



HINKLE + LANDERS

Certified Public Accountants + Business Consultants

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

FINANCIAL STATEMENTS

For The Year Ended June 30, 2012

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
Independent Auditors' Report and
Financial Statements
For The Year Ended June 30, 2012

TABLE OF CONTENTS

INFORMATIONAL SECTION	Page
Table of Contents	i-ii
Official Roster	1
FINANCIAL SECTION	
Independent auditors' report	2-3
<u>Basic Financial Statements:</u>	
Government-Wide Statements:	
Statement of net assets	4
Statement of activities	5
Fund Financial Statements:	
Governmental Funds	
Balance sheet – governmental funds	6
Reconciliation of the governmental funds balance sheet to the statement of net assets	7
Statement of revenues, expenditures, and changes in fund balances – governmental funds	8
Reconciliation of the statement of revenues, expenditures, and changes in fund balances of governmental funds to the statement of activities	9
Statement of revenues, expenditures and changes fund balances – budget and actual – major governmental funds – General fund	10
Statement of revenues, expenditures and changes fund balances – budget and actual – major governmental funds – special revenue funds – Adjutant General Emergency	11
Statement of revenues, expenditures and changes fund balances – budget and actual – major governmental funds – special revenue fund – Service Members' Life Insurance Reimbursement Fund	12
Fiduciary Funds	
Statement of fiduciary assets and liabilities – agency funds	13
Notes to Financial Statements	14-38
SUPPLEMENTAL INFORMATION:	
Fund Descriptions	39-40
Combining balance sheet – General fund – All accounts	41
Combining statement of revenues, expenditures, and changes in fund balances – General fund – All accounts	42
Combining balance sheet – non-major governmental funds	43
Combining statement of revenues, expenditures, and changes in fund balances – non-major governmental funds	44
Statement of revenues, expenditures and changes fund balances – budget and actual – special revenue fund – NM Military Family Assistance Fund	45

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
Independent Auditors' Report and
Financial Statements
For The Year Ended June 30, 2012

	Page
Statement of revenues, expenditures and changes fund balances – multi-year budget and actual – capital projects fund – STB Capital Outlay	46
Statement of revenues, expenditures and changes fund balances – multi-year budget and actual – major governmental fund – capital projects fund – Armory Improvements	47-48
Schedule of changes in assets and liabilities – agency funds	49
 OTHER SUPPLEMENTAL INFORMATION:	
Schedule of expenditures of federal awards	50-51
Schedule of Special, Deficiency, Specific and Capital Outlay Appropriations	52
Schedule of Joint Powers Agreements	53-54
 COMPLIANCE SECTION	
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	55-56
 FEDERAL FINANCIAL ASSISTANCE	
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	57-58
Schedule of findings and questioned costs	59-64
 OTHER DISCLOSURES	
Exit conference	65

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

**Official Roster
As Of June 30, 2012**

DEPARTMENT OF MILITARY AFFAIRS

Name	Title
Brigadier General Andrew E. Salas	Adjutant General
Brigadier General Paul J. Pena	Deputy Adjutant General
Brigadier General Paul J. Pena	Acting Director of State Programs
Lawrence Montano	Chief Financial Officer
Theresa V. Martinez	Senior Admin Manager

STATE ARMORY BOARD

Brigadier General Andrew E. Salas	Chairman
Command Sergeant Major Kenneth R. Adiar	Secretary/Treasurer
Brigadier General Paul J. Pena	Acting Executive Director
Colonel Timothy Paul	Member – (Comm. Officer)
Brigadier General (RET) Jack Fox	Member
Major (RET) Mark Gonzales	Member
Command Sergeant Major (RET) John Torres	Member

INDEPENDENT AUDITORS' REPORT

Brigadier General Andrew Salas, 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, 2012, 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, 2012, 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, 2012, 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, 2012, 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, 2012 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, 2012 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 07, 2012, 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 omitted the Management Discussion and Analysis that the Governmental Accounting Standards Board requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the basic financial statements, the combining and individual fund financial statements, and the budgetary comparisons. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Hinkle + Landers, P.C.
December 07, 2012

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
STATEMENT OF NET ASSETS
GOVERNMENT-WIDE
As of June 30, 2012

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Current assets:	
Investment in State Treasurer General Fund Investment Pool	\$ -
Petty cash	200
Receivable	9,033
Due from other state agencies	3,300,818
Due from federal government	7,136,935
Total current assets	<u>10,446,986</u>
Non-current assets:	
Capital assets not being depreciated	8,644,078
Capital assets being depreciated	162,368,085
Less accumulated depreciation	<u>(87,345,096)</u>
Total capital assets, net of depreciation	<u>83,667,067</u>
Total assets	<u>\$ 94,114,053</u>
<u>LIABILITIES & NET ASSETS</u>	
Current liabilities:	
Cash overdraft	\$ 1,402,586
Accounts payable	4,683,716
Accrued salaries payable	45,963
Payroll taxes payable	103,678
Other payroll liabilities payable	136,545
Due to State General Fund	3,486,904
Receipts held in suspense	35
Compensated absences payable	170,794
Total current liabilities	<u>10,030,221</u>
Long-term liabilities:	
Compensated absences payable	<u>81,584</u>
Total liabilities	<u>10,111,805</u>
Net assets:	
Invested in capital assets	83,667,067
Restricted	
Special revenue funds	589,734
Unrestricted	<u>(254,553)</u>
Total net assets	<u>84,002,248</u>
Total liabilities and net assets	<u>\$ 94,114,053</u>

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

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
STATEMENT OF ACTIVITIES
GOVERNMENT-WIDE
For The Year Ended June 30, 2012

	<u>Governmental Activities</u>
Expenses:	
Public Safety	\$ 15,780,741
Depreciation expense	4,210,639
Total program expenses	<u>19,991,380</u>
 Program revenues:	
Federal grants - operating	14,159,923
Federal grants - capital	36,496,858
State-federal pass-through grants	<u>1,202,073</u>
Total program revenues	<u>51,858,854</u>
Net program (expense) revenue	<u>31,867,474</u>
 General revenues and (expenses):	
Transfer - State General Fund appropriations	8,047,600
Transfer - Severance tax bond appropriations (capital projects)	2,362,597
Transfer - Reversions to state general fund - FY12	(1,670,085)
Interest income	1,427
Miscellaneous revenue	<u>159,613</u>
Total general revenues and expenses	<u>8,901,152</u>
Change in net assets	40,768,626
Beginning net assets	43,233,622
Ending net assets	<u>\$ <u>84,002,248</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, 2012

	<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>	
ASSETS						
Investment in State Treasurer General Fund Investment Pool	\$ -	-	-	-	-	-
Petty cash	200	-	-	-	-	200
Receivables	7,681	1,352	-	-	-	9,033
Due from other funds	1,668,091	1,016,693	760,879	82,932	108,491	3,637,086
Due from other state agencies	1,367	1,925,562	177	1,038,059	335,653	3,300,818
Due from federal government	4,959,575	-	-	2,177,360	-	7,136,935
Total assets	\$ 6,636,914	2,943,607	761,056	3,298,351	444,144	14,084,072
LIABILITIES & FUND BALANCE						
Liabilities:						
Cash overdraft	\$ 1,402,586	-	-	-	-	1,402,586
Accounts payable	2,484,476	289,333	-	1,731,815	178,091	4,683,715
Accrued salaries payable	45,963	-	-	-	-	45,963
Payroll taxes payable	99,459	4,219	-	-	-	103,678
Other payroll liabilities payable	117,682	18,850	12	-	-	136,544
Due to other funds	1,970,324	-	-	1,509,200	157,562	3,637,086
Due to State General Fund	518,562	2,631,205	279,801	57,336	-	3,486,904
Receipts held in suspense	35	-	-	-	-	35
Total liabilities	6,639,087	2,943,607	279,813	3,298,351	335,653	13,496,511
Fund balance:						
Nonspendable	-	-	-	-	-	-
Restricted						
Service Members' Life Insurance Reimbursements	-	-	481,243	-	-	481,243
Financial assistance for NM Guard members' families	-	-	-	-	108,491	108,491
Committed	-	-	-	-	-	-
Assigned	-	-	-	-	-	-
Unassigned	(2,173)	-	-	-	-	(2,173)
Total fund balance	(2,173)	-	481,243	-	108,491	587,561
Total liabilities and fund balance	\$ 6,636,914	2,943,607	761,056	3,298,351	444,144	14,084,072

