



HINKLE + LANDERS

Certified Public Accountants + Business Consultants

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

**INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS**

For The Year Ended June 30, 2014

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
Independent Auditor's Report and
Financial Statements
For The Year Ended June 30, 2014

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STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
Independent Auditor's Report and
Financial Statements
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**STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD**

**Official Roster
As Of June 30, 2014**

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 Gregory Ivey	Secretary/Treasurer
Brigadier General Juan L. Griego	Executive Director
Colonel Donnie J. Quintana	Member – (Comm. Officer)
Brigadier General (RET) Jack Fox	Member
COL (RET) Edward Rougemont	Member
LTC (RET) Mark Gonzales	Member

INDEPENDENT AUDITOR'S 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 (the Department) as of and for the year ended June 30, 2014, 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, 2014, 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.

Auditor's 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 auditor's 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, 2014, 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, 2014 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.

Emphasis of Matter

As discussed in Note 21 to the financial statements, the 2013 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

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*, listed as "*other supplemental information*" in the table of contents, 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 listed as "*other supplemental information*" in the table of contents, 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, listed

as “*other supplemental information*” in the table of contents, 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 15, 2014, 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 an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.



Hinkle + Landers, P.C.
Albuquerque, NM
December 15, 2014

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
STATEMENT OF NET POSITION
GOVERNMENT-WIDE
As of June 30, 2014

	<u>Governmental Activities</u>
ASSETS	
Current assets:	
Investment in State Treasurer General Fund Investment Pool	\$ 1,071,246
Petty cash	200
Receivables	16,176
Due from other state agencies	89,584
Due from federal government	4,153,997
Total current assets	<u>5,331,203</u>
Non-current assets:	
Capital assets not being depreciated	8,644,078
Capital assets being depreciated	180,305,720
Less accumulated depreciation	<u>(99,452,693)</u>
Total capital assets, net of depreciation	<u>89,497,105</u>
Total assets	<u>\$ 94,828,308</u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 1,788,749
Accrued salaries payable	64,951
Payroll taxes payable	25,868
Other payroll liabilities payable	54,551
Due to state general fund	2,749,166
Receipts held in suspense	15,445
Compensated absences payable	209,853
Total current liabilities	<u>4,908,583</u>
Long-term liabilities:	
Compensated absences payable	<u>38,751</u>
Total liabilities	<u>4,947,334</u>
NET POSITION	
Net investment in capital assets	89,497,105
Restricted	
Special revenue funds	694,208
Capital outlay funds	(55,613)
Unrestricted	<u>(254,726)</u>
Total net position	<u>89,880,974</u>
Total liabilities and net position	<u>\$ 94,828,308</u>

See Independent Auditor's 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, 2014

	<u>Governmental Activities</u>
EXPENSES	
Public safety	\$ 15,678,370
Depreciation expense	<u>6,418,374</u>
Total program expenses	22,096,744
 PROGRAM REVENUES	
Federal grants - operating	11,972,655
Federal grants - capital	71,909
State-federal pass-through grants	<u>299,391</u>
Total program revenues	<u>12,343,955</u>
Net program (expense) revenue and changes in net position	<u>(9,752,789)</u>
 GENERAL REVENUES & (EXPENSES)	
Transfer - State General Fund appropriations	7,560,400
Transfer - Severance tax bond appropriations (capital projects)	53,816
Transfer - Compensation appropriation	33,300
Transfer - Reversions to state general fund - FY14	(552,283)
Interest income	-
Miscellaneous revenue	<u>90,025</u>
Total general revenues and expenses	<u>7,185,258</u>
Change in net position	(2,567,531)
Net position, beginning	94,487,982
Restatement	<u>(2,039,477)</u>
Net position, beginning - as restated	<u>92,448,505</u>
Ending net position	<u>\$ <u>89,880,974</u></u>

See Independent Auditor's 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, 2014

