



HINKLE + LANDERS

Certified Public Accountants + Business Consultants

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

FINANCIAL STATEMENTS

For The Year Ended June 30, 2013

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
Independent Auditors' Report and
Financial Statements
For The Year Ended June 30, 2013

TABLE OF CONTENTS

INFORMATIONAL SECTION	Page
Table of Contents	i-ii
Official Roster	1
FINANCIAL SECTION	
Independent Auditors' Report	2-4
<u>Basic Financial Statements:</u>	
Government-Wide Statements:	
Statement of Net Position	5
Statement of Activities	6
Fund Financial Statements:	
Governmental Funds	
Balance Sheet – Governmental Funds	7
Reconciliation of The Governmental Funds Balance Sheet to The Statement of Net Position	8
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	9
Reconciliation of The Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	10
Statement of Revenues, Expenditures and Changes Fund Balances – Budget and Actual – Major Governmental Funds – General Fund	11
Statement of Revenues, Expenditures and Changes Fund Balances – Budget and Actual – Major Governmental Funds – Special Revenue Funds – Adjutant General Emergency	12
Statement of Revenues, Expenditures and Changes Fund Balances – Budget and Actual – Major Governmental Funds – Special Revenue Fund – Service Members' Life Insurance Reimbursement Fund	13
Fiduciary Funds	
Statement of Fiduciary Assets and Liabilities – Agency Funds	14
Notes to Financial Statements	15-41
SUPPLEMENTAL INFORMATION:	
Fund Descriptions	42-43
Combining Balance Sheet – General Fund – Sub funds	44
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – General Fund – All Accounts	45
Combining Balance Sheet – Non-Major Governmental Funds	46
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Non-Major Governmental Funds	47
Statement of Revenues, Expenditures and Changes Fund Balances – Budget and Actual – Special Revenue Fund – NM Military Family Assistance Fund	48

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
Independent Auditors' Report and
Financial Statements
For The Year Ended June 30, 2013

	Page
Statement of Revenues, Expenditures and Changes Fund	
Balances – Multi-Year Budget and Actual – Capital Projects	
Fund – STB Capital Outlay	49
Statement of Revenues, Expenditures and Changes Fund	
Balances – Multi-Year Budget and Actual – Major Governmental	
Fund – Capital Projects Fund – Armory Improvements	50-51
Schedule of Changes in Assets and Liabilities – Agency Funds	52
 OTHER SUPPLEMENTAL INFORMATION:	
Schedule of Expenditures of Federal Awards	53-54
Schedule of Special, Deficiency, Specific and Capital Outlay Appropriations	55
Schedule of Joint Powers Agreements and Memorandums of Understanding	56-57
 COMPLIANCE SECTION	
Independent Auditors' Report on Internal Control over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	60-61
 FEDERAL FINANCIAL ASSISTANCE	
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133	62-63
Schedule of Findings and Questioned Costs	64-68
 OTHER DISCLOSURES	
Exit Conference	69

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

**Official Roster
As Of June 30, 2013**

DEPARTMENT OF MILITARY AFFAIRS

Name	Title
Brigadier General Andrew E. Salas	Adjutant General
Brigadier General Juan L. Griego	Deputy Adjutant General
Brigadier General Juan L. Griego	Acting Director of State Programs
Lawrence Montano	Chief Financial Officer
Theresa V. Martinez	Acting Deputy Director and Senior Admin Manager

STATE ARMORY BOARD

Brigadier General Andrew E. Salas	Chairman
Command Sergeant Major Kenneth R. Adiar	Secretary/Treasurer
Brigadier General Juan L. Griego	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

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, 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 general fund sub funds, nonmajor governmental funds and the budgetary comparisons for the major capital project fund and all nonmajor funds presented as supplemental information as defined by the *Government Accounting Standards Board* in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2013, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 the 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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, 2013, and the respective changes in financial position and the respective budgetary comparisons for the general fund and major special revenue funds for the year then ended in accordance 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 general fund sub funds and nonmajor governmental fund of the Department as of June 30, 2013 and the respective changes in financial position and the respective budgetary comparisons for the major capital projects funds and all nonmajor funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the Management and 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 the 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the Department's financial statements, combining fund financial statements and the budgetary comparisons. The schedule of expenditures of federal awards as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the other schedules required by 2.2.2.NMAC are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The *schedule of expenditures of federal awards* and other schedules required by 2.2.2 NMAC are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and other schedules required by 2.2.2 NMAC are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated December 13, 2013, 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* in considering the Department's internal control over financial reporting and compliance.

Hinkle & Landers, P.C.

Hinkle + Landers, P.C.
Albuquerque, NM
December 13, 2013

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
STATEMENT OF NET POSITION
GOVERNMENT-WIDE
As of June 30, 2013

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Current assets:	
Investment in State Treasurer General Fund Investment Pool	\$ 1,184,775
Petty cash	200
Receivables	14,443
Due from other state agencies	2,523,159
Due from federal government	<u>3,608,999</u>
Total current assets	7,331,576
Non-current assets:	
Capital assets not being depreciated	8,644,078
Capital assets being depreciated	178,594,250
Less accumulated depreciation	<u>(93,208,405)</u>
Total capital assets, net of depreciation	<u>94,029,923</u>
Total assets	<u>\$ 101,361,499</u>
<u>LIABILITIES & NET POSITION</u>	
Current liabilities:	
Cash overdraft	\$ -
Accounts payable	3,280,990
Accrued salaries payable	151,060
Payroll taxes payable	93,926
Other payroll liabilities payable	87,893
Due to other funds	-
Due to state general fund	2,989,279
Receipts held in suspense	346
Compensated absences payable	<u>98,450</u>
Total current liabilities	6,701,944
Long-term liabilities:	
Compensated absences payable	<u>171,572</u>
Total liabilities	<u>6,873,516</u>
Net position:	
Net investment in capital assets	94,029,923
Restricted	
Special revenue funds	638,997
Unrestricted	<u>(129,274)</u>
Total net position	<u>94,487,983</u>
Total liabilities and net position	<u>\$ 101,361,499</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, 2013

	<u>Governmental Activities</u>
Expenses:	
Public safety	\$ 15,378,502
Depreciation expense	<u>5,863,309</u>
Total program expenses	21,241,811
 Program revenues:	
Federal grants - operating	8,384,554
Federal grants - capital	12,219,120
State-federal pass-through grants	<u>162,377</u>
Total program revenues	<u>20,766,051</u>
Net program (expense) revenue and changes in net position	<u>(475,760)</u>
 General revenues and (expenses):	
Transfer - State General Fund appropriations	7,597,700
Transfer - Severance tax bond appropriations (capital projects)	4,155,869
Transfer - Reversions to state general fund - FY13	(1,133,493)
Interest income	2,312
Miscellaneous revenue	<u>377,474</u>
Total general revenues and expenses	<u>10,999,862</u>
Change in net position	10,524,102
Net position, beginning	84,002,248
Restatement	<u>(38,367)</u>
Net position, beginning - as restated	<u>83,963,881</u>
Ending net position	<u><u>\$ 94,487,983</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, 2013

	Major Funds					Non-Major Funds	Total Governmental Funds
	General Fund (06900 + 99200)	Adjutant General Emergency (07000)	Service Members' Life Insurance (93200)	Armory Improv. Capital Projects (89700)	STB Capital Outlay Capital Projects (89200)	NM Member Family Assistance Funds (10580)	
ASSETS							
Investment in State Treasurer General							
Fund Investment Pool	\$ 91,613	-	-	1,093,163	-	-	1,184,776
Petty cash	200	-	-	-	-	-	200
Receivables	13,091	1,352	-	-	-	-	14,443
Due from other funds	1,816,112	1,520,314	796,853	82,932	-	121,890	4,338,101
Due from other state agencies	8,560	1,099,204	67	659,004	756,324	-	2,523,159
Due from federal government	3,267,125	-	-	341,874	-	-	3,608,999
Prepaid expenses	-	-	-	-	-	-	-
Total assets	<u>\$ 5,196,701</u>	<u>2,620,870</u>	<u>796,920</u>	<u>2,176,973</u>	<u>756,324</u>	<u>121,890</u>	<u>11,669,678</u>
LIABILITIES &							
Liabilities:							
Cash overdraft	\$ -	-	-	-	-	-	-
Accounts payable	2,032,149	222,434	-	593,987	432,422	-	3,280,992
Accrued salaries payable	151,060	-	-	-	-	-	151,060
Payroll taxes payable	89,707	4,219	-	-	-	-	93,926
Other payroll liabilities payable	69,030	18,852	12	-	-	-	87,894
Due to other funds	2,530,559	-	-	1,509,200	298,342	-	4,338,101
Due to other state agencies	-	-	-	-	-	-	-
Due to State General Fund	234,766	2,375,365	279,801	73,786	25,560	-	2,989,278
Receipts held in suspense	346	-	-	-	-	-	346
Total liabilities	<u>5,107,617</u>	<u>2,620,870</u>	<u>279,813</u>	<u>2,176,973</u>	<u>756,324</u>	<u>-</u>	<u>10,941,597</u>
DEFERRED INFLOWS OF RESOURCES	1,688,463			51,663			1,740,126
FUND BALANCE							
Nonspendable	-	-	-	-	-	-	-
Restricted							
Service Members' Life Insurance							
Reimbursements	-	-	517,107	-	-	-	517,107
Financial assistance for NM							
Guard members' families	-	-	-	-	-	121,890	121,890
Committed	-	-	-	-	-	-	-
Assigned	-	-	-	-	-	-	-
Unassigned	(1,599,379)	-	-	(51,663)	-	-	(1,651,042)
Total fund balance	<u>(1,599,379)</u>	<u>-</u>	<u>517,107</u>	<u>(51,663)</u>	<u>-</u>	<u>121,890</u>	<u>(1,012,045)</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 5,196,701</u>	<u>2,620,870</u>	<u>796,920</u>	<u>2,176,973</u>	<u>756,324</u>	<u>121,890</u>	<u>11,669,678</u>