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, 2012

Total fund balance - Governmental funds	\$	587,561
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.		83,667,067
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.		(170,794)
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.		(81,584)
Differences due to rounding		<u>(2)</u>
Net assets of governmental activities	\$	<u><u>84,002,248</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, 2012

	<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>	
Revenues:						
Federal sources	\$ 12,995,880	1,164,043	-	4,084,445	-	18,244,368
Interest on investments	-	-	1,427	-	-	1,427
Miscellaneous revenue	99,116	42,800	-	-	17,700	159,616
Total revenues	<u>13,094,996</u>	<u>1,206,843</u>	<u>1,427</u>	<u>4,084,445</u>	<u>17,700</u>	<u>18,405,411</u>
Expenditures:						
Public Safety						
Current:						
Personal services and benefits	6,083,206	603,055	-	-	-	6,686,261
Contractual services	2,209,333	648,860	-	475,175	88,694	3,422,062
Other costs	4,345,802	172,481	1,125,240	19,540	13,889	5,676,952
Capital outlay	5,394,227	-	-	5,239,254	614,379	11,247,860
Total expenditures	<u>18,032,568</u>	<u>1,424,396</u>	<u>1,125,240</u>	<u>5,733,969</u>	<u>716,962</u>	<u>27,033,135</u>
Excess (deficiency) of revenue over expenditures	<u>(4,937,572)</u>	<u>(217,553)</u>	<u>(1,123,813)</u>	<u>(1,649,524)</u>	<u>(699,262)</u>	<u>(8,627,724)</u>
Other financing sources (uses)						
Severance tax bond						
proceed appropriations	-	-	-	1,649,524	713,073	2,362,597
Transfer - State General Fund appropriations	5,139,600	1,750,000	1,158,000	-	-	8,047,600
Transfer - Reversions to state general fund - FY12	(137,638)	(1,532,447)	-	-	-	(1,670,085)
Total other financing sources (uses):	<u>5,001,962</u>	<u>217,553</u>	<u>1,158,000</u>	<u>1,649,524</u>	<u>713,073</u>	<u>8,740,112</u>
Net change in fund balance	<u>64,390</u>	<u>-</u>	<u>34,187</u>	<u>-</u>	<u>13,811</u>	<u>112,388</u>
Beginning fund balance	(66,563)	-	447,056	-	94,680	475,173
Ending fund balance	<u>\$ (2,173)</u>	<u>-</u>	<u>481,243</u>	<u>-</u>	<u>108,491</u>	<u>587,561</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, 2012

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

Net change in fund balances (deficit) - total governmental funds	\$	112,388
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Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the estimated useful life of the assets. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay expenditures (Additions) which were capitalized	\$	11,216,059	
Contributed capital assets - federally funded property		33,614,486	
Depreciation	\$	<u>(4,210,639)</u>	
Excess (shortage) of capital outlay over depreciation expense			40,619,906

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		36,337
Differences due to rounding		<u>(5)</u>

Change in net assets of governmental activities	\$	<u><u>40,768,626</u></u>
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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, 2012

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance Favorable (Unfavorable)
Revenues				
Federal grants-operating	\$ 11,808,300	15,629,289	12,957,850	(2,671,439)
State-federal pass through grants	-	33,629	38,030	4,401
Miscellaneous revenue	137,300	137,300	99,115	(38,185)
Building - Rental or Lease	23,000	23,000	-	(23,000)
Land royalties	5,400	5,400	-	(5,400)
Total revenues	11,974,000	15,828,618	13,094,995	(2,733,623)
Expenditures				
Current (Public Safety):				
Personal services and employee benefits	7,591,300	6,881,300	6,083,206	798,094
Contractual services	3,622,400	3,365,500	2,209,333	1,156,167
Other	5,899,900	10,721,418	9,804,418	917,000
Total expenditures	17,113,600	20,968,218	18,096,957	2,871,261
Excess (deficiency) of revenues over expenditures	(5,139,600)	(5,139,600)	(5,001,962)	137,638
Other Financing Sources (Uses)				
State general fund appropriations	5,139,600	5,139,600	5,139,600	-
Reversion to state general fund FY12	-	-	(137,638)	(137,638)
Net interagency transfers and financial sources (uses)	5,139,600	5,139,600	5,001,962	(137,638)
Net change in fund balance	\$ -	-	-	-
Reconciliation of Budgetary Basis to Fund Financial Statement				
Total budget basis expenditures for fiscal year 2012:			\$ 18,096,957	
Adjustments:				
Accounts payable that required a request to pay prior-year bills out of the FY2013 budget			2,374	
Prior year accounts payable paid out of FY2012 budget			(66,763)	
Rounding			-	
Total GAAP Basis Expenditures for the fiscal year ended June 30, 2012:			\$ 18,032,568	

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, 2012

		<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues					
State-federal pass through grants	\$	-	-	1,164,043	1,164,043
Miscellaneous revenue		-	-	42,800	42,800
Total revenues		<u>-</u>	<u>-</u>	<u>1,206,843</u>	<u>1,206,843</u>
Expenditures					
Current (Public Safety):					
Personal services and employee benefits		-	627,500	603,055	24,445
Contractual services		-	915,000	648,860	266,140
Other		-	207,500	172,481	35,019
Total expenditures		<u>-</u>	<u>1,750,000</u>	<u>1,424,396</u>	<u>325,604</u>
Excess (deficiency) of revenues over expenditures		<u>-</u>	<u>(1,750,000)</u>	<u>(217,553)</u>	<u>1,532,447</u>
Other Financing Sources (Uses)					
State general fund appropriations		-	1,750,000	1,750,000	-
Reversion to state general fund FY12		-	-	(1,532,447)	(1,532,447)
Net interagency transfers and financial sources (uses)		-	1,750,000	217,553	(1,532,447)
Net change in fund balance	\$	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Reconciliation of Budgetary Basis to Fund Financial Statement					
Total budget basis expenditures for fiscal year 2012:				\$ 1,424,396	
Adjustments:					
No adjustment necessary				<u>-</u>	
Total GAAP Basis Expenditures for the fiscal year ended June 30, 2012:				<u>\$ 1,424,396</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, 2012

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance Favorable (Unfavorable)
Expenditures				
Current (Public Safety):				
Other	\$ 1,158,000	1,158,000	1,125,240	32,760
Total expenditures	1,158,000	1,158,000	1,125,240	32,760
Excess (deficiency) of revenues over expenditures	(1,158,000)	(1,158,000)	(1,125,240)	32,760
Other Financing Sources (Uses)				
State general fund appropriations	1,158,000	1,158,000	1,158,000	-
Net interagency transfers and financial sources (uses)	1,158,000	1,158,000	1,158,000	-
Net change in fund balance	\$ -	-	32,760	32,760
Reconciliation of Budgetary Basis to Fund Financial Statement				
Total budget basis expenditures for fiscal year 2012:			\$ 1,125,240	
Adjustments:				
No adjustment necessary			-	
Total GAAP Basis Expenditures for the fiscal year ended June 30, 2012:			\$ 1,125,240	

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, 2012

		Agency Funds
Assets		
Cash in local banks	\$	87,064
Total assets	\$	87,064
Liabilities		
Deposits held for others	\$	87,064
Total liabilities	\$	87,064

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, 2012

NOTE 1 – HISTORY AND FUNCTION

Department of Military Affairs

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

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

The Adjutant General is the military chief of staff to the Governor and is the head of the Department of Military Affairs.

State Armory Board

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
Notes to Financial Statements
For the Year Ended June 30, 2012

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.

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.

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
Notes to Financial Statements
For the Year Ended June 30, 2012

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 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

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
Notes to Financial Statements
For the Year Ended June 30, 2012

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.

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

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
Notes to Financial Statements
For the Year Ended June 30, 2012

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
- 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.

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
Notes to Financial Statements
For the Year Ended June 30, 2012

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 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.

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
Notes to Financial Statements
For the Year Ended June 30, 2012

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 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 30th.

In accordance with the requirements of Section 2.2.2.10.A(2)(b) of 2.2.2 NMAC, *Requirements for Conducting Audits of Agencies* and the allowance made by GASB 34, footnote 53, the budgetary comparison statements prepared on the modified accrual basis have been included as part of the basic financial statements.

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
Notes to Financial Statements
For the Year Ended June 30, 2012

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.

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

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
Notes to Financial Statements
For the Year Ended June 30, 2012

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.

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

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
Notes to Financial Statements
For the Year Ended June 30, 2012

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, 2012, 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 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.

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
Notes to Financial Statements
For the Year Ended June 30, 2012

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.

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.