	Major Funds					Total Governmental Funds
	General Fund (06900 + 99200)	Adjutant General Emergency (07000)	Service Members' Life Insurance (93200)	Armory Improv. Capital Projects (89700)	Non-Major Governmental Funds	
ASSETS						
Investment in State Treasurer General Fund Investment Pool	\$ -	-	1,039,481	6,021	25,744	1,071,246
Petty cash	200	-	-	-	-	200
Receivables	14,823	1,353	-	-	-	16,176
Due from other funds	-	2,104,812	-	-	106,345	2,211,157
Due from other state agencies	15,993	67,002	37	-	6,552	89,584
Due from federal government	4,151,645	-	-	2,351	-	4,153,996
Total assets	<u>\$ 4,182,661</u>	<u>2,173,167</u>	<u>1,039,518</u>	<u>8,372</u>	<u>138,641</u>	<u>7,542,359</u>
LIABILITIES						
Accounts payable	\$ 1,765,817	18,832	-	1,896	2,205	1,788,750
Accrued salaries payable	64,951	-	-	-	-	64,951
Payroll taxes payable	21,649	4,219	-	-	-	25,868
Other payroll liabilities payable	35,688	18,850	12	-	-	54,550
Due to other funds	2,206,368	-	-	-	4,789	2,211,157
Due to State General Fund	78,866	2,131,438	476,773	62,089	-	2,749,166
Receipts held in suspense	15,445	-	-	-	-	15,445
Total liabilities	<u>4,188,784</u>	<u>2,173,339</u>	<u>476,785</u>	<u>63,985</u>	<u>6,994</u>	<u>6,909,887</u>
Deferred inflows of resources						
Unavailable revenue - grants	<u>1,499,137</u>	-	-	-	-	1,499,137
FUND BALANCE						
Nonspendable	-	-	-	-	-	-
Restricted						
Service Members' Life Insurance						
Reimbursements	-	-	562,733	-	-	562,733
Financial assistance for NM						
Guard members' families	-	-	-	-	131,647	131,647
Committed	-	-	-	-	-	-
Assigned	200	-	-	-	-	200
Unassigned	(1,505,460)	(172)	-	(55,613)	-	(1,561,245)
Total fund balance	<u>(1,505,260)</u>	<u>(172)</u>	<u>562,733</u>	<u>(55,613)</u>	<u>131,647</u>	<u>(866,665)</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 4,182,661</u>	<u>2,173,167</u>	<u>1,039,518</u>	<u>8,372</u>	<u>138,641</u>	<u>7,542,359</u>

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, 2014

Total fund balance - Governmental funds	\$	(866,665)
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.		89,497,105
Certain 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.		(248,604)
In order to convert to the full accrual basis of accounting, it is necessary to recognize deferred inflows of grant revenue not collected by 60 days.		1,499,137
Differences due to rounding		<u>1</u>
Net position of governmental activities	\$	<u><u>89,880,974</u></u>

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

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For The Year Ended June 30, 2014

	Major Funds					Total Governmental Funds
	General Fund (06900 + 99200)	Adjutant General Emergency (07000)	Service Members' Life Insurance (93200)	Armory Improv. Capital Projects (89700)	Non- Major Governmental Funds	
REVENUES						
Federal sources	\$ 12,161,981	-	-	123,572	-	12,285,553
State-federal pass-through grants	92,305	207,087	-	-	-	299,392
Interest on investments	-	-	-	-	-	-
Miscellaneous revenue	74,501	-	-	-	15,524	90,025
Total revenues	<u>12,328,787</u>	<u>207,087</u>	<u>-</u>	<u>123,572</u>	<u>15,524</u>	<u>12,674,970</u>
EXPENDITURES						
Public Safety						
Current:						
Personal services and benefits	6,274,394	38,259	-	-	-	6,312,653
Contractual services	3,362,169	401,267	-	15,184	6,540	3,785,160
Other costs	4,459,872	11,354	1,104,374	1,605	25,243	5,602,448
Capital outlay	3,786,029	-	-	59,855	47,033	3,892,917
Total expenditures	<u>17,882,464</u>	<u>450,880</u>	<u>1,104,374</u>	<u>76,644</u>	<u>78,816</u>	<u>19,593,178</u>
Excess (deficiency) of revenue over expenditures	<u>(5,553,677)</u>	<u>(243,793)</u>	<u>(1,104,374)</u>	<u>46,928</u>	<u>(63,292)</u>	<u>(6,918,208)</u>
OTHER FINANCING SOURCES (USES)						
Severance tax bond						
proceed appropriations	-	-	-	-	53,816	53,816
Transfer - State General Fund appropriations	5,660,400	750,000	1,150,000	-	-	7,560,400
Transfer - Compensation appropriation	33,300	-	-	-	-	33,300
Transfers in	200	-	-	-	-	200
Transfers out	(200)	-	-	-	-	(200)
Transfer - Reversions to state general fund - FY14	(45,904)	(506,379)	-	-	-	(552,283)
Total other financing sources (uses):	<u>5,647,796</u>	<u>243,621</u>	<u>1,150,000</u>	<u>-</u>	<u>53,816</u>	<u>7,095,233</u>
Net change in fund balance	<u>94,119</u>	<u>(172)</u>	<u>45,626</u>	<u>46,928</u>	<u>(9,476)</u>	<u>177,025</u>
Beginning fund balance	<u>(1,599,379)</u>	<u>-</u>	<u>517,107</u>	<u>(51,663)</u>	<u>121,890</u>	<u>(1,012,045)</u>
Restatement	<u>-</u>	<u>-</u>	<u>-</u>	<u>(50,878)</u>	<u>19,233</u>	<u>(31,645)</u>
Beginning fund balance, as restated	<u>(1,599,379)</u>	<u>-</u>	<u>517,107</u>	<u>(102,541)</u>	<u>141,123</u>	<u>(1,043,690)</u>
Ending fund balance	<u>\$ (1,505,260)</u>	<u>(172)</u>	<u>562,733</u>	<u>(55,613)</u>	<u>131,647</u>	<u>(866,665)</u>

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, 2014

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

Net change in fund balances (deficit) - total governmental funds	\$	177,025
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Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the estimated useful life of the assets. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay expenditures (Additions) which were capitalized	\$	3,893,388	
Depreciation	\$	<u>(6,418,374)</u>	
Excess (shortage) of capital outlay over depreciation expense			(2,524,986)

Some items reported in the Statement of Activities are not sources of uses of current financial resources and, therefore, are not reported as revenues or expenditures in governmental funds.