See Independent Auditors' Report.
The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
GOVERNMENT-WIDE STATEMENT OF NET POSITION
As of June 30, 2013

Total fund balance - Governmental funds	\$	(1,012,045)
Amounts reported for governmental activities in the Statement of Net Position 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.		94,029,923
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.		(98,450)
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.		(171,572)
In order to convert to the full accrual basis of accountint, it is necessary to recognize deferred inflows of grant revenue not collected by 60 days.		1,740,126
Differences due to rounding		<u>1</u>
Net position of governmental activities	\$	<u><u>94,487,983</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, 2013

	Major Funds					Non-Major Funds	Total Governmental Funds
	General Fund (06900 + 99200)	Adjutant General Emergency (07000)	Service Members' Life Insurance (93200)	Armory Improv. Capital Projects (89700)	STB Capital Outlay Capital Projects (89200)	NM Member Family Assistance Funds (10580)	
Revenues:							
Federal sources	\$ 8,273,090	111,464	-	10,641,370	-	-	19,025,924
Interest on investments	-	-	2,310	-	-	-	2,310
Miscellaneous revenue	242,260	121,815	-	-	-	13,399	377,474
Total revenues	<u>8,515,350</u>	<u>233,279</u>	<u>2,310</u>	<u>10,641,370</u>	<u>-</u>	<u>13,399</u>	<u>19,405,708</u>
Expenditures:							
Public Safety							
Current:							
Personal services and benefits	6,176,170	167,950	-	-	-	-	6,344,120
Contractual services	2,623,511	428,224	-	369,118	107,033	-	3,527,886
Other costs	4,300,424	55,822	1,119,445	6,567	16,123	-	5,498,381
Capital outlay	1,883,584	-	-	11,209,075	3,123,975	-	16,216,634
Total expenditures	<u>14,983,689</u>	<u>651,996</u>	<u>1,119,445</u>	<u>11,584,760</u>	<u>3,247,131</u>	<u>-</u>	<u>31,587,021</u>
Excess (deficiency) of revenue over expenditures	<u>(6,468,339)</u>	<u>(418,717)</u>	<u>(1,117,135)</u>	<u>(943,390)</u>	<u>(3,247,131)</u>	<u>13,399</u>	<u>(12,181,313)</u>
Other financing sources (uses)							
Severance tax bond							
proceed appropriations	-	-	-	908,177	3,247,691	-	4,155,868
Transfer - State General Fund appropriations	5,169,700	1,250,000	1,153,000	-	25,000	-	7,597,700
Transfer - Compensation appropriation	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-
Other miscellaneous	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-
Transfer - Reversions to state general fund - FY13	(298,567)	(792,916)	-	(16,450)	(25,560)	-	(1,133,493)
Total other financing sources (uses):	<u>4,871,133</u>	<u>457,084</u>	<u>1,153,000</u>	<u>891,727</u>	<u>3,247,131</u>	<u>-</u>	<u>10,620,075</u>
Net change in fund balance	<u>(1,597,206)</u>	<u>38,367</u>	<u>35,865</u>	<u>(51,663)</u>	<u>-</u>	<u>13,399</u>	<u>(1,561,238)</u>
Beginning fund balance	(2,173)	-	481,242	-	-	108,491	587,560
Restatement	-	(38,367)	-	-	-	-	(38,367)
Beginning fund balance, as restated	(2,173)	(38,367)	481,242	-	-	108,491	549,193
Ending fund balance	<u>\$ (1,599,379)</u>	<u>-</u>	<u>517,107</u>	<u>(51,663)</u>	<u>-</u>	<u>121,890</u>	<u>(1,012,045)</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, 2013**

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

Net change in fund balances (deficit) - total governmental funds	\$	(1,561,238)
--	----	-------------

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	\$	16,226,164	
Contributed capital assets - federally funded property		-	
Depreciation	\$	<u>(5,863,308)</u>	
Excess (shortage) of capital outlay over depreciation expense			10,362,856

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.		1,740,126
---	--	-----------

These activities consist of:

Change in compensated absences		(17,644)
Differences due to rounding		<u>2</u>

Change in net position of governmental activities	\$	<u><u>10,524,102</u></u>
---	----	--------------------------

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
GENERAL FUND (06900 & 99200) - MAJOR FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND NET ASSETS BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
For The Year Ended June 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Federal grants-operating	\$ 11,938,300	14,237,415	8,222,177	(6,015,238)
State-federal pass through grants		42,394	50,913	8,519
Miscellaneous revenue	145,900	296,928	242,260	(54,668)
Building - Rental or Lease	23,600	23,600	-	(23,600)
Land royalties	4,800	4,800	-	(4,800)
Total revenues	<u>12,112,600</u>	<u>14,605,137</u>	<u>8,515,350</u>	<u>(6,089,787)</u>
Expenditures				
Current (Public Safety):				
Personal services and employee benefits	7,676,900	7,735,200	6,176,170	1,559,030
Contractual services	3,804,900	3,838,000	2,623,512	1,214,488
Other	<u>5,800,500</u>	<u>8,201,637</u>	<u>6,186,381</u>	<u>2,015,256</u>
Total expenditures	<u>17,282,300</u>	<u>19,774,837</u>	<u>14,986,063</u>	<u>4,788,774</u>
Excess (deficiency) of revenues over expenditures	<u>(5,169,700)</u>	<u>(5,169,700)</u>	<u>(6,470,713)</u>	<u>(1,301,013)</u>
Other Financing Sources (Uses)				
State general fund appropriations	5,169,700	5,169,700	5,169,700	-
Reversion to state general fund FY13	<u>-</u>	<u>-</u>	<u>(298,567)</u>	<u>(298,567)</u>
Net interagency transfers and financial sources (uses)	<u>5,169,700</u>	<u>5,169,700</u>	<u>4,871,133</u>	<u>(298,567)</u>
Net change in fund balance	<u>\$ -</u>	<u>-</u>	<u>(1,599,580)</u>	<u>(1,599,580)</u>
Reconciliation of Budgetary Basis to Fund Financial Statement				
Total budget basis expenditures for fiscal year 2013:			\$ 14,986,063	
Adjustments:				
Prior year accounts payable that required a request to pay prior-year bills out of the FY2014 budget			-	
Prior year accounts payable paid out of FY2013 budget			(2,374)	
Rounding			-	
Total GAAP Basis Expenditures for the fiscal year ended June 30, 2013:			<u>\$ 14,983,689</u>	

See Independent Auditors' Report.
The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
ADJUTANT GENERAL EMERGENCY SPECIAL REVENUE FUND (07000) - MAJOR FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND NET ASSETS BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
For The Year Ended June 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
State-federal pass through grants	\$ -	-	111,464	111,464
Miscellaneous revenue	-	-	121,815	121,815
Total revenues	<u>-</u>	<u>-</u>	<u>233,279</u>	<u>233,279</u>
Expenditures				
Current (Public Safety):				
Personal services and employee benefits	450,000	450,000	167,950	282,050
Contractual services	625,000	740,000	428,224	311,776
Other	185,652	230,517	55,821	174,696
Total expenditures	<u>1,260,652</u>	<u>1,420,517</u>	<u>651,995</u>	<u>768,522</u>
Excess (deficiency) of revenues over expenditures	<u>(1,260,652)</u>	<u>(1,420,517)</u>	<u>(418,716)</u>	<u>1,001,801</u>
Other Financing Sources (Uses)				
State general fund appropriations	1,260,652	1,420,517	1,250,000	(170,517)
Reversion to state general fund FY13	-	-	(792,916)	(792,916)
Net interagency transfers and financial sources (uses)	1,260,652	1,420,517	457,084	(963,433)
Net change in fund balance	<u>\$ -</u>	<u>-</u>	<u>38,368</u>	<u>38,368</u>
Reconciliation of Budgetary Basis to Fund Financial Statement				
Total budget basis expenditures for fiscal year 2013:			\$ 651,995	
Adjustments:				
No adjustment necessary			<u>-</u>	
Total GAAP Basis Expenditures for the fiscal year ended June 30, 2013:			<u>\$ 651,995</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, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance Favorable (Unfavorable)</u>
Expenditures				
Current (Public Safety):				
Other	\$ 1,153,000	1,153,000	1,119,445	33,555
Total expenditures	<u>1,153,000</u>	<u>1,153,000</u>	<u>1,119,445</u>	<u>33,555</u>
Excess (deficiency) of revenues over expenditures	<u>(1,153,000)</u>	<u>(1,153,000)</u>	<u>(1,119,445)</u>	<u>33,555</u>
Other Financing Sources (Uses)				
State general fund appropriations	<u>1,153,000</u>	<u>1,153,000</u>	<u>1,153,000</u>	<u>-</u>
Net interagency transfers and financial sources (uses)	<u>1,153,000</u>	<u>1,153,000</u>	<u>1,153,000</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>-</u>	<u>33,555</u>	<u>33,555</u>
Reconciliation of Budgetary Basis to Fund Financial Statement				
Total budget basis expenditures for fiscal year 2013:			\$ 1,119,445	
Adjustments:				
No adjustment necessary			<u>-</u>	
Total GAAP Basis Expenditures for the fiscal year ended June 30, 2013:			<u>\$ 1,119,445</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 FIDUCIARY ASSETS AND LIABILITIES - AGENCY FUNDS
As of June 30, 2013

	Agency Funds
Assets	
Cash in local banks	\$ <u>122,822</u>
Total assets	\$ <u><u>122,822</u></u>
Liabilities	
Deposits held for others	\$ <u>122,822</u>
Total liabilities	\$ <u><u>122,822</u></u>

See Independent Auditors' Report.
The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
Notes to Financial Statements
For the Year Ended June 30, 2013

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, 2013

and Accounting Principles Board (APB). 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.