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
Notes to Financial Statements
For the Year Ended June 30, 2012

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):

Fund	SHARE	Location	Balance Per	Balance Per
	Agency-Acct		State	Balance Per
			Treasurer	Financials
Dept. of Military Affairs	70500-06900	STO	\$ -	-
State Armory Board	70500-99200	STO	(1,402,586)	(1,402,586)
Subtotal General Fund			(1,402,586)	(1,402,586)
Adjutant General's Emergency Fund	70500-07000	STO	-	-
NM Military Family Relief Fund	70500-10580	STO	-	-
Service Members' Life Insurance				
Reimbursement Fund	70500-93200	STO	-	-
Armory Improvements	70500-89700	STO	-	-
STB Capital Outlay	70500-89200	STO	-	-
Total			\$ (1,402,586)	(1,402,586)

The Department has overdrawn its available balance in the State Treasurer General Fund Investment Pool. This is presented in the accompanying financial statements as a cash overdraft in the General Fund. The overdraft is expected to be resolved by the receipt of amounts due from the federal government totaling \$7,136,935 and amounts due related to severance tax bonds totaling \$3,300,818.

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

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

- a) Securities issued by the United States (U.S.) government or by its departments or agencies and direct obligations of the U.S. or are backed by the full faith and credit of the U.S. government or agencies sponsored by the U.S. government;

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
Notes to Financial Statements
For the Year Ended June 30, 2012

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

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

Please see the State Treasurer's annual audit report for the GASB 40 disclosure of the investments. That report may be obtained by writing to the New Mexico State Treasurer's Office, P.O. Box 608, Santa Fe, NM 87504-0608.

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
Notes to Financial Statements
For the Year Ended June 30, 2012

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.

General Fund Investment Pool Not Reconciled

In June 2012 an independent expert diagnostic report revealed that the General Fund Investment Pool balances have not been reconciled at the business unit/fund level since the inception of the Statewide Human resources, Accounting, and management REporting system (SHARE) system in July of 2006. The Diagnostic report is available in the Resources section of the Cash Control page of the New Mexico Department of Finance & Administration's website at: http://www.nmdfa.state.nm.us/Cash_Control.aspx. The document title is Current State Diagnostic of Cash Control.

The General Fund Investment Pool is the State of New Mexico's main operating account. State revenues such as income taxes, sales taxes, rents and royalties, and other recurring revenues are credited to the General Fund Investment Pool. The fund also comprises numerous State agency accounts whose assets, by statute (Section 8-6-3 NMSA 1978), must be held at the State Treasury.

As of June 30, 2012, the General Fund Investment Pool has not been reconciled at the business unit/fund level. Essentially, independent, third-party verification/confirmation of the Department's balances at the business unit/fund level is not possible. It is DFA's responsibility to complete, on a monthly basis, a reconciliation with the balances and accounts kept by the state treasurer per Section 6-5-2.I(J) NMSA 1978

Under the direction of the State Controller/Financial Control Division Director, the Financial Control Division of the New Mexico Department of Finance & Administration (DFA/FCD) is taking aggressive action to resolve this serious problem. DFA/FCD has commenced the Cash Management Remediation Project (Remediation Project) in partnership with the New Mexico State Treasurer's Office, the New Mexico Department of Information Technology, and a contracted third party PeopleSoft Treasury expert.

The purpose of the Remediation Project is to design and implement the changes necessary to reconcile the General Fund Investment Pool in a manner that is complete, accurate, and timely. The Remediation Project will make changes to the State's current SHARE system configuration, cash accounting policies and procedures, business practices, and banking structure. The scheduled implementation date for the changes associated with the Remediation Project is February 1, 2013. An approach and plan to address the population of historical reconciling items will be developed during the Remediation Project, but a separate initiative will be undertaken to resolve the historical reconciling items.

The initial phase of the Remediation Project, completed on October 11, 2012, focused on developing a project plan and documenting current statewide business processes. The work product of the initial phase of the Remediation Project is a document entitled Cash Management Plan and Business Processes. This document is available on the Cash Control page of the New Mexico Department of Finance & Administration's website at: http://www.nmdfa.state.nm.us/Cash_Control.aspx.

To the extent possible the Department does informally reconcile all deposits and transfers that come into its possession. The cash transactions processed by the Department flow through the state general fund investment pool. Since SHARE was implemented, the Department recognized potential concerns

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
Notes to Financial Statements
For the Year Ended June 30, 2012

related to the statewide cash reconciliation issue and in response, developed internal reconciliation procedures to ensure that cash receipts and disbursements recorded in the SHARE system are in fact transactions that have been initiated by the Department. The reconciliation occurs each month and any required adjustments are forwarded to the Financial Control Division at DFA for correction. The monthly reconciliation procedures throughout the Fiscal Year, include, but are not limited to validation of: allotments, deposits, expenditures, all general entries, operating transfers, payroll expenditures/payroll liabilities by fund, and review of outstanding warrants of the Department. This monthly internal reconciliation of cash receipts and disbursements flowing through the Department's share of the state general fund investment pool provides management assurance that the balance reflected in State General Fund Investment Pool account is accurate as of the end of the reporting period. In addition, the Department reconciles other asset and liability accounts on the Balance Sheet of each fund type. This process also provides additional assurance that transactions affecting the Department's share in the State General Fund Investment Pool account are accurate.

Credit Risk for Investments

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

Interest Rate Risk for Investments

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

For further information regarding the GFIP, please see the State Treasurer's annual audit report and specifically refer to 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 87504-0708.

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

At June 30, 2012, cash (checking) accounts for the armory boards consisted of the following non-interest bearing accounts:

<u>Armory</u>	<u>Bank Name</u>	<u>Balance</u> <u>06/30/12</u>	<u>Armory</u>	<u>Bank Name</u>	<u>Balance</u> <u>06/30/12</u>
Alamogordo	Western Bank	\$ 1,080	Joint Forces HQ	Century Bank	42,525
Albuquerque	Wells Fargo	963	Las Cruces	Bank of America	3,002
Belen	Wells Fargo	1,253	Las Vegas	Bank of Las Vegas	573
Carlsbad	Eddy Fed CU	2,084	Rio Rancho	US NM Fed CU	8,612
Clayton	Farmers & Stockmens	2,720	Roswell	Wells Fargo	3,305
Clovis	Western Bank	1,135	Santa Clara	AM Bank	565
Deming	First Savings	-	Santa Fe	First National	10,035
Espanola	Del Norte CU	349	Santa Rosa	Wells Fargo	1,690
Farmington	Citizens Bank	1,874	Socorro	Wells Fargo	686
Gallup	First Community Bank	51	Springer	Wells Fargo	796
Grants	Wells Fargo	274	Taos	Peoples Bank	1,084
Hobbs	Western Commerce	2,360	Tucumcari	Everyone's Fed CU	48
				Total	\$ <u>87,064</u>

All funds held in bank accounts by the various local armory boards are covered by FDIC insurance

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
Notes to Financial Statements
For the Year Ended June 30, 2012

totaling \$250,000 per account.

C. Summary of Cash

<u>Type</u>	<u>Amount</u>
Governmental funds:	
Investment in State Treasurer General Fund	
Investment Pool	\$ (1,402,586)
Petty cash - held onsite	200
Subtotal governmental funds	<u>(1,402,386)</u>
Agency funds:	
Local Armory Board accounts	87,064
Subtotal agency funds	<u>87,064</u>
Total cash and investments	<u>\$ (1,315,322)</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, 2012 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, 2012, the amounts receivable totaled \$1,373,712.

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, 2012.

<u>Project Title</u>	<u>Fund</u>	<u>Appr. ID</u>	<u>Pool</u>	<u>Amount Sold</u>	<u>Amount Drawn</u>	<u>Balance Held by State Board of Finance</u>
State Armory Board Project	89700	08-3005	2008	\$ 1,000,000	1,000,000	-
Aviation Readiness Center	89200	08-3281	2008	2,500,000	199,008	2,300,992
Armory Improvements	89700	09-3755	2009	1,500,000	587,044	912,956
Armory Improvements	89700	09-3066	2009	500,000	495,454	4,546
Farmington Readiness Center	89200	11-1299	2011	1,600,000	636,055	963,945
STB subtotals				<u>\$ 7,100,000</u>	<u>2,917,561</u>	<u>4,182,439</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.

