedule of Federal Awards (SEFA). The determination of major-programs was based on this initial SEFA, so the FEMA pass-thru funds were not included in those calculations. When ultimately added to the SEFA, the pass-thru funds were determined to be an auditable major program that would have not otherwise been included in the Single Audit work.

The audit of the program itself did not appear to suggest any concerns with how the program was tracked or administered.

**Criteria**

OMB Circular A-133 requires the auditee to provide a cumulative list of all federal awards expended which includes all direct and indirectly received federal assistance.

**Effect**

By not including the FEMA amounts passed-thru the New Mexico Department of Homeland Security and Emergency Management on the initial SEFA, there was the potential for a material federal award to not be included in the Single Audit.

**Cause**

The Department did not include the pass-thru funds on its initial SEFA because the full award documentation had not been fully established by the federal awarding agency, and no amounts related to reimbursement for the expenditures had yet been received by the Department.

**Recommendation**

We recommend the Department include all federal awards on its Schedule of Expenditures of Federal Awards. This should include direct awards and awards received via a pass-thru agency.

**Management Response**

Concur. The Department will include all federal awards on its Schedule of Expenditures of Federal Awards. The Agency did identify all federal awards, but did not include the federal pass-thru funds (\$1,177,801) from the wildfires on the initial Schedule of Federal Awards (SEFA).

**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD**  
**Exit Conference**  
**For the Year Ended June 30, 2011**

An exit conference was held on December 13, 2011. 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
Lawrence Montano	Chief Financial Officer
Sandra Gonzales-Bazan	Procurement Manager
Laurie Green	Budget Director
Roberto Rojo Jr	Human Resources Director
Gwen FitzGerald	Reimbursements Analyst

For Hinkle + Landers, P.C.:

Farley Vener, CPA, CFE	Managing Shareholder
Erick Robinson, CPA, CFE	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.