GASBS 14 and 61 supersedes previous standards issued by the National Council on Governmental Accounting. The requirements of GASBS 14 and 61 apply at all levels to all state and local governments.

GASBS 14 and 61 define 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.

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).

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
Notes to Financial Statements
For the Year Ended June 30, 2013

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 position and the statement of activities report information on all non-fiduciary activities of an agency.

In the government-wide statement of net position, 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 position are reported in three parts -invested in capital assets, net of related debt; restricted net position; and unrestricted net position.

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 position 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 position 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 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.

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
Notes to Financial Statements
For the Year Ended June 30, 2013

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 specific purposes. The special revenue funds are also reported by a generic fund type classification known as governmental funds.

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
Notes to Financial Statements
For the Year Ended June 30, 2013

- *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 the table of contents of this report.

D. Non-Current Governmental Assets/Liabilities

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

E. Basis of Accounting

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

The government-wide financial statements are presented on an accrual basis of accounting. Under the accrual method of accounting, revenues are recognized when

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
Notes to Financial Statements
For the Year Ended June 30, 2013

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 unearned 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, 2013

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, 2013

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 (Unearned Revenue)

All federal grants are on a reimbursement basis. Various reimbursement procedures are used for federal awards received by the Department. Consequently, timing differences between expenditures and program reimbursements can exist at any time during the fiscal year. Receivable balances at fiscal year-end represent an excess of modified accrual basis expenditures over cash reimbursements received to date. Conversely, unearned revenue balances represent overdraw of cash (advances) in excess of modified accrual basis expenditures. Generally, receivable or unearned 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. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and/or the balance sheet for the governmental funds will sometimes report a separate section for deferred outflows of

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
Notes to Financial Statements
For the Year Ended June 30, 2013

resources. This separate financial statement element, Deferred Outflows of Resources, represents a consumption of net position/fund balance that applies to a future period and so will not be recognized as an expense or expenditure until then. The Department has no deferred outflows of resources during fiscal year 2013.

In addition to liabilities, the statement of net position and/or the balance sheet for the governmental funds will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, Deferred Inflows of Resources, represents an acquisition of net position/fund balance that applied to a future period and so will not be recognized until then. The Department has the following deferred inflows of resources during fiscal year 2013 on the fund financials: \$1,740,126 related to federal grant receivables that were not available to the Department in 60 days after year end.

K. Capital Assets

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

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

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

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

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

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
Notes to Financial Statements
For the Year Ended June 30, 2013

L. Accrued Compensated Absences – Annual Leave

Qualified employees accumulate annual leave as follows:

<u>Years of Service</u>	<u>Hours Earned Per Month</u>	<u>Days Earned Per Month</u>	<u>Days of Maximum Accrual</u>
1-2	6.67	0.83	30
3-6	8.00	1.00	30
7-10	9.99	1.25	30
11-14	12.00	1.50	30
15th/Beyond	13.33	1.67	30

Exempt employees accumulate annual leave as follows:

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

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

Employees who have over 600 hours of accumulated sick leave can receive payment for hours over 600, up to 120 hours, on July 1 or January 1 of each year. However sick leave is paid at fifty percent of the employee's regular hourly wage. At retirement, employees can receive fifty percent payment for up to 400 hours for the hours over 600 hours of accumulated sick leave. Therefore, the only sick leave which has been accrued represents the hours earned at June 30, 2013, 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.

M. Fund Balance – Governmental Funds

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

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

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
Notes to Financial Statements
For the Year Ended June 30, 2013

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.

N. Net Position

The government-wide and business types fund financial statements utilize a net position presentation. Net position are categorized as net investment in capital assets, restricted, and unrestricted. There was no related debt as of fiscal year-end.

Net Investment in Capital Assets– is intended to reflect the portion of net position 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 position should not reflect any reduction for resources used for purposes not stipulated by the enabling legislation. The government-wide statement of net position reports \$638,997 of restricted net position that are considered as restricted by enabling legislation.

Unrestricted Assets – represent unrestricted liquid assets. These are comprised off all net position that is 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 position is available.

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
Notes to Financial Statements
For the Year Ended June 30, 2013

O. Use of Estimates

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

NOTE 3 – CASH AND INVESTMENT POLICY

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

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

Fund	SHARE Agency-Acct	Location	Balance Per State Treasurer	Balance Per Financials
Dept. of Military Affairs	70500-06900	STO	\$ -	-
State Armory Board	70500-99200	STO	91,612	91,612
Subtotal General Fund			<u>91,612</u>	<u>91,612</u>
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	1,093,163	1,093,163
STB Capital Outlay	70500-89200	STO	-	-
Total			<u>\$ 1,184,775</u>	<u>1,184,775</u>

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

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

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
Notes to Financial Statements
For the Year Ended June 30, 2013

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

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

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
Notes to Financial Statements
For the Year Ended June 30, 2013

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.

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 (SHARE) system in July of 2006. The Department of Finance and Administration (DFA) has commissioned two reports that address statewide cash reconciliation issues. They are (1) *Current State of Diagnostic of Cash Controls*, dated June 20, 2012 prepared by Deloitte Consulting, LLP and (2) *Cash Management Plan and Business Processes*, dated October 11, 2012, also prepared by Deloitte Consulting, LLP. The Diagnostic reports are available in the Resources section of the Cash Control page of the NM DFA's website: www.nmdfa.state.nm.us/Cash_Control.aspx.

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.

DFA 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. It is DFA's responsibility to perform the monthly reconciliation of the General Fund Investment Pool.

Per the directive issued by the Office of the State Auditor on October 31, 2012, a note disclosure relating to this issue is required for all State of New Mexico state agencies for financial statements issued for fiscal year ended June 30, 2012 and continues into 2013.

That directive instructed agencies to do the following:

1. Explain to the agency's IPA what policies and procedures the agency has in place to ensure that the agency's cash balances in SHARE are correct; and
2. Disclose to the IPA any communications with DFA Cash Control Bureau regarding monthly cash reconciliation issues including unreconciled items, errors and corrections submitted; and
3. Disclose in the agency notes to the financial statements the facts about the statewide cash reconciliation at the end of the fiscal year, and what the agency's policies and procedures were during the fiscal year ended 2013 to mitigate the risk that the agency's cash balances would be misstated as of June 30, 2013.

To the extent possible the Department does informally reconcile all deposits and transfers that come

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
Notes to Financial Statements
For the Year Ended June 30, 2013

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 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 Department does not have an investment policy that limits investment interest rate risk.

Custodial Credit Risk—Investment Accounts

The Office of the State Treasurer (STO) monitors the collateral for deposits it holds, which would include the investment accounts of the Department. Therefore, collateralization of the Department's accounts is the responsibility of the STO. The STO has its own separate annual independent audit in which the collateral pledged to secure these deposits is disclosed. By law, the Department is not permitted to have any investments other than what is held at the State Treasurer's Office and the Department did not have any other investments during the year ended June 30, 2013. There is no custodial risk at the Department's level since the Department's investments are under the contract of the Office of the State Treasurer.

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.

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
Notes to Financial Statements
For the Year Ended June 30, 2013

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

At June 30, 2013, 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>06/30/13</u>	<u>Armory</u>	<u>Bank Name</u>	<u>Balance</u> <u>06/30/13</u>
Alamogordo	Western Bank	\$ 851	Joint Forces HQ	Century Bank	49,014
Albuquerque	Wells Fargo	1,301	Las Cruces	Bank of America	3,736
Belen	Wells Fargo	1,248	Las Vegas	Bank of Las Vegas	598
Carlsbad	Eddy Fed CU	1,900	Rio Rancho	US NM Fed CU	12,021
Clayton	Farmers & Stockmens	1,672	Roswell	Wells Fargo	9,529
Clovis	Western Bank	279	Santa Clara	AM Bank	2,137
Deming	First Savings	-	Santa Fe	First National	30,621
Espanola	Del Norte CU	1,306	Santa Rosa	Wells Fargo	1,858
Farmington	Citizens Bank	709	Socorro	Wells Fargo	487
Gallup	First Community Bank	435	Springer	Wells Fargo	540
Grants	Wells Fargo	201	Taos	Peoples Bank	1,394
Hobbs	Western Commerce	687	Tucumcari	Everyone's Fed CU	298
				Total	\$ <u>122,822</u>

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

C. Summary of Cash

<u>Type</u>	<u>Amount</u>
Governmental funds:	
Investment in State Treasurer General Fund	
Investment Pool	\$ 1,184,775
Petty cash - held onsite	200
Subtotal governmental funds	<u>1,184,975</u>
Agency funds:	
Local Armory Board accounts	<u>122,822</u>
Subtotal agency funds	<u>122,822</u>
Total cash and investments	\$ <u>1,307,797</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*,

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
Notes to Financial Statements
For the Year Ended June 30, 2013

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, 2013 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, 2013, the amounts receivable totaled \$1,415,328.

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, 2013.