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
Notes to Financial Statements
For the Year Ended June 30, 2012

Other:

In addition, \$1,925,562 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), \$1,367 is due from NM Public Education Department as part of the School Lunch Program (a federal pass-thru program shown on the schedule of federal awards), and \$177 in interest earnings from the SGFIP. The total amount due from other state agencies at June 30, 2012 is \$3,300,818. A summary of receivables from other agencies follows:

<u>Due From</u> <u>Agency/Fund</u>	<u>Due To</u> <u>Agency/Fund</u>	<u>Amount</u>	<u>Purpose of Receivable</u>
34100/60900	70500/89700	\$ 1,038,059	STB draws receivables
34100/60901	70500/89200	335,653	STB draws receivables
79500/00000	70500/07000	1,925,562	Emergency responder services
92400/00000	70500/99200	1,367	School lunch program
39400/80100	70500/93200	177	SGFIP interest receivable
Receivable from other agencies		<u>\$ 3,300,818</u>	

B. Due From Federal Government

At June 30, 2012, \$7,136,935 was due from the Federal Government.

Of this amount, \$4,745,754 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. An additional, \$2,177,360 was due related to the construction of the Santa Fe and Farmington Readiness Centers. See schedule of expenditures of federal awards.

The remaining amount of \$560, was due from federal agencies for services provided during the year. Also included in the schedule of expenditure of federal awards are the receivables from NM DHSEM for \$1,925,562 and the NM PED for \$1,367 to bring the total receivables related to federal programs due from other agencies to \$1,926,929.

C. Due From Others

Additional receivables from others totaled \$9,033 as of June 30, 2012. 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. In addition, a due to/from in the amount of \$82,931 relates to a deposit made into fund 99200 that should have been deposited into Fund 89700. The amount is expected to be paid within the next fiscal year. Both amounts are expected to be paid during the next 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, 2012

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	\$ 31,935
General Fund - Major Fund	99200	Armory Improvement Fund - Major Capital Projects Fund	89700	82,931
Armory Improvement Fund - Major Capital Projects Fund	89700	General Fund - Major Fund	99200	1,509,200
STB Capital Outlay Fund - Non-Major Capital Projects Fund	89200	General Fund - Major Fund	99200	157,562
General Fund - Major Fund	06900	General Fund - Major Fund	99200	1,329
Adjutant General's Emergency Fund - Major Special Revenue Fund	07000	General Fund - Major Fund	99200	984,759
Family Assistance Fund - Non-Major Special Revenue Fund	10580	General Fund - Major Fund	99200	108,491
Service Members Life Insurance - Major Special Revenue Fund	93200	General Fund - Major Fund	99200	760,879
				<u>\$ 3,637,086</u>

NOTE 6 – CAPITAL ASSETS – GOVERNMENTAL FUNDS

The capital assets activity for the year ended June 30, 2012, is as follows:

<u>Capital Asset Description</u>	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2012</u>
Capital assets not being depreciated:				
Land	\$ 8,644,078	-	-	8,644,078
Capital assets being depreciated:				
Buildings and Improvements	113,433,472	11,071,630	-	124,505,102
Machinery and Equipment	2,224,069	144,428	-	2,368,497
Leasehold Improvements	1,880,000	-	-	1,880,000
Subtotal capital assets being depreciated	117,537,541	11,216,058	-	128,753,599
Less accumulated depreciation:				
Buildings and Improvements	(81,071,177)	(3,935,551)	-	(85,006,728)
Machinery and Equipment	(1,650,093)	(233,768)	-	(1,883,861)
Leasehold Improvements	(413,188)	(41,319)	-	(454,507)
Total accumulated depreciation	(83,134,458)	(4,210,638)	-	(87,345,096)
Total capital assets being depreciated	34,403,083	7,005,420	-	41,408,503
Total capital assets (net)	\$ 43,047,161	7,005,420	-	50,052,581

The Department does not have any debt related to capital assets at June 30, 2012. Depreciation expense for the year was \$4,210,639 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, 2012

Amounts due to the State General Fund at June 30, 2012, were as follows:

Department of Military Affairs Fund (06900)		
Stale-dated warrants		\$ <u>1,048</u>
Due to State General Fund from Fund 06900		\$ <u>1,048</u>
General Fund - State Armory Board (99200)		
Cash/investment balance, June 30, 2012		\$ (1,402,586)
Additions:		
Accounts receivable	\$ 7,681	
Due from other funds	1,666,762	
Due from other agencies	1,367	
Due from federal government	<u>4,959,575</u>	6,635,385
Deductions:		
Accounts payable	(2,482,104)	
Accrued payroll	(45,963)	
Payroll taxes payable	(99,459)	
Other liabilities payable	(117,682)	
Due to other funds	(1,970,324)	
Receipts held in suspense	<u>246</u>	<u>(4,715,286)</u>
Due to State General Fund from Fund 99200		\$ <u>517,513</u>
Reversion identified by fiscal year appropriation		
Fiscal year 2010, not fully reverted	237,931	
Fiscal year 2011	138,343	
Fiscal year 2012	137,636	
Stale-dated warrants	<u>3,603</u>	
Total reversions - Fund 99200	<u>\$ 517,513</u>	
Adjutant General's Emergency Fund (07000)		
Cash/investment balance, June 30, 2012		\$ -
Additions:		
Accounts receivable	\$ 1,352	
Due from other funds	1,016,693	
Due from other agencies	<u>1,925,562</u>	2,943,607
Deductions:		
Accounts payable	(289,333)	
Payroll taxes payable	(4,219)	
Other liabilities payable	<u>(18,850)</u>	
Total deductions		<u>(312,402)</u>
Due to State General Fund from Fund 07000		\$ <u>2,631,205</u>
Reversion identified by fiscal year appropriation		
Fiscal year 2010, not fully reverted	196	
Fiscal year 2011	1,097,516	
Fiscal year 2012	1,532,447	
Stale-dated warrants	<u>1,046</u>	
Total reversions - Fund 07000	<u>\$ 2,631,205</u>	

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
Notes to Financial Statements
For the Year Ended June 30, 2012

Service Members' Life Insurance Reimbursement (93200)			
Stale-dated warrants		\$	<u>279,801</u>
Due to State General Fund from Fund 93200		\$	<u>279,801</u>
Armory Improvements - Capital Projects Fund (89700)			
Cash/investment balance, June 30, 2012		\$	-
Additions:			
Due from other agencies	\$ 1,038,059		
Due from federal government	<u>2,177,360</u>		3,298,351
Total additions			
Deductions:			
Accounts payable	(1,731,815)		
Due to other funds	<u>(1,509,200)</u>		
Total deductions			<u>(3,241,015)</u>
Due to State General Fund from Fund 89700		\$	<u>57,336</u>
Reversion identified by fiscal year appropriation			
Fiscal year 2010, not fully reverted	1,499		
Fiscal year 2011	53,696		
Fiscal year 2012	-		
Stale-dated warrants	<u>2,141</u>		
Total reversions - Fund 89700	<u>\$ 57,336</u>		
STB Capital Outlay - Capital Projects Fund (89200)			
Cash/investment balance, June 30, 2012		\$	-
Additions:			
Due from other agencies	<u>335,653</u>		
Total additions			335,653
Deductions:			
Accounts payable	(178,091)		
Due to other funds	<u>(157,562)</u>		
Total deductions			<u>(335,653)</u>
Due to State General Fund from Fund 89200		\$	<u>-</u>
Total amount due to State General Fund, June 30, 2012		\$	<u><u>3,486,903</u></u>

NOTE 8 – CHANGES IN COMPENSATED ABSENCES

A summary of changes in the compensated absences payable for the year ended June 30, 2012, is as follows:

<u>Governmental Activities</u>	<u>Balance 06/30/11</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance 06/30/12</u>	<u>Current due within one year</u>
Annual Leave	\$ 272,328	158,423	(193,996)	236,755	155,171
Sick Leave	1,802	133,762	(132,371)	3,193	3,193
Compensatory	14,584	71,503	(73,657)	12,430	12,430
Total	<u>\$ 288,714</u>	<u>363,688</u>	<u>(400,024)</u>	<u>252,378</u>	<u>170,794</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, 2012**

NOTE 9 – ENCUMBRANCES – MULTI-YEAR PROJECTS AND APPROPRIATIONS

There were no outstanding encumbrances related to the Department’s multi-year projects as of June 30, 2012.

NOTE 10 – 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, 2012, were \$215,089. Future minimum rental payments under these operating leases are as follows:

For the Year Ended June 30	Total
2013	\$ 169,331
2014	3,417
2015	-
2016	-
2017	-
Thereafter	-
Total	\$ <u>172,748</u>

NOTE 11 – LEASE REVENUE

Details of leases follow:

<u>Tenant</u>	<u>Site</u>	<u>Term</u>	<u>Monthly Rent</u>
Verizon	Santa Fe - Tower site	04/19/2010 - 04/19/2015	\$ 994
Cricket	Santa Fe - Tower site	12/01/2010 - 12/01/2015	\$ 1050

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
Notes to Financial Statements
For the Year Ended June 30, 2012

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

Year Ended		Amount
30-Jun		Amount
2013	\$	24,255
2014		24,574
2015		24,902
2016		13,762
2017		14,106
Total	\$	<u>101,599</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, 2012, the total royalties recognized from this lease was \$4,418. The amounts earned vary depending upon the production rates achieved, so any amounts related to this lease have not been included in the above expected future lease revenue.

NOTE 12 – PERA PENSION PLAN

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

Funding Policy. Plan members are required to contribute 10.67% of their gross salary. The Department is required to contribute 13.34% 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, 2012, 2011 and 2010 were \$533,044, \$614,116, and \$748,698, respectively, which equal the amount of the required contributions for each fiscal year.

NOTE 13 – POST-EMPLOYMENT BENEFITS

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

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person’s behalf unless that person retires before the employer’s RHCA effective

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
Notes to Financial Statements
For the Year Ended June 30, 2012

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.

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, 2012, the statute required each participating employer to contribute 1.834% of each participating employee's annual salary; each participating employee is required to contribute .917% of their salary. In the fiscal year ending June 30, 2013 the contribution rates for employees and employers will rise as follows:

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
FY13	2.000%	1.000%

Also, employers joining the program after January 1, 1998, 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, 2012, 2011 and 2010 were \$72,798, \$67,344 and \$63,989 , respectively, which equal the required contributions for each year.

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
Notes to Financial Statements
For the Year Ended June 30, 2012

NOTE 14 – INTER-AGENCY TRANSFERS & OTHER FINANCING SOURCES (USES)

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

<u>Transferring Agency/Fund</u>	<u>Receiving Agency/Fund</u>	<u>Amount</u>	<u>Purpose of Transfer/Laws</u>
36900/85400	70500/07000	\$ 500,000	Executive Order 2011-062
36900/85400	70500/07000	500,000	Executive Order 2012-011
36900/85400	70500/07000	<u>750,000</u>	Executive Order 2012-016
Subtotal Fund 07000		1,750,000	
34100/60900	70500/89700	<u>1,649,524</u>	STB revenue recognized
Subtotal Fund 89700		1,649,524	
34100/60900	70500/89200	<u>713,073</u>	STB revenue recognized
Subtotal Fund 89200		713,073	
36900/85300	70500/93200	1,158,000	General Appropriation - Laws 2011, Ch 179, Sec 4
39400/80100	70500/93200	<u>1,427</u>	SGFIP interest
Subtotal Fund 93200		1,159,427	
36900/85300	70500/99200	<u>5,139,600</u>	General Appropriation - Laws 2011, Ch 179, Sec 4
Subtotal Fund 99200		<u>5,139,600</u>	
Total other financing sources		<u>\$ 10,411,624</u>	

NOTE 15 – 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 occurrence by the State of New Mexico for the period July 01, 2011, through June 30, 2012. 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 16 – 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,

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
Notes to Financial Statements
For the Year Ended June 30, 2012

supplemental appropriation or would be immaterial to the financial statements.

NOTE 17 – 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 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 18 – DEFICIT FUND BALANCE

Fund 99200 shows a deficit fund balance total of \$(2,172) as a result of accounts payable at year end which will be paid out of the FY 2013 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, 2012

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, 2012

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, 2012

	Department of Military Affairs Fund 06900	State Armory Board Fund 99200	Total General Fund
<u>ASSETS</u>			
Investment in State Treasurer General Fund Investment Pool	\$ -	-	-
Petty cash	200	-	200
Receivables	-	7,681	7,681
Due from other funds	1,329	1,666,762	1,668,091
Due from other state agencies	-	1,367	1,367
Due from Federal government	-	4,959,575	4,959,575
 Total assets	 \$ 1,529	 6,635,385	 6,636,914
<u>LIABILITIES and FUND BALANCE</u>			
Liabilities:			
Cash overdraft	\$ -	1,402,586	1,402,586
Accounts payable	-	2,484,476	2,484,476
Accrued salaries payable	-	45,963	45,963
Payroll taxes payable	-	99,459	99,459
Other payroll liabilities payable	-	117,682	117,682
Due to other funds	-	1,970,324	1,970,324
Due to State General Fund	1,048	517,514	518,562
Receipts held in suspense	281	(246)	35
 Total liabilities	 1,329	 6,637,758	 6,639,087
Fund balance:			
Nonspendable	-	-	-
Restricted	-	-	-
Committed	-	-	-
Assigned	-	-	-
Unassigned	200	(2,373)	(2,173)
 Total fund balance	 200	 (2,373)	 (2,173)
 Total liabilities and fund balance	 \$ 1,529	 6,635,385	 6,636,914

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, 2012

	Department of Military Affairs Fund 06900	State Armory Board Fund 99200	Total General Fund
Revenues:			
Federal sources	\$ -	12,995,880	12,995,880
Miscellaneous revenue	-	99,116	99,116
Total revenues	-	13,094,996	13,094,996
Expenditures:			
Public Safety			
Current:			
Personal services and benefits	-	6,083,206	6,083,206
Contractual services	-	2,209,333	2,209,333
Other costs	-	4,345,802	4,345,802
Capital outlay	-	5,394,227	5,394,227
Total expenditures	-	18,032,568	18,032,568
Excess (deficiency) of revenue over expenditures	-	(4,937,572)	(4,937,572)
Other financing sources (uses)			
State General Fund appropriations	-	5,139,600	5,139,600
Reversions to state general fund FY12	-	(137,638)	(137,638)
Total other financing sources (uses):	-	5,001,962	5,001,962
Net change in fund balance	-	64,390	64,390
Beginning fund balance	200	(66,763)	(66,563)
Ending fund balance	\$ 200	(2,373)	(2,173)

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, 2012

	<u>Special Revenue</u>	<u>Capital Projects</u>	
	NM Member Family Assistance Fund Fund 10580	STB Capital Outlay Fund 89200	Total Other Governmental Funds
<u>ASSETS</u>			
Investment in State Treasurer General Fund Investment Pool	\$ -	-	-
Due from other state agencies	-	335,653	335,653
Total assets	\$ 108,491	335,653	444,144
<u>LIABILITIES and FUND BALANCE</u>			
Liabilities:			
Accounts payable	\$ -	178,091	178,091
Due to other funds	-	157,562	157,562
Total liabilities	-	335,653	335,653
Fund balance:			
Nonspendable	-	-	-
Restricted			
Financial assistance for NM Guard members' families	108,491	-	108,491
Committed	-	-	-
Unassigned	-	-	-
Total fund balance	108,491	-	108,491
Total liabilities and fund balance \$	108,491	335,653	444,144

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, 2012

	Special Revenue	Capital Projects	
	NM Member Family Assistance Fund Fund 10580	STB Capital Outlay Fund 89200	Total Other Governmental Funds
Revenues:			
Miscellaneous revenue	\$ 17,700	-	17,700
Total revenues	17,700	-	17,700
Expenditures:			
Public Safety			
Current:			
Personal services and benefits	-	-	-
Contractual services	-	88,694	88,694
Other costs	3,889	10,000	13,889
Capital outlay	-	614,379	614,379
Total expenditures	3,889	713,073	716,962
Excess (deficiency) of revenue over expenditures	13,811	(713,073)	(699,262)
Other financing sources (uses)			
Severance tax bond			
proceed appropriations	-	713,073	713,073
Reversions to state general fund FY12	-	-	-
Total other financing sources (uses):	-	713,073	713,073
Net change in fund balance	13,811	-	13,811
Beginning fund balance	94,680	-	94,680
Ending fund balance	\$ 108,491	-	108,491

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, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
State-federal pass through grants	\$ -	-	-	-
Miscellaneous revenue	-	1,538	17,700	16,162
Total revenues	<u>-</u>	<u>1,538</u>	<u>17,700</u>	<u>16,162</u>
Available cash balance	-	98,663	-	
Total resources	<u>-</u>	<u>100,201</u>	<u>17,700</u>	
Expenditures				
Current (Public Safety):				
Personal services and employee benefits	-	-	-	-
Contractual services	-	-	-	-
Other	-	100,201	3,889	96,312
Total expenditures	<u>-</u>	<u>100,201</u>	<u>3,889</u>	<u>96,312</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>13,811</u>	<u>13,811</u>
Net change in fund balance	<u>\$ -</u>	<u>-</u>	<u>13,811</u>	<u>13,811</u>
Reconciliation of Budgetary Basis to Fund Financial Statement				
Total budget basis expenditures for fiscal year 2012:			\$ 3,889	
Adjustments:				
No adjustment necessary			<u>-</u>	
Total GAAP Basis Expenditures for the fiscal year ended June 30, 2012:			<u>\$ 3,889</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, 2012