<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>
Aviation Readiness Center	89200	08-3281	2008	2,500,000	2,493,673	6,327
Armory Improvements	89700	09-3755	2009	1,500,000	1,488,367	11,633
Armory Improvements	89700	09-3066	2009	500,000	499,936	64
Farmington Readiness Center	89200	11-1299	2011	1,600,000	1,588,520	11,480
Statewide Facility Infrastructure	89200	13-1225	2013	500,000	-	500,000
STB subtotals				\$ 6,600,000	6,070,496	529,504

The amounts shown as drawn above include amounts expended under the Art in Public Places Act, which requires that an amount equal to 1% of the total, up to \$200,000, be used for acquisition or commissioning of works of art in and around public buildings.

Other:

In addition, \$1,099,204 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), \$8,560 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 \$67 in interest earnings from the SGFIP. The total amount due from other state agencies at June 30, 2013 is \$2,523,159. A summary of receivables from other agencies follows:

<u>Due From Agency/Fund</u>	<u>Due To Agency/Fund</u>	<u>Amount</u>	<u>Purpose of Receivable</u>
34100/60900	70500/89700	\$ 659,004	STB draws receivables
34100/60901	70500/89200	756,324	STB draws receivables
79500/00000	70500/07000	1,099,204	Emergency responder services
92400/00000	70500/99200	8,560	School lunch program
39400/80100	70500/93200	67	SGFIP interest receivable
Receivable from other agencies		\$ 2,523,159	

B. Due From Federal Government

At June 30, 2013, \$3,608,999 was due from the Federal Government.

Of this amount, \$3,258,606 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, \$341,874 was due related to the construction of the Santa Fe and Farmington Readiness Centers. See schedule of expenditures of federal awards.

Also included in the schedule of expenditure of federal awards are the receivables from NM DHSEM for

**STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
Notes to Financial Statements
For the Year Ended June 30, 2013**

\$1,099,204 and the NM PED for \$8,560 to bring the total receivables related to federal programs due from other agencies to \$1,107,722.

C. Due From Others

Additional receivables from others totaled \$14,443 as of June 30, 2013. 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

The due to/from in the amount of \$82,932 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.

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.

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	Armory Improvement Fund - Major Capital Projects Fund	89700	\$ 82,932
Armory Improvement Fund - Major Capital Projects Fund	89700	General Fund - Major Fund	99200	1,501,958
STB Capital Outlay Fund - Non-Major Capital Projects Fund	89200	General Fund - Major Fund	99200	312,825
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	1,520,314
Family Assistance Fund - Non-Major Special Revenue Fund	10580	General Fund - Major Fund	99200	121,890
Service Members Life Insurance - Major Special Revenue Fund	93200	General Fund - Major Fund	99200	796,853
				<u>\$ 4,338,101</u>

REMAINDER OF PAGE INTENTIONALLY LEFT BLANK

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
Notes to Financial Statements
For the Year Ended June 30, 2013

NOTE 6 – CAPITAL ASSETS – GOVERNMENTAL FUNDS

The capital assets activity for the year ended June 30, 2013, is as follows:

<u>Capital Asset Description</u>	<u>Balance June 30, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2013</u>
Capital assets not being depreciated:				
Land	\$ 8,644,078	-	-	8,644,078
Capital assets being depreciated:				
Buildings and Improvements	158,119,589	15,881,767	-	174,001,356
Machinery and Equipment	2,368,496	344,397	-	2,712,893
Leasehold Improvements	1,880,000	-	-	1,880,000
Subtotal capital assets being depreciated	162,368,085	16,226,164	-	178,594,249
Less accumulated depreciation:				
Buildings and Improvements	(85,006,729)	(5,669,060)	-	(90,675,789)
Machinery and Equipment	(1,883,862)	(152,929)	-	(2,036,791)
Leasehold Improvements	(454,505)	(41,319)	-	(495,824)
Total accumulated depreciation	(87,345,096)	(5,863,308)	-	(93,208,404)
Total capital assets being depreciated	75,022,989	10,362,856	-	85,385,845
Total capital assets (net)	\$ 83,667,067	10,362,856	-	94,029,923

The Department does not have any debt related to capital assets at June 30, 2013. Depreciation expense for the year was \$5,863,309 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. Amounts due to the State General Fund at June 30, 2013, were as follows:

Department of Military Affairs Fund (06900)	
State-dated warrants	\$ <u>1,048</u>
Due to State General Fund from Fund 06900	\$ <u>1,048</u>

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
Notes to Financial Statements
For the Year Ended June 30, 2013

General Fund - State Armory Board (99200)

Cash/investment balance, June 30, 2013	\$	91,613
Additions:		
Accounts receivable	\$	13,091
Due from other funds		1,814,783
Due from other agencies		8,560
Due from federal government		<u>3,267,125</u>
		5,103,559
Deductions:		
Accounts payable		(2,032,148)
Accrued payroll		(151,060)
Payroll taxes payable		(89,707)
Other liabilities payable		(69,030)
Due to other funds		(2,530,559)
Receipts held in suspense		(65)
Unexpended other non-reverting funding		<u>(88,885)</u>
		<u>(4,961,454)</u>

Due to State General Fund from Fund 99200 \$ 233,718

Reversion identified by fiscal year appropriation

Fiscal year 2010, not fully reverted		-
Fiscal year 2011		(198,989)
Fiscal year 2012		130,537
Fiscal year 2013		298,567
Stale-dated warrants		<u>3,603</u>
Total reversions - Fund 99200	\$	<u><u>233,718</u></u>

Adjutant General's Emergency Fund (07000)

Cash/investment balance, June 30, 2013	\$	-
Additions:		
Accounts receivable	\$	1,352
Due from other funds		1,520,313
Due from other agencies		<u>1,099,204</u>
		2,620,869
Deductions:		
Accounts payable		(222,434)
Payroll taxes payable		(4,219)
Other liabilities payable		<u>(18,850)</u>
Total deductions		<u>(245,503)</u>

Due to State General Fund from Fund 07000 \$ 2,375,366

Reversion identified by fiscal year appropriation

Fiscal year 2010, not fully reverted		196
Fiscal year 2011		374,364
Fiscal year 2012		1,206,844
Fiscal year 2013		792,916
Stale-dated warrants		<u>1,046</u>
Total reversions - Fund 07000	\$	<u><u>2,375,366</u></u>

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
Notes to Financial Statements
For the Year Ended June 30, 2013

Armory Improvements - Capital Projects Fund (89700)

Cash/investment balance, June 30, 2013		\$	1,093,163
Additions:			
Due from other agencies	\$	659,004	
Due from other funds		82,932	
Due from federal government		341,874	1,083,810
Total additions		<u>341,874</u>	
Deductions:			
Accounts payable		(593,987)	
Due to other funds		(1,509,200)	
Total deductions		<u>(1,509,200)</u>	<u>(2,103,187)</u>
Due to State General Fund from Fund 89700			\$ <u>73,786</u>
Reversion identified by fiscal year appropriation			
Fiscal year 2010, not fully reverted		1,499	
Fiscal year 2011		53,696	
Fiscal year 2012		-	
Fiscal year 2013		16,450	
Stale-dated warrants		2,141	
Total reversions - Fund 89700	\$	<u>73,786</u>	

STB Capital Outlay - Capital Projects Fund (89200)

Cash/investment balance, June 30, 2013		\$	-
Additions:			
Due from other agencies		756,324	
Total additions		<u>756,324</u>	756,324
Deductions:			
Accounts payable		(432,422)	
Due to other funds		(298,342)	
Total deductions		<u>(730,764)</u>	<u>(730,764)</u>
Due to State General Fund from Fund 89200 (FY13 Reversion)			\$ <u>25,560</u>
Total amount due to State General Fund, June 30, 2013			\$ <u>2,709,478</u>

NOTE 8 – CHANGES IN COMPENSATED ABSENCES

A summary of changes in the compensated absences payable for the year ended June 30, 2013, is as follows:

<u>Governmental Activities</u>	<u>Balance 06/30/12</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance 06/30/13</u>	<u>Current due within one year</u>
Annual Leave	\$ 236,755	99,922	(85,861)	250,815	79,243
Sick Leave	3,193	85,880	(87,857)	1,216	1,216
Compensatory	12,430	39,805	(34,244)	17,991	17,991
Total	<u>\$ 252,378</u>	<u>225,606</u>	<u>(207,962)</u>	<u>270,022</u>	<u>98,450</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, 2013

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, 2013.

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, 2013, were \$220,336. Future minimum rental payments under these operating leases are as follows:

For the Year		Total
Ended June 30		
2014	\$	102,817
2015		62,301
2016		51,304
2017		5,378
2018		-
Thereafter		-
Total	\$	<u>221,800</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	\$ 1076
Cricket	Santa Fe - Tower site	12/01/2010 - 12/01/2015	\$ 2050

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
Notes to Financial Statements
For the Year Ended June 30, 2013

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

Year Ended		Amount
30-Jun		
2014	\$	37,871
2015		38,495
2016		26,222
2017		26,878
2018		27,550
Total	\$	<u>157,015</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, 2013, the total royalties recognized from this lease was \$2,427. 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 10.42% of their gross salary. The Department is required to contribute 15.09% of the gross covered salary. The contribution requirements of plan members and the Department are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Department’s contributions to PERA for the fiscal years ending June 30, 2013, 2012 and 2011 were \$611,049, \$533,044, and \$614,116, 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, 2013

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 employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that choose to become participating employers after January 1, 1998, are required to make contributions to the RHCA fund in the amount determined to be appropriate by the board.

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. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2013, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2013, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act

The Department's contributions to the RHCA for the years ended June 30, 2013, 2012 and 2011 were \$79,835, \$72,798 and \$67,344 , 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, 2013

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 2013-011
36900/85400	70500/07000	750,000	Executive Order 2012-013
36900/85397	70500/07000	100,000	Executive Order 2013-004
36900/85398	70500/07001	750,000	Executive Order 2013-008
36900/85399	70500/07002	500,000	Executive Order 2013-010
36900/85400	70500/07000	<u>750,000</u>	Executive Order 2013-022
Subtotal Fund 07000		3,350,000	
34100/60900	70500/89700	<u>908,177</u>	STB revenue recognized
Subtotal Fund 89700		908,177	
34100/60900	70500/89200	3,247,691	STB revenue recognized
	70500/89200	<u>25,000</u>	Special Appropriation, Laws 2013, 1st Session, Chapter 2
Subtotal Fund 89200		3,272,691	
36900/85300	70500/93200	1,153,000	General Appropriation - Laws 2011, Ch 179, Sec 4
39400/80100	70500/93200	<u>2,312</u>	SGFIP interest
Subtotal Fund 93200		1,155,312	
36900/85300	70500/99200	<u>5,169,700</u>	General Appropriation - Laws 2011, Ch 179, Sec 4
Subtotal Fund 99200		5,169,700	
Total other financing sources		<u>\$ 13,855,880</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, 2012, through June 30, 2013. 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.

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
Notes to Financial Statements
For the Year Ended June 30, 2013

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

NOTE 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.

NOTE 18 – DEFICIT FUND BALANCE

The General Fund and Fund 89700 show a deficit fund balance as of June 30, 2013. The deficits are due to the following items reconciled in the tables below:

<u>General fund (06900 & 99200)</u>	
Fund Balance	\$ (1,599,379)
Unexpended other non-reverting funding	(88,885)
Total fund balance before non reverting funding	<u>(1,688,264)</u>
Adjustment made for deferred inflow of grant revenue	<u>1,688,463</u>
	199
Petty Cash from Fund 06900	<u>200</u>
Due to rounding	<u>\$ (1)</u>
 <u>Armory Improvements (89700)</u>	
Fund Balance	\$ (51,663)
Adjustment made for deferred inflow of grant revenue	<u>51,663</u>
	<u>\$ -</u>

NOTE 19 – RESTATEMENT

During FY 2012 there was an ambulance that was totaled. The Department received revenue from the rollover, but it was not applied to the receivable. As a result receivables in fund 07000 were overstated in FY 2012. The following is the adjustment that was made to fund balance:

<u>Description</u>	<u>Fund</u>	<u>Reason</u>	<u>Amount</u>
Armory Improvements Fund	07000	Fund balance, June 30, 2012, as previously reported	\$ -
		Restatement	(38,367)
		Fund balance, June 30, 2012, as restated	<u>\$ (38,367)</u>

NOTE 20 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are issued. The Department recognizes in the financial statements the effects of all

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
Notes to Financial Statements
For the Year Ended June 30, 2013

subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Department's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements are available to be issued. The Department has evaluated subsequent events through December 13, 2013, which is the date the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
Description of Non-Major Funds
For The Year Ended June 30, 2013

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*)

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.

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, 2013

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*)

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*)

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, 2013

	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	\$ -	91,613	91,613
Petty cash	200	-	200
Receivables	-	13,091	13,091
Due from other funds	1,329	1,814,783	1,816,112
Due from other state agencies	-	8,560	8,560
Due from Federal government	-	3,267,125	3,267,125
	-	3,267,125	3,267,125
Total assets	\$ 1,529	5,195,172	5,196,701
<u>LIABILITIES</u>			
Cash overdraft	\$ -	-	-
Accounts payable	-	2,032,149	2,032,149
Accrued salaries payable	-	151,060	151,060
Payroll taxes payable	-	89,707	89,707
Other payroll liabilities payable	-	69,030	69,030
Due to other funds	-	2,530,559	2,530,559
Due to State General Fund	1,048	233,718	234,766
Receipts held in suspense	281	65	346
	281	65	346
Total liabilities	1,329	5,106,288	5,107,617
<u>DEFERRED INFLOWS OF RESOURCES</u>			
	-	1,688,463	1,688,463
<u>FUND BALANCE</u>			
Nonspendable	-	-	-
Restricted	-	-	-
Committed	-	-	-
Assigned	-	-	-
Unassigned	200	(1,599,579)	(1,599,379)
Total fund balance	200	(1,599,579)	(1,599,379)
Total liabilities, deferred inflows of resources and fund balance	\$ 1,529	5,195,172	5,196,701

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, 2013

	Department of Military Affairs Fund 06900	State Armory Board Fund 99200	Total General Fund
Revenues:			
Federal sources	\$ -	8,273,090	8,273,090
Miscellaneous revenue	-	242,260	242,260
Total revenues	-	8,515,350	8,515,350
Expenditures:			
Public Safety			
Current:			
Personal services and benefits	-	6,176,170	6,176,170
Contractual services	-	2,623,511	2,623,511
Other costs	-	4,300,424	4,300,424
Capital outlay	-	1,883,584	1,883,584
Total expenditures	-	14,983,689	14,983,689
Excess (deficiency) of revenue over expenditures	-	(6,468,339)	(6,468,339)
Other financing sources (uses)			
State General Fund appropriations	-	5,169,700	5,169,700
Reversions to state general fund FY13	-	(298,567)	(298,567)
Total other financing sources (uses):	-	4,871,133	4,871,133
Net change in fund balance	-	(1,597,206)	(1,597,206)
Beginning fund balance	200	(2,373)	(2,173)
Ending fund balance	\$ 200	(1,599,579)	(1,599,379)

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, 2013

	Special Revenue		Total Other Governmental Funds
	NM Member Family Assistance Fund Fund 10580		
<u>ASSETS</u>			
Investment in State Treasurer General			
Fund Investment Pool	\$ -		-
Petty cash	-		-
Accounts receivable	-		-
Due from other funds	121,890		121,890
Due from other state agencies	-		-
Due from Federal government	-		-
Prepaid expenses	-		-
Total assets	\$ 121,890		121,890
<u>LIABILITIES and FUND BALANCE</u>			
Liabilities:			
Cash overdraft	-		-
Accounts payable	\$ -		-
Accrued salaries payable	-		-
Payroll taxes payable	-		-
Other payroll liabilities payable	-		-
Due to other funds	-		-
Due to other state agencies	-		-
Due to State General Fund	\$ -		-
Receipts held in suspense	-		-
Total liabilities	-		-
Fund balance:			
Nonspendable	-		-
Restricted			
Financial assistance for NM			
Guard members' families	121,890		121,890
Committed	-		-
Assigned-petty cash	-		-
Unassigned	-		-
Total fund balance	121,890		121,890
Total liabilities and fund balance \$	121,890		121,890

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 STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
For The Year Ended June 30, 2013

	Special Revenue	
	NM Member Family Assistance Fund Fund 10580	Total Other Governmental Funds
Revenues:		
Federal sources	-	-
Interest on investments	-	-
Miscellaneous revenue	\$ 13,399	13,399
	13,399	13,399
Total revenues	13,399	13,399
Expenditures:		
Public Safety		
Current:		
Personal services and benefits	-	-
Contractual services	-	-
Other costs	-	-
Capital outlay	-	-
	-	-
Total expenditures	-	-
Excess (deficiency) of revenue over expenditures	13,399	13,399
Other financing sources (uses)		
State General Fund appropriations	-	-
Severance tax bond		
proceed appropriations	-	-
Reversions to state general fund FY13	-	-
	-	-
Total other financing sources (uses):	-	-
Net change in fund balance	13,399	13,399
Beginning fund balance	108,491	108,491
Ending fund balance	\$ 121,890	121,890

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 POSITION BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
For The Year Ended June 30, 2013

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance Favorable (Unfavorable)
Revenues				
State-federal pass through grants	\$ -	-	-	-
Miscellaneous revenue	-	4,021	13,399	9,378
Total revenues	-	4,021	13,399	9,378
Available cash balance	-	-	-	
Total resources	-	4,021	13,399	
Expenditures				
Current (Public Safety):				
Personal services and employee benefits	-	-	-	-
Contractual services	-	-	-	-
Other	-	4,021	-	4,021
Total expenditures	-	4,021	-	4,021
Excess (deficiency) of revenues over expenditures	-	-	13,399	13,399
Net change in fund balance	\$ -	-	13,399	13,399
Reconciliation of Budgetary Basis to Fund Financial Statement				
Total budget basis expenditures for fiscal year 2013:			\$ -	
Adjustments:				
No adjustment necessary			-	
Total GAAP Basis Expenditures for the fiscal year ended June 30, 2013:			\$ -	