	Budgeted Amounts		Actual (Budgetary Basis)	Variance from Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Severance tax bond appropriations	\$ 2,394,010	3,994,010	713,073	(3,280,937)
Total revenues	2,394,010	3,994,010	713,073	(3,280,937)
Expenditures				
DMA STB SF Aviation Readiness Center: A083281				
Contractual services	73,010	73,010	62,019	10,991
Other costs	2,321,000	2,321,000	30,999	2,290,001
Total SF Readiness Center	2,394,010	2,394,010	93,018	2,300,992
DMA STB Farmington Aviation Readiness Center: A111299				
Contractual services	-	173,518	26,674	146,844
Other Costs	-	1,426,482	593,381	833,101
Total Farmington Readiness Center	-	1,600,000	620,055	979,945
Total expenditures	2,394,010	3,994,010	713,073	3,280,937
Excess (deficiency) of revenues over expenditures	-	-	-	-
Other Financing Sources (Uses)				
Reversion to state general fund FY12	-	-	-	-
Net other financing sources (uses)	-	-	-	-
Excess (deficiency of revenues over expenditures and other financing sources (uses))	-	-	-	-
Fund balance carryover	-	-	-	-
Total	\$ -	-	-	-
Reconciliation of Budgetary Basis to Fund Financial Statement				
Total budget basis expenditures for fiscal year 2012:			\$ 713,073	
Adjustments:				
No adjustment necessary			-	
Total GAAP Basis Expenditures for the fiscal year ended June 30, 2012:			\$ 713,073	

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, 2012

	Budgeted Amounts		Actual (Budgetary Basis)	Variance from Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Federal grants-capital	\$ -	14,491,510	4,084,445	(10,407,065)
Severance tax bond appropriations	<u>2,567,026</u>	<u>2,567,026</u>	<u>1,649,524</u>	<u>(917,502)</u>
Total revenues	<u>2,567,026</u>	<u>17,058,536</u>	<u>5,733,969</u>	<u>(11,324,567)</u>
Expenditures				
DMA STB Armories Upgrades				
Rio Rancho & Statewide A083005				
Other Costs	<u>708,360</u>	<u>708,360</u>	<u>708,360</u>	<u>-</u>
Total STB Armories Upgrades	<u>708,360</u>	<u>708,360</u>	<u>708,360</u>	<u>-</u>
DMA STB SF Aviation Readiness				
Center A083281				
Other Costs	5,573	5,573	5,573	-
Other Uses	-	-	-	-
Total STB Armories Upgrades	<u>5,573</u>	<u>5,573</u>	<u>5,573</u>	<u>-</u>
DMA STB Armories Upgrades - A093066				
Other Costs	<u>377,693</u>	<u>377,693</u>	<u>373,147</u>	<u>4,546</u>
Total STB Armories Upgrades	<u>377,693</u>	<u>377,693</u>	<u>373,147</u>	<u>4,546</u>
DMA STB Armory Renovations				
A093755				
Other Costs	<u>1,475,400</u>	<u>1,475,400</u>	<u>562,444</u>	<u>912,956</u>
Total STB Armories Upgrades	<u>1,475,400</u>	<u>1,475,400</u>	<u>562,444</u>	<u>912,956</u>
Santa Fe Readiness Center				
100% GF: A031320				
Contractual Services	-	175,000	202,737	(27,737)
Other Costs	-	4,299,931	92,996	4,206,935
Total Santa Fe Readiness Center	<u>-</u>	<u>4,474,931</u>	<u>295,733</u>	<u>4,179,198</u>
Farmington Readiness Center				
100% GF: A031321				
Contractual Services	-	363,695	205,089	158,606
Other Costs	-	9,652,884	3,583,623	6,069,261
Total Farmington Readiness Center	<u>-</u>	<u>10,016,579</u>	<u>3,788,712</u>	<u>6,227,867</u>
Total expenditures	<u>2,567,026</u>	<u>17,058,536</u>	<u>5,733,969</u>	<u>11,324,567</u>
Excess (deficiency) of revenues over expenditures	<u>\$ -</u>	<u>-</u>	<u>-</u>	<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
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, 2012

	Budgeted Amounts		Actual (Budgetary Basis)	Variance from Final Budget Favorable (Unfavorable)
	Original	Final		
Excess (deficiency) of revenues over expenditures	\$ -	-	-	-
Other Financing Sources (Uses)				
Reversion to state general fund FY12	-	-	-	-
Net other financing sources (uses)	-	-	-	-
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	-	-	-	-
Fund balance carryover	-	-	-	
Total	\$ -	-	-	-
Reconciliation of Budgetary Basis to Fund Financial Statement				
Total budget basis expenditures for fiscal year 2012:			\$ 5,733,969	
Adjustments:				
No adjustments necessary			-	
Total GAAP Basis Expenditures for the fiscal year ended June 30, 2012:			\$ 5,733,969	

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, 2012

	Balance			Balance
	June 30, 2011	Additions	Deletions	June 30, 2012
Assets				
Cash in local banks	\$ 78,388	185,739	(177,063)	87,064
Total assets	<u>78,388</u>	<u>185,739</u>	<u>(177,063)</u>	<u>87,064</u>
Liabilities				
Deposits held for others	78,388	185,739	(177,063)	87,064
Total liabilities	<u>\$ 78,388</u>	<u>185,739</u>	<u>(177,063)</u>	<u>87,064</u>
Armory				
	Balance	Additions	Deletions	Balance
	June 30, 2011			June 30, 2012
Alamogordo	\$ 1,063	2,551	(2,534)	1,080
Albuquerque	619	13,506	(13,162)	963
Artesia	-	-	-	-
Belen	761	2,281	(1,789)	1,253
Carlsbad	534	5,680	(4,130)	2,084
Clayton	2,352	2,945	(2,577)	2,720
Clovis	1,385	3,075	(3,325)	1,135
Deming	591	-	(591)	-
Espanola	2,627	100	(2,378)	349
Farmington	905	11,700	(10,731)	1,874
Gallup	59	190	(198)	51
Grants	282	452	(460)	274
Hobbs	2,983	3,955	(4,578)	2,360
Joint Forces HQ	30,295	42,722	(30,492)	42,525
Las Cruces	2,627	24,826	(24,451)	3,002
Las Vegas	1,736	750	(1,913)	573
Lordsburg	-	-	-	-
Portales	-	-	-	-
Raton	-	-	-	-
Rio Rancho	3,412	25,238	(20,038)	8,612
Roswell	11,951	13,501	(22,147)	3,305
Santa Clara	581	1,628	(1,644)	565
Santa Fe	10,536	23,560	(24,061)	10,035
Santa Rosa	651	3,900	(2,861)	1,690
Socorro	851	-	(165)	686
Springer	700	303	(207)	796
Truth or Consequences	-	-	-	-
Taos	625	2,675	(2,216)	1,084
Tucumcari	262	201	(415)	48
200th PAD	-	-	-	-
Total	<u>\$ 78,388</u>	<u>185,739</u>	<u>(177,063)</u>	<u>87,064</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, 2012