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 POSITION BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
For The Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance from Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Severance tax bond appropriations	\$ 3,280,938	3,280,938	3,247,691	(33,247)
General fund appropriations	25,000	25,000	25,000	-
Total revenues	<u>3,305,938</u>	<u>3,305,938</u>	<u>3,272,691</u>	<u>(33,247)</u>
Expenditures				
DMA STB SF Aviation Readiness Center: A083281				
Contractual services	59,712	48,434	54,403	(5,969)
Other costs	2,241,280	2,252,558	2,240,263	12,295
Total SF Readiness Center	<u>2,300,992</u>	<u>2,300,992</u>	<u>2,294,666</u>	<u>6,326</u>
DMA STB Farmington Aviation Readiness center: A111299				
Contractual services	59,344	31,844	53,130	(21,286)
Other costs	904,602	932,102	899,335	32,767
Other uses	16,000	16,000	-	16,000
Total Farmington Readiness Center	<u>979,946</u>	<u>979,946</u>	<u>952,465</u>	<u>27,481</u>
USS New Mexico Z30559				
Contractual services	-	-	-	-
Other costs	25,000	25,000	-	25,000
Total DMA Statewide Facility	<u>25,000</u>	<u>25,000</u>	<u>-</u>	<u>25,000</u>
Total expenditures	<u>3,305,938</u>	<u>3,305,938</u>	<u>3,247,131</u>	<u>58,807</u>
Excess (deficiency) of revenues over expenditures	-	-	25,560	25,560
Other Financing Sources (Uses)				
Reversion to state general fund FY13	-	-	25,560	25,560
Net other financing sources (uses)	<u>-</u>	<u>-</u>	<u>25,560</u>	<u>25,560</u>
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	-	-	-	-
Fund balance carryover	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
Reconciliation of Budgetary Basis to Fund Financial Statement				
Total budget basis expenditures for fiscal year 2013:			\$ 3,247,131	
Adjustments:				
No adjustment necessary			<u>-</u>	
Total GAAP Basis Expenditures for the fiscal year ended June 30, 2013:			<u>\$ 3,247,131</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 POSITION BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
For The Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance from Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Federal grants-capital	\$ 10,771,133	14,333,567	10,678,956	(3,654,611)
Severance tax bond appropriations	937,501	937,501	905,804	(31,697)
Total revenues	<u>11,708,634</u>	<u>15,271,068</u>	<u>11,584,760</u>	<u>(3,686,308)</u>
 DMA STB Armories Upgrades - A093066				
Other Costs	9,545	9,545	4,481	5,064
Total STB Armories Upgrades	<u>9,545</u>	<u>9,545</u>	<u>4,481</u>	<u>5,064</u>
 DMA STB Armory Renovations				
A093755				
Contractual Services	159,024	31,298	20,871	10,427
Other Costs	768,932	896,658	880,452	16,206
Total STB Armories Upgrades	<u>927,956</u>	<u>927,956</u>	<u>901,323</u>	<u>26,633</u>
 Santa Fe Readiness Center				
100% GF: A031320				
Contractual Services	1,419	1,419	158,667	(157,248)
Other Costs	4,206,934	4,206,934	4,029,942	176,992
Other Uses	-	-	-	-
Total Santa Fe Readiness Center	<u>4,208,353</u>	<u>4,208,353</u>	<u>4,188,609</u>	<u>19,744</u>
 Farmington Readiness Center				
100% GF: A031321				
Contractual Services	204,663	(322,620)	189,579	(512,199)
Other Costs	5,774,627	5,247,344	6,300,768	(1,053,424)
Total Farmington Readiness Center	<u>5,979,290</u>	<u>4,924,724</u>	<u>6,490,347</u>	<u>(1,565,623)</u>
 Alamogordo Amory				
100% GF: A120021				
Contractual Services	583,490	583,490	-	583,490
Other Costs	-	4,617,000	-	4,617,000
Total Alamogordo	<u>583,490</u>	<u>5,200,490</u>	<u>-</u>	<u>5,200,490</u>
 Total expenditures	<u>11,708,634</u>	<u>15,271,068</u>	<u>11,584,760</u>	<u>3,686,308</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 POSITION BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
For The Year Ended June 30, 2013

	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 FY13	-	-	-	-
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 2013:			\$ 11,584,760	
Adjustments:				
No adjustments necessary			-	
Total GAAP Basis Expenditures for the fiscal year ended June 30, 2013:			\$ 11,584,760	

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, 2013

	Balance			Balance
	June 30, 2012	Additions	Deletions	June 30, 2013
Assets				
Cash in local banks	\$ 87,064	171,338	(135,580)	122,822
Total assets	<u>87,064</u>	<u>171,338</u>	<u>(135,580)</u>	<u>122,822</u>
Liabilities				
Deposits held for others	87,064	171,338	(135,580)	122,822
Total liabilities	<u>\$ 87,064</u>	<u>171,338</u>	<u>(135,580)</u>	<u>122,822</u>
Armory				
	Balance			Balance
	June 30, 2012	Additions	Deletions	June 30, 2013
Alamogordo	\$ 1,080	2,000	(2,229)	851
Albuquerque	963	16,982	(16,644)	1,301
Artesia	-	-	-	-
Belen	1,253	4,000	(4,005)	1,248
Carlsbad	2,084	1,197	(1,381)	1,900
Clayton	2,720	1,800	(2,848)	1,672
Clovis	1,135	3,500	(4,356)	279
Deming	-	-	-	-
Espanola	349	3,082	(2,125)	1,306
Farmington	1,874	8,100	(9,264)	710
Gallup	51	1,153	(769)	435
Grants	274	118	(191)	201
Hobbs	2,360	6,532	(8,205)	687
Joint Forces HQ	42,525	13,470	(6,981)	49,014
Las Cruces	3,002	13,352	(12,618)	3,736
Las Vegas	573	48	(23)	598
Lordsburg	-	-	-	-
Portales	-	-	-	-
Raton	-	-	-	-
Rio Rancho	8,612	12,216	(8,807)	12,021
Roswell	3,305	21,949	(15,725)	9,529
Santa Clara	565	4,867	(3,296)	2,136
Santa Fe	10,035	43,553	(22,967)	30,621
Santa Rosa	1,690	3,235	(3,067)	1,858
Socorro	686	1,340	(1,539)	487
Springer	796	4,452	(4,708)	540
Truth or Consequences	-	-	-	-
Taos	1,084	1,892	(1,582)	1,394
Tucumcari	48	2,500	(2,250)	298
200th PAD	-	-	-	-
Total	<u>\$ 87,064</u>	<u>171,338</u>	<u>(135,580)</u>	<u>122,822</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, 2013

Federal Grantor/Pass-Through Program Title	Federal CFDA Number	Pass- Through Entity Identifying Number	Report Category	Adjusted Grants Receivable 06/30/12	Adjusted Federal Awards Expended	Program Income (rec'd fr 3rd party but applied to grant)	Federal Receipts	Grants Receivable (Deferred Revenue) 06/30/13
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					
W912J3-11-2-1001				\$ 943,622	-	-	(943,622)	\$ -
W912J3-12-2-1001				3,024,035	1,672,852	390	(4,560,256)	137,020
W912J3-13-2-1001				-	4,350,129	2,288	(2,091,648)	2,260,770
ENVIRONMENTAL RESOURCE MGMT:								
			A02100, A02075					
W912J3-08-2-1002				8,631	392		(9,024)	-
W912J3-09-2-1002				12,781	51,856	-	(64,637)	-
W912J3-10-2-1002				34,418	51,686	-	(86,104)	-
W912J3-11-2-1002				99,370	59,247		(147,454)	11,164
W912J3-12-2-1002				63,437	444,319		(442,522)	65,234
W912J3-13-2-1002				-	325,475		(198,739)	126,736
PHYSICAL SECURITY:								
			A03100					
W912J3-12-2-1003				336,128	279,067	-	(615,195)	-
W912J3-13-2-1003				-	475,980	-	(339,182)	136,798
ELECTRONIC SECURITY:								
			A04100					
W912J3-11-2-1004				2,498	-	-	(2,498)	-
W912J3-12-2-1004				31,826	82,902	-	(114,728)	-
W912J3-13-2-1004				-	132,922	-	(107,646)	25,276
SUSTAINABLE RANGE PROGRAM:								
			A07100					
W912J3-11-2-1007				3,520	-	-	(3,520)	-
W912J3-12-2-1007				26,740	76,615	-	(103,355)	-
W912J3-13-2-1007				-	16,043	-	(10,724)	5,319
ANTI-TERRORISM PROGRAM MANAGER:								
			A10100					
W912J3-12-2-1010				18,104	26,687	-	(44,791)	-
W912J3-13-2-1010				-	59,926	-	(44,627)	15,299
AIR NAT. GUARD O&M:								
			A21000, A21100					
W912J3-12-2-1021				108,309	267,074	-	(375,383)	-
W912J3-13-2-1021				-	266,210	-	(156,722)	109,488
AIR NAT. GUARD ENVIRONMENT:								
			A22075					
W912J3-12-2-1022				7,431	14,308	-	(21,739)	-
W912J3-13-2-1022				-	33,109	-	(28,823)	4,286
AIR NAT. GUARD SECURITY:								
			A23100					
W912J3-12-2-1023				5,442	15,824	-	(21,266)	-
W912J3-13-2-1023				-	37,871	-	(23,516)	14,355
DISTANCE LEARNING:								
			A40100					
W912J3-12-2-1040				17,877	57,321	-	(75,198)	-
W912J3-13-2-1040				-	114,755	-	(103,348)	11,406
ARMY NAT. GUARD FAMILY SUPPORT:								
			A41100					
W912J3-12-2-1041				1,584	-	-	(1,584)	-
Subtotal CFDA # 12.401				\$ 4,745,754	8,912,570	2,678	(10,737,851)	\$ 2,923,152

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2013

Federal Grantor/Pass-Through Program Title	Federal CFDA Number	Pass- Through Entity Identifying Number	Report Category	Adjusted Grants Receivable 06/30/12	Adjusted Federal Awards Expended	Program Income (rec'd fr 3rd party but applied to grant)	Federal Receipts	Grants Receivable (Deferred Revenue) 06/30/13
MILITARY CONSTRUCTION:								
W912J3-10-2-2001 (Farmington Readiness)	*	12.400	A031321	\$ 2,061,377	6,503,653	-	(8,487,247)	77,783
W912J3-10-2-2002 (Santa Fe Readiness)			A031320	115,983	4,189,380	-	(4,041,273)	264,091
Subtotal CFDA # 12.400				<u>2,177,360</u>	<u>10,693,033</u>	<u>-</u>	<u>(12,528,520)</u>	<u>\$ 341,874</u>
NATIONAL GUARD YOUTH CHALLENGE PROGRAM:								
W912J3-12-2-4002	*	12.404	360X00	213,261	218	-	(213,479)	-
W912J3-13-2-4002				-	997,851	-	(662,397)	335,454
Subtotal CFDA # 12.404				<u>213,261</u>	<u>998,069</u>	<u>-</u>	<u>(875,876)</u>	<u>335,454</u>
TOTAL NATIONAL GUARD BUREAU				<u>7,136,375</u>	<u>20,603,673</u>	<u>2,678</u>	<u>(24,142,247)</u>	<u>3,600,479</u>
U.S. Department of Homeland Security - FEMA								
Passed through the NM Department of Homeland Security and Emergency Management								
State FY 2013 FEMA #4079	97.046	FEMA-4079-009		-	48,703	-	(48,703)	-
Fire Management Assistance Grant	97.046							
State FY 2011 FMAG #2917		FEMA-2917-002		293,402	-	-	(293,402)	-
State FY 2011 FMAG #2918		FEMA-2918-002		295,315	-	-	(295,315)	-
State FY 2011 FMAG #2933		FEMA-2933-001		134,434	-	-	(134,434)	-
State FY 2012 FMAG #2933		FEMA-2933-001		119,990	-	-	(119,990)	-
State FY 2012 FMAG #2934		FEMA-2934-001		10,798	-	-	(8,098)	2,700
State FY 2012 FMAG #2978		Not Available		186,005	-	-	-	186,005
State FY 2012 FMAG #2979		Not Available		831,132	-	-	-	831,132
State FY 2012 FMAG #2982		Not Available		16,606	-	-	-	16,606
State FY 2013 FMAG #5026		Not Available		-	62,761	-	-	62,761
Total NM Department Homeland Security				<u>1,887,682</u>	<u>111,464</u>	<u>-</u>	<u>(899,943)</u>	<u>1,099,203</u>
U.S. Department of Agriculture:								
Passed through the NM Public Education Department								
Child Nutrition Cluster:								
National School Lunch Program (NSLP)	10.555	Not Available	360100	1,367	50,913	-	(43,761)	8,519
School Breakfast Program (SBP)	10.553	Not Available	360100	-	-	-	-	-
TOTAL NM PUBLIC EDUCATION DEPT.				<u>1,367</u>	<u>50,913</u>	<u>-</u>	<u>(43,761)</u>	<u>8,519</u>
TOTAL FEDERAL AWARDS				<u>9,025,424</u>	<u>20,766,050</u>	<u>2,678</u>	<u>(25,085,950)</u>	<u>4,708,201</u>
Grants receivable				9,025,424	20,766,050	2,678	(25,085,950)	4,708,201
Deferred revenue				-	-	-	-	-
Net grants receivable				<u>\$ 9,025,424</u>	<u>20,766,050</u>	<u>2,678</u>	<u>(25,085,950)</u>	<u>\$ 4,708,201</u>

*Major Program

Note 1. Basis for Presentation

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

Note 2 - Sub-recipients

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

Note 3 - 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, 2013

<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 2011 - Chapter 183, Section 114	08-3281	07/01/2007 - 06/30/2012	\$ 2,500,000	2,500,000	-	-	-
Laws 2008 - Chapter 28, Section 4	09-3066	07/01/2009 - 06/30/2013	500,000	499,936	-	-	64
Laws 2009 - Chapter 7, Section 3	09-3755	07/01/2009 - 06/30/2013	<u>1,500,000</u>	<u>1,488,367</u>	-	-	<u>11,633</u>
Total severance tax bonds outstanding			<u>4,500,000</u>	<u>4,488,303</u>	-	-	<u>11,697</u>
Fund 89200							
Severance Tax Bonds Outstanding*							
Laws 2011 - Chapter 183, Section 114	08-3281	07/01/2007 - 06/30/2013	2,425,417	2,419,090	-	-	6,327
	11-1299	07/01/2011 - 06/30/2016	1,600,000	1,588,520	-	-	11,480
	13-1225	07/01/2013 - 06/30/2017	<u>500,000</u>	-	-	-	<u>500,000</u>
Total severance tax bonds outstanding			<u>4,525,417</u>	<u>4,007,610</u>	-	-	<u>517,807</u>
Total Amounts			<u>\$ 9,025,417</u>	<u>8,495,913</u>	-	-	<u>529,504</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, 2013

Participants	Responsible Party for Operations	Description	Beginning & Ending Dates	Total Estimated Amount of Project	Agency Contributions in FY 2012	Revenues & Expenditures Reported On By:	Audit Responsibility
ENMU - ROSWELL #13-02 PO 6894	DMA	NMYCA Food Services	7/22/2012 6/30/2013	\$ 154,700	154,700	DMA	DMA
ENMU - ROSWELL #13-03 PO 7072	DMA	CURRICULUM/NMYCA	7/22/2012 6/30/2013	85,000	85,000	DMA	DMA
Clover Leaf Solutions Inc #13-04 PO 6904	DMA	GIS Systems update	9/12/2012 9/30/2013	173,554	173,554	DMA	DMA
Clover Leaf Sloutions Inc #13-05 PO 7016	DMA	Waste Stream Sampling	9/28/2012 3/1/2013	44,400	44,400	DMA	DMA
Haller & Associates #13-06 PO 8095	DMA	Ground Water Monitoring	9/28/2012 9/20/2013	33,681	33,681	DMA	DMA
Hinkle & Landers #13-01 PO#6820	DMA	FY12 Agency Audit	8/17/2012 5/15/2013	28,569	28,569	DMA	DMA
East Mountain Surveying #13-07 PO 7014	DMA	Las Cruces Armory Survey	9/28/2012 11/15/2012	8,273	8,273	DMA	DMA
Gryphon Environmental #13-08 PO 7017	DMA	SPCC Training throughout the state	9/28/2013 4/30/2013	6,935	6,935	DMA	DMA
UNM #13-09 PO 6958	DMA	Endangered Species Monitoring Black Mountain	9/27/2012 9/30/2013	139,414	139,414	DMA	DMA
UNM #13-10 PO 6959	DMA	Endangered Species Monitoring Camel Tracks	9/26/2013 9/30/2013	16,066	16,066	DMA	DMA
Sutin, Thayer & Browne #13-11 PO 8100	DMA	Legal Support Grigs-Walnut	1/7/2013 12/1/2013	14,133	14,133	DMA	DMA
Abeyta Engineering #13-12 PO 7530	DMA	Taos Sewer & Water Line Design	4/11/2013 2/28/2014	53,012	53,012	DMA	DMA
Clover Leaf Solutions Inc #13-13 PO 8097	DMA	Natural Resource Support Endangered Species	4/3/2013 3/31/2014	33,544	33,544	DMA	DMA
Pyxis Environmental Services #13-14	DMA	Not precessed by CRB					
HDR EOC, INC #13-15 PO 8096	DMA	Air Emissions Inventory	4/13/2013 2/28/2014	22,500	22,501		
UNM #13-16 PO 7310	DMA	Cultural Resource Las Cruces Training Site	4/13/2013 4/29/2014	25,000	25,000	DMA	DMA

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, 2013

Participants	Responsible Party for Operations	Description	Beginning & Ending Dates	Total Estimated Amount of Project	Agency Contributions in FY 2012	Revenues & Expenditures Reported On By:	Audit Responsibility
UNM #13-17 PO 7311	DMA	Integrated Natural Resource Plan Las Cruces Training Site	4/13/2013 4/29/2014	25,000	25,000	DMA	DMA
UNM #13-18 PO 7312	DMA	Integrated Natural Resource Plan Camel Tracks	4/18/2013 9/30/2014	15,000	15,000	DMA	DMA
UNM #13-19 PO 7313	DMA	Integrated Natural Resource Plan Happy Valley Training Site	4/18/2013 4/29/2014	48,000	48,000	DMA	DMA
UNM #13-20 PO 7314	DMA	Cultural Resource Roswell Wetts	4/19/2013 4/29/2014	25,000	25,000	DMA	DMA
UNM #13-21 PO 7315	DMA	Integrated Natrual Resource Plan Roswell Wetts	4/18/2013 4/29/2014	45,000	45,000	DMA	DMA
Cardno Em-Assist, Inc #13-22 PO 8098	DMA	Environmental Management System	3/27/2013 2/28/2014	39,977	39,977	DMA	DMA
Clover Leaf Solutions Inc #13-23 PO 7579	DMA	Hazardous Waste Training	4/23/2013 4/15/2014	14,599	14,599	DMA	DMA
Elliott Surveying #13-24 PO 7613	DMA	Las Vegas & Carlsbad Surveys	5/18/2013 7/30/2013	26,643	26,243	DMA	DMA
Cartesian Surveys, Inc #13-25 PO 7635	DMA	Roswell, Grants & Albuquerque Surveys	5/9/2013 7/30/2013	13,591	13,591	DMA	DMA
Sheilds Survey LTD CO #13-26 PO 7642	DMA	Alamogordo Survey	5/16/2013 7/30/2013	5,807	5,807	DMA	DMA
Gryphon Environmental LLC 13-27 PO 7683	DMA	P2 Plan Dor NMARNG	5/21/2013 5/10/2014	36,747	36,747	DMA	DMA
UNM #08-09, PO 5930	DMA	Data Recovery Camel Tracks Training Area	9/26/2007 12/31/2011	78,530	78,530	DMA	DMA
UNM #08-06, PO 4004	DMA	Cultural Resource inventory of Roswell WETS	9/26/2007 12/31/2011	19,964	19,964	DMA	DMA