Federal Grantor/Pass-Through Program Title	Federal CFDA Number	Report Category	Adjusted Grants Receivable 06/30/11	Adjusted Federal Awards Expended	Program Income (rec'd fr 3rd party but applied to grant)	Federal Receipts	Grants Receivable (Deferred Revenue) 06/30/12
U.S. Department of Defense							
National Guard Bureau							
National Guard Military Operations and Maintenance Projects: *							
	12.401						
WETS/MATES AND O&M:							
	A01100, A01075, A01050						
W912J3-10-2-1001			\$ 89,763	-	-	(89,763) \$	-
W912J3-11-2-1001			1,241,406	4,173,327	(325)	(4,470,786)	943,622
W912J3-12-2-1001			-	4,916,708	(1,612)	(1,891,061)	3,024,035
ENVIRONMENTAL RESOURCE MGMT:							
	A02100, A02075						
DAHA29-07-2-1002			20,686	4,773	-	(25,459)	-
W912J3-08-2-1002			25,685	30,963	-	(48,017)	8,631
W912J3-09-2-1002			14,415	20,457	-	(22,091)	12,781
W912J3-10-2-1002			121,981	136,934	-	(224,497)	34,418
W912J3-11-2-1002			90,873	363,911	-	(355,414)	99,370
W912J3-12-2-1002			-	213,024	-	(149,586)	63,438
PHYSICAL SECURITY:							
	A03100						
W912J3-11-2-1003			139,528	163,880	-	(303,408)	-
W912J3-12-2-1003			-	486,232	-	(150,105)	336,127
ELECTRONIC SECURITY:							
	A04100						
W912J3-10-2-1004			5,297	-	-	(5,297)	-
W912J3-11-2-1004			40,658	259,769	-	(297,928)	2,499
W912J3-12-2-1004			-	138,124	-	(106,298)	31,826
SUSTAINABLE RANGE PROGRAM:							
	A07100						
W912J3-10-2-1007			8,304	-	-	(8,304)	-
W912J3-11-2-1007			35,667	77,604	-	(109,751)	3,520
W912J3-12-2-1007			-	84,139	-	(57,399)	26,740
ANTI-TERRORISM PROGRAM MANAGER:							
	A10100						
W912J3-11-2-1010			14,433	33,672	-	(48,105)	-
W912J3-12-2-1010			-	57,075	-	(38,971)	18,104
AIR NAT. GUARD O&M:							
	A21000						
W912J3-11-2-1021			53,600	212,646	-	(266,246)	-
W912J3-12-2-1021			-	306,473	-	(198,164)	108,309
AIR NAT. GUARD ENVIRONMENT:							
	A22075						
W912J3-11-2-1022			9,025	12,017	-	(21,042)	-
W912J3-12-2-1022			-	36,201	-	(28,770)	7,431
AIR NAT. GUARD SECURITY:							
	A23100						
W912J3-11-2-1023			7,507	15,986	-	(23,493)	-
W912J3-12-2-1023			-	46,703	-	(41,261)	5,442
DISTANCE LEARNING:							
	A40100						
W912J3-10-2-1040			830	-	-	(830)	-
W912J3-11-2-1040			53,193	85,155	-	(138,348)	-
W912J3-12-2-1040			-	100,951	-	(83,074)	17,877
ARMY NAT. GUARD FAMILY SUPPORT:							
	A41100						
W912J3-11-2-1041			39,177	30,593	-	(69,770)	-
W912J3-12-2-1041			-	51,597	-	(50,013)	1,584
Subtotal CFDA # 12.401			\$ 2,012,028	12,058,914	(1,937)	(9,323,251) \$	4,745,754

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2012

Federal Grantor/Pass-Through Program Title	Federal CFDA Number	Report Category	Adjusted Grants Receivable 06/30/11	Adjusted Federal Awards Expended	Program Income (rec'd fr 3rd party but applied to grant)	Federal Receipts	Grants Receivable (Deferred Revenue) 06/30/12
MILITARY CONSTRUCTION:							
	*	12.400					
W912J3-10-2-2001 (Farmington Readiness)		A031321	\$ -	3,788,712	-	(1,727,335)	2,061,377
W912J3-10-2-2002 (Santa Fe Readiness)		A031320	197,805	295,733	-	(377,555)	115,983
In-kind assistance - Army Aviation Support Facility			-	33,614,486	-	(33,614,486)	-
Subtotal CFDA # 12.400			<u>197,805</u>	<u>37,698,931</u>	<u>-</u>	<u>(35,719,376)</u>	<u>\$ 2,177,360</u>
NATIONAL GUARD YOUTH CHALLENGE							
PROGRAM:							
	12.404	360X00					
W912J3-11-2-4002			269,457	826	-	(270,283)	-
W912J3-12-2-4002			-	898,110	-	(684,849)	213,261
Subtotal CFDA # 12.404			<u>269,457</u>	<u>898,936</u>	<u>-</u>	<u>(955,132)</u>	<u>213,261</u>
TOTAL NATIONAL GUARD BUREAU			<u>2,479,290</u>	<u>50,656,781</u>	<u>(1,937)</u>	<u>(45,997,759)</u>	<u>7,136,375</u>
U.S. Department of Homeland Security - FEMA							
Passed through the NM Department of Homeland Security and Emergency Management							
Fire Management Assistance Grant		97.046	1,177,810	1,164,043	-	(416,291)	1,925,562
U.S. Department of Agriculture:							
Passed through the NM Public Education Department							
Child Nutrition Cluster:							
National School Lunch Program (NSL)	10.555	360100	1,159	38,030	-	(37,822)	1,367
School Breakfast Program (SBP)	10.553	360100	-	-	-	-	-
TOTAL NM PUBLIC EDUCATION DEPT.			<u>1,159</u>	<u>38,030</u>	<u>-</u>	<u>(37,822)</u>	<u>1,367</u>
TOTAL FEDERAL AWARDS			<u>3,658,259</u>	<u>51,858,854</u>	<u>(1,937)</u>	<u>(46,451,872)</u>	<u>9,063,304</u>
		Grants receivable	3,658,259	51,858,854	(1,937)	(46,451,872)	9,063,304
		Deferred revenue	-	-	-	-	-
		Net grants receivable	<u>\$ 3,658,259</u>	<u>51,858,854</u>	<u>(1,937)</u>	<u>(46,451,872)</u>	<u>\$ 9,063,304</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 \$33,614,486 in the form of federal non-cash assistance during the year. This is recorded at the government-wide level of the financial statements as federal capital grant revenue.

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, 2012

<u>Description</u>	<u>SHARE Identifier #</u>	<u>Appropriation Period</u>	<u>Original Appropriation</u>	<u>Expend- itures To Date</u>	<u>Out- standing Encumb- rances</u>	<u>Approps Expired</u>	<u>Unencumb- ered Balances</u>
Fund 89700							
Severance Tax Bonds Outstanding*							
Laws 2008 - Chapter 92, Section 4	08-3005	07/01/2007 - 06/30/2012	\$ 1,000,000	1,000,000	-	-	-
Laws 2008 - Chapter 28, Section 4	09-3066	07/01/2009 - 06/30/2013	500,000	495,454	-	-	4,546
Laws 2009 - Chapter 7, Section 3	09-3755	07/01/2009 - 06/30/2013	1,500,000	587,044	-	-	912,956
Total severance tax bonds outstanding			<u>3,000,000</u>	<u>2,082,498</u>	<u>-</u>	<u>-</u>	<u>917,502</u>
Fund 89200							
Severance Tax Bonds Outstanding*							
Laws 2011 - Chapter 183, Section 114	08-3281/11-1214	07/01/2007 - 06/30/2013	2,500,000	199,008	-	-	2,300,992
	11-1299	07-01-2011 - 06/30/2016	1,600,000	620,055	-	-	979,945
Total severance tax bonds outstanding			<u>4,100,000</u>	<u>819,063</u>	<u>-</u>	<u>-</u>	<u>3,280,937</u>
Total Amounts			<u>\$ 7,100,000</u>	<u>2,901,561</u>	<u>-</u>	<u>-</u>	<u>4,198,439</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, 2012

Participants	Responsible Party for Operations	Description	Beginning & Ending Dates	Total Estimated Amount of Project	Agency Contributions in FY 2011	Revenues & Expenditures Reported On By:	Audit Responsibility
Eastern NM University Roswell Youth Challenge #12-03, PO 5656	DMA & SAB	Food services for cadets attending	7/01/2009 to 6/30/2011	\$ 91,000	91,000	DMA & SAB	DMA & SAB
Eastern NM Univ. #12-02, PO 5655	DMA & SAB	Provide vocational training at ENMU for Youth Challenge cadets	7/1/2010 Ongoing	70,000	70,000	DMA & SAB	DMA & SAB
UNM #12-09, PO 7089	DMA & SAB	Natural Resource Management	9/28/2011	8,135	8,135	DMA & SAB	DMA & SAB
UNM #12-10, PO 5785	DMA & SAB	Cultural Resource Support Project	9/28/2011 9/31/2012	96,200	96,200	DMA & SAB	DMA & SAB
UNM #11-10, PO 5930	DMA & SAB	Develop Intregrated Natural Resource Management Plan	10/4/2010 9/30/2012	81,238	81,238	DMA & SAB	DMA & SAB
UNM #10-05, PO 5930	DMA & SAB	Evaluation to Access the Eligibility of NMARNG structures for the National Register	9/1/2009 12/31/2012	40,832	40,832	DMA & SAB	DMA & SAB
UNM #10-09, PO 5930	DMA & SAB	Process Documentation, Cataloging, and Archive of the Deming Armory Adobe Structures	8/26/2009 12/31/2012	33,622	33,622	DMA & SAB	DMA & SAB
UNM #10-19, PO 5930	DMA & SAB	Provide NMARNG ENV Program with on and off site tech support Artifact stabilization & curation Deming TA@Black Mountain	6/11/2010 9/30/2012	14,726	14,726	DMA & SAB	DMA & SAB
UNM #10-22, PO 5930	DMA & SAB	Provide support with annual meetings Pueblo/Tribal Members	6/11/2010 9/30/2012	21,406	21,406	DMA & SAB	DMA & SAB
UNM #08-09, PO 5930	DMA & SAB	Data Recovery Camel Tracks Training Area	9/26/2007 12/31/2011	78,530	78,530	DMA & SAB	DMA & SAB
UNM #08-06, PO 4004	DMA & SAB	Cultural Resource inventory of Roswell WETS	9/26/2007 12/31/2011	19,964	19,964	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, 2012**