**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, 2013**

Participants	Responsible Party for Operations	Description	Beginning & Ending Dates	Total Estimated Amount of Project	Agency Contributions in FY 2012	Revenues & Expenditures Reported On By:	Audit Responsibility
Clover Leaf Environmental #12-04, PO#5865	DMA	GIS Database	9/22/2011 5/31/2012	39,825	39,825	DMA	DMA
EM-ASSIST #12-05, PO 6903	DMA	Environment Management Program	9/22/2011 9/21/2012	49,125	49,125	DMA	DMA
Clover Leaf Environmental #12-07, PO 5925	DMA	Cultural Resource Management	9/26/2011 8/31/2012	16,071	16,071	DMA	DMA
Pyxis Environmental #12-08, PO 5878	DMA	Natural Resource Management	9/26/2011 8/31/2012	16,535	16,535	DMA	DMA
Zia Engineering #12-11, PO6909	DMA	Hazardous Waste Training throughout the state	10/30/2011 9/30/2012	14,735	14,735	DMA	DMA
Design Enginuity #12-12, PO 5707, 5815,	DMA	400 Meter Running Track	9/15/2011 11/12/2012	19,477	19,477	DMA	DMA
Western Technologies #12-14, PO 6060	DMA	Moniter Construction, sample and test materials	12/2/2011 12/31/2012	19,675	19,675	DMA	DMA
Redicheck West, Inc. #12-15, PO 6048	DMA	Design Review SF Readiness Center	12/11/2011 9/30/2012	23,000	23,000	DMA	DMA
E-TERRA Construction, LLC #12-16, PO 6911	DMA	Construction Inspector for Farmington Readiness Center	1/9/2011 12/26/2012	53,348	53,348	DMA	DMA
Atkins Engineering Associates #12-17, PO 6198	DMA	AST Compliance Cleanup Roswell Field Maintenance	2/6/2012 1/31/2013	22,929	22,929	DMA	DMA
Williams & Company Consulting #12-21, PO 6558	DMA	Classroom Training for above ground petroleum tanks operations	5/12/2012 9/30/2012	6,195	6,195	DMA	DMA
Whitcull Environmental, LLC #12-22, PO 6559	DMA	Develop a Microsoft SharePoint website for Environment.	5/21/2012 5/31/2013	49,409	49,409	DMA	DMA

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, 2013

Participants	Responsible Party for Operations	Description	Beginning & Ending Dates	Total Estimated Amount of Project	Agency Contributions in FY 2012	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	2/22/2011 1/1/2014			DMA & SAB	DMA & SAB
MOU Dept. of Corrections	DMA & SAB	Is limited to the beneficial use of the "Old ONM Main" property as a military training and readiness facility by DMA	10/1/2010 Ongoing			DMA & SAB	DMA & SAB
MOA CITY OF ROSWELL & NEW MEXICO YOUTH CHALLENGE	DMA & SAB NMYCA	City shall pay up to \$35K for the repair and improvements of the premises and facilities leased by the NMYCA from the City	6/5/2012 Ongoing			DMA & SAB	DMA & SAB
MOA NEW MEXICO PUBLIC EDUCATION DEPARTMENT & NEW MEXICO YOUTH CHALLENGE	DMA & NMYCA	Agreement for school year 2012-2013 entitling NMYCA to continue in the student nutrition programs	10/5/2013			DMA & SAB	DMA & SAB
MOA NEW MEXICO MILITARY INSTITUTE & SAB	DMA & NMMI	NMMI will permanently load all weapons in Exhibits A, B, and C to the Bataan Museum	10/15/2008 Ongoing			DMA & SAB	DMA & SAB

**INDEPENDENT AUDITORS' 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, in accordance with the 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, the financial statements of the governmental activities, each major fund, the aggregate remaining fund information, the budgetary comparisons of the general fund and major special revenue funds of the Department of Military Affairs/State Armory Board (Department) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements and the combining and individual funds and related budgetary comparisons of the Department presented as supplemental information, and have issued our report thereon dated December 13, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Department's internal control. Accordingly, we do not express an opinion on the effectiveness of Department's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 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 deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency, 07-02.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Department's Response to Findings

The Department's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Department's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

This purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Hinkle + Landers, P.C.
Albuquerque, NM
December 13, 2013

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY 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

Report on Compliance for Each Major Federal Program

We have audited the Department of Military Affairs/State Armory Board (Department) compliance with the types of compliance requirements described in the *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, 2013. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Department's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Department's compliance.

Opinion on Each Major Federal Program

In our opinion, the Department, complied, in all material respects, with the types of 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, 2013.

Report on Internal Control Over Compliance

Management of the Department is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Department's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Hinkle + Landers, P.C.
Albuquerque, NM
December 13, 2013

**STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013**

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements:

Type of auditors' report issued Unmodified

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? ___ Yes X 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 Unmodified

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
12.404	National Guard ChalleNGe Program	U.S. Department of Defense/National Guard Bureau

Dollar threshold used to distinguish between
A and B programs: \$622,938

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, 2013

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 Compliance	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
12-01 – STATE ARMORY BOARD MEETINGS	Resolved	No	No	No	No	No	Yes
12-02 – CASH VALIDATION AND MONITORING	Resolved	Yes	No	No	No	Yes	No
12-03 – PAYROLL/HR CONTROLS	Resolved	No	No	No	No	Yes	No

Current Year Findings
None

PRIOR YEAR FINDINGS

07-02 – REVERSIONS TO STATE GENERAL FUND

Type of Finding: Significant Deficiencies/State Compliance

Statement of Condition

As of June 30, 2013, the Department had a liability of \$1,568,147 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, 2013 totaling \$1,133,493 were also not made.

The reversion amounts due as of June 30, 2013 were comprised of the following:

State-dated warrants	\$ 7,838
Fiscal year 2010 reversion	1,695
Fiscal year 2011 reversion	229,071
Fiscal year 2012 reversion	1,337,381
Fiscal year 2013 reversion	<u>1,133,493</u>
Total	<u>\$2,709,478</u>

Discussion with Department finance personnel showed significant reversions were made by the Department during the year ended June 30, 2013 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, 2013

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 receipts of those funds negatively impacts the Department's ability to pay down its reversions owed.

Recommendation

We recommend that the Department be aware of how much needs to revert to the State General Fund based on its analysis of its financials and revert all unreserved and undesignated funds to the State General Fund as required by Section 6-5-10, NMSA. We also recommend that the Department seek ways to better manage its available funds in order to allow for timely remittance of amounts to be reverted to the State General Fund.

Management Response

Concur. The Agency did revert the following funds in September and October of 2013:

Fiscal year 2013 reversion	206,678	Fund 99200
Fiscal year 2013 reversion	767,908	Fund 07000
Fiscal year 2013 reversion	6,326	Fund 89700
Fiscal year 2013 reversion	<u>11,697</u>	Fund 89200
Total	<u>992,611</u>	

The Department did submit Fiscal Year 2013 Reversion Notification Form to Financial Control Division by their deadline of August 30, 2013 and the deadline of September 30, 2013 which is the last day to submit Fiscal Year 2013 reversions for Operating Transfers to FCD. The Department will prepare and submit general fund reversions no later than January 15, 2014, based upon this (FY13) audit report. Future annual general fund reversions will be calculated in accordance with Department of Finance and Administration's direction.

A majority of The Department of Military Affairs reversions comes from The Adjutant General's Emergency Fund (07000). DMA must have budget in place in order to respond to State Emergencies therefore, executive orders for emergency funds are routinely requested in May or June which often results in unexpended budget.

In an effort to minimize these reversions the agency is going to request from the NM Legislature for FY16 that Adjutant General's Emergency fund become a non-reverting multi-year fund. Reversions to this fund occur due to statewide emergencies (i.e. fires, flooding etc.) which generally occur at the end of a given fiscal year. If any federal revenues are generated by such events those revenues cannot be recorded in the fiscal year in which the costs were incurred and therefore end up being reversions. Currently, we are still waiting for revenues generated in FY12. These reimbursements can take as long as 2 years.

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

08-03 – SAS 115 - MATERIAL ADJUSTMENTS BY AUDITOR

Type of Finding: Material Weakness

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:

• Reconcile fund balance	\$2,374
• Record current year reversions	\$1,133,494
• Adjust STB receivables/revenue	\$517,828
• Adjust federal grants	\$68,237
• Adjust federal receivables	\$17,232

Criteria

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

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

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

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. We also recommend that the staff reconcile federal revenue and receivables to their SEFA or other listing on at least a quarterly, to ensure the balances are correct.

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

Management Response

Concur. The Department will make the adjustments on a timely manner. The Department requests that the IPA support the agency in improving the process for FY-14. The Department will request training from the Department of Finance and Administration and the CAFR unit.

The Department did submit to the Financial Control Division (FCD) the following documents based on the Year-end Deadlines for FY-2013:

- a. Fiscal Year 2013 Reversion Notification Form to Financial Control Division's deadline of August 30, 2013
- b. Fiscal Year 2013 reversion for Operating Transfers to FCD by the deadline of September 30, 2013.

SEFA reconciliation for federal revenues and receivables were completed. The Department will start monthly reconciliation instead of on an annual basis. The Department did reconcile the bond draws with the Board of Finance on a monthly basis. The Department will reconcile the draws against the revenue account of a monthly basis.

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
Exit Conference
For the Year Ended June 30, 2013

An exit conference was held on December 13, 2013. Present at the exit conference were:

For Department of Military Affairs/State Armory Board:

Brigadier General Juan L. Griego
Theresa Martinez
Lawrence Montano
Sandra Gonzales-Bazan
Laurie Green
Terra Doss
Gwen FitzGerald

Deputy General/Acting Director
Senior Administrative Manager
Chief Financial Officer
Procurement Manager
Budget Director
Accounts Payable Manager
Reimbursements Analyst

For Hinkle + Landers, P.C.:

Farley Vener, CPA, CFE
Katelyn Constantin

Managing Shareholder
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.