Participants	Responsible Party for Operations	Description	Beginning & Ending Dates	Total Estimated Amount of Project	Agency Contributions in FY 2011	Revenues & Expenditures Reported On By:	Audit Responsibility
MOU BONANZA CREEK RANCH, LLC	DMA & SAB	Authorizes and permits the 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**

Brigadier General Andrew Salas, 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 related 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, 2012, and have issued our report thereon dated December 07, 2012. 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

Management of agency is responsible for establishing and maintaining effective 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, 12-02, and 12-03.

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 no instances of noncompliance or other matter that is required to be reported under *Government Auditing Standards*.

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 12-01.

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 07, 2012

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

Brigadier General Andrew Salas, 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, 2012. 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, 2012.

Internal Control Over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal controls over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

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

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

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



Hinkle + Landers, P.C.
December 07, 2012

**STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012**

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? ___ Yes X No

Other matters noted? X Yes ___ No

Federal Awards:

Internal Control

Material weaknesses identified? ___ Yes X No

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

Type of auditors' report issued on major programs Unqualified

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

Identification of major program as noted below:

<u>CFDA Numbers</u> <u>Funding Source</u>	<u>Name of Federal Programs</u>	<u>Funding Source</u>
12.400	Military Construction, National Guard	U.S. Department of Defense/National Guard Bureau
12.401	National Guard Military Operations and Maintenance Projects	U.S. Department of Defense/National Guard Bureau

Dollar threshold used to distinguish between
A and B programs: \$1,555,766

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, 2012

SECTION II AND III- FINANCIAL STATEMENTS AND FEDERAL AWARD FINDINGS

Findings with Reference Number	Status of Prior Year Findings	Financial Statement Finding	Federal Award Finding	State Auditor Rule	Material Weakness	Significant Deficiency	Compliance
Prior Year Findings							
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
11-01 – CASH RECEIPTS	Resolved	No	No	No	No	No	No
11-02 – PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	Resolved	No	Yes	No	No	Yes	No
Current Year Findings							
12-01 – STATE ARMORY BOARD MEETINGS	Current	No	No	No	No	No	Yes
12-02 – CASH VALIDATION AND MONITORING	Current	Yes	No	No	No	Yes	No
12-03 – PAYROLL/HR CONTROLS	Current	No	No	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, 2012, the Department had a liability of \$1,529,181 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, 2012 totaling \$920,085 were also not made.

The reversion amounts due as of June 30, 2012 were comprised of the following:

Stale-dated warrants	\$ 287,639
Fiscal year 2010 reversion	239,626
Fiscal year 2011 reversion	1,289,555
Fiscal year 2012 reversion	<u>1,670,085</u>
Total	<u>\$3,486,905</u>

Discussion with Department finance personnel showed significant reversions were made by the Department during the year ended June 30, 2012 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.

**STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012**

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.

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 receipt s 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 Agency did revert the following funds on September 28, 2012:

Fiscal year 2010 reversion	\$237,931	Fund 99200
Fiscal year 2011 reversion	<u>337,332</u>	Fund 99200
Total	\$575,263	Fund 99200

The Department will prepare and submit general fund reversions no later than January 15, 2013, based upon this (FY12) 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 \$ 1,670,085

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;

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

rather it includes controls over the preparation of the financial statements.

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

Effect

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

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-12. The Department will request training from the Department of Finance and Administration and the CAFR unit.

CURRENT YEAR FINDINGS

12-01 – STATE ARMORY BOARD MEETINGS – OTHER MATTER

Statement of Condition

While reviewing minutes of the meetings of the state armory board, it was noted that meetings were not held for two quarters during the year as required by state statute.

Criteria

Per Section 20-8-3 NMSA 1978, the state armory board is to meet quarterly or at the more frequent call of the adjutant general.

Effect

The Board was out of compliance with state statute.

Cause

Due to personnel changeover at the adjutant general level, the meetings were delayed until a permanent replacement had been installed.

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

Recommendation

We recommend the state armory board conduct meetings in accordance with state statute.

Management Response

Concur. The Department will conduct its state armory board meetings in accordance with state statute. The interim adjutant general chose not to conduct the meetings during the changeover.

12-02 – CASH VALIDATION AND MONITORING – SIGNIFICANT DEFICIENCY

Statement of Condition

While conducting test work related to the Department's cash balances it was observed that the Department had overdrawn its funds on deposit with the NM State Treasurer's Office. At year end the Department had a balance of \$(1,402,586) in the SGFIP. The negative balance was due to the Department taking part in multiple capital projects that were funded on a reimbursable basis. At year end, receivables due from federal or state agencies related to these projects totaled \$10,385,331.

Discussion with personnel indicated that there was no real method in place to ensure the agency did not overdraw its available balances. It was also noted that the Department did not perform any monthly reconciliations or verification to ensure its financial data and cash balances were accurate.

Criteria

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

Chapters §6-5-1 through §6-5-6, NMSA 1978, require state agencies to implement internal accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters. In support of these statutes, the Financial Control Division (FCD) of the New Mexico Department of Finance and Administration has created a Month-End Close Checklist and the Validating the Trial Balance Manual 2011.

Effect

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

By not performing routine monthly validations of the trial balance, it allows for potential errors to occur in the trial balance and not be identified by Department personnel.

Cause

The Department felt its current processes were adequate.

Recommendation

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

We suggest that the Department consider implementation of the monthly trial balance verification process and month-end close procedures as outlined by DFA.

Management Response

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

Concur. The Department will formalize the use of the Financial Control Division's Month-End Close Checklist and the Validating the Trial Balance. The Department did not have a formal procedure for reconciliation; however the majority of items on the checklist are reviewed on a monthly basis. A formal system will be established to address each item on the checklist on a monthly basis.

12-03 – PAYROLL/HR CONTROLS – SIGNIFICANT DEFICIENCY

Statement of Condition

While conducting risk assessment procedures related to the audit, it was brought to our attention that there was an ongoing investigation by the State Personnel Office (SPO) related to activities in the Department's HR section. The investigation was initiated by senior Department staff when concerns were brought forth about the Department's personnel practices. Inquiry with Department staff and SPO personnel , as well as review of available documentation suggested that there were concerns related to work schedules, pay rates, donated leave, and discrepancies in reported hours worked. The investigation is currently ongoing and final conclusions have not been released.

As a result of the initial phase of the investigation, the Department's HR function was consolidated into SPO, and that they would be handling the Department's HR needs going forward.

Criteria

Chapters §6-5-1 through §6-5-6, NMSA 1978, require state agencies to implement internal accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters.

Effect

The Department was at risk of loss due to potential inappropriate activity related to HR.

Cause

The Department's HR controls were considered to be effective.

Recommendation

We recommend the Department review the results of the investigation once it is completed and take appropriate action to respond to any findings.

Management Response

Concur. The Department has reviewed the findings of the desk audits and is taking appropriate action with senior leadership. Currently, no decision has been made concerning the four individuals on paid administrative leave. Senior leadership will take appropriate action once a decision has been made.

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
Exit Conference
For the Year Ended June 30, 2012

An exit conference was held on December 07, 2012. Present at the exit conference were:

For Department of Military Affairs/State Armory Board:

Brigadier General Andrew Salas
Brigadier General Paul Pena
Colonel Timothy Paul
Teresa Martinez
Lawrence Montano
Sandra Gonzales-Bazan
Laurie Green
Terra Doss
Gwen FitzGerald

Adjutant General
Deputy Adjutant General
NM National Guard, Chief of Staff
Senior Administrative Manager
Chief Financial Officer
Procurement Manager
Budget Director
Accounts Payable Manager
Reimbursements Analyst

For Hinkle + Landers, P.C.:

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.