These activities consist of:

Change in compensated absences	21,418
Receivables collected after 60 days	1,499,137
Prior year deferred inflows	(1,740,126)
Differences due to rounding	<u>1</u>

Change in net position of governmental activities	\$	<u><u>(2,567,531)</u></u>
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STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
GENERAL FUND (06900 & 99200) - MAJOR FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND NET ASSETS BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
For The Year Ended June 30, 2014

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance Favorable (Unfavorable)
REVENUES				
Federal grants-operating	\$ 12,239,400	13,750,934	12,161,981	(1,588,953)
State-federal pass through grants	-	85,962	92,305	6,343
Miscellaneous revenue	181,000	12,205	74,501	62,296
Building - rental or lease	24,400	52,623	-	(52,623)
Land royalties	4,000	2,585	-	(2,585)
Total revenues	12,448,800	13,904,309	12,328,787	(1,575,522)
EXPENDITURES				
Current (Public Safety):				
Personal services and employee benefits	7,246,000	6,964,500	6,274,394	690,106
Contractual services	2,969,300	3,848,385	3,362,169	486,216
Other	7,927,200	8,785,124	8,199,997	585,127
Total expenditures	18,142,500	19,598,009	17,836,560	1,761,449
Excess (deficiency) of revenues over expenditures	(5,693,700)	(5,693,700)	(5,507,773)	185,927
OTHER FINANCING SOURCES (USES)				
State general fund appropriations	5,660,400	5,660,400	5,660,400	-
Compensation appropriation	33,300	33,300	33,300	-
Reversion to state general fund FY14	-	-	(45,904)	(45,904)
Net interagency transfers and financial sources (uses)	5,693,700	5,693,700	5,647,996	(45,704)
Net change in fund balance	\$ -	-	140,223	140,223

RECONCILIATION OF BUDGETARY BASIS TO FUND FINANCIAL STATEMENT

Total budget basis expenditures for fiscal year 2014:	\$ 17,836,560
Adjustments:	
Current year accounts payable that required a request to pay current-year bills out of the FY2015 budget	(12,882)
Prior year accounts payable paid out of FY2014 budget	58,786
Rounding	-
Total GAAP Basis Expenditures for the fiscal year ended June 30, 2014:	\$ 17,882,464

See Independent Auditor's 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, 2014

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance Favorable (Unfavorable)
REVENUES				
Federal grants-operating	\$ -	-	-	-
State-federal pass through grants	-	207,086	207,087	1
Total revenues	-	207,086	207,087	1
EXPENDITURES				
Current (Public Safety):				
Personal services and employee benefits	300,000	200,000	38,259	161,741
Contractual services	375,000	682,086	401,267	280,819
Other	75,000	75,000	11,526	63,474
Total expenditures	750,000	957,086	451,052	506,034
Excess (deficiency) of revenues over expenditures	(750,000)	(750,000)	(243,965)	506,035
OTHER FINANCING SOURCES (USES)				
State general fund appropriations	750,000	750,000	750,000	-
Reversion to state general fund FY14	-	-	(506,379)	(506,379)
Net interagency transfers and financial sources (uses)	750,000	750,000	243,621	(506,379)
Net change in fund balance	\$ -	-	(344)	(344)
RECONCILIATION OF BUDGETARY BASIS TO FUND FINANCIAL STATEMENT				
Total budget basis expenditures for fiscal year 2014:			\$ 451,052	
Adjustments:				
Current year accounts payable that required a request to pay current-year bills out of the FY2015 budget			(432)	
Prior year accounts payable paid out of FY2014 budget			260	
Rounding			-	
Total GAAP Basis Expenditures for the fiscal year ended June 30, 2014:			\$ 450,880	

See Independent Auditor's 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, 2014

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance Favorable (Unfavorable)
Revenues				
Interest on investments	\$ -	-	-	-
Total revenues	-	-	-	-
EXPENDITURES				
Current (Public Safety):				
Personal services and employee benefits	-	-	-	-
Contractual services	-	-	-	-
Other	1,150,000	1,150,000	1,104,972	45,028
Total expenditures	1,150,000	1,150,000	1,104,972	45,028
Excess (deficiency) of revenues over expenditures	(1,150,000)	(1,150,000)	(1,104,972)	45,028
OTHER FINANCING SOURCES (USES)				
State general fund appropriations	1,150,000	1,150,000	1,150,000	-
Intraagency transfer	-	-	-	-
Reversion to state general fund FY14	-	-	-	-
Net interagency transfers and financial sources (uses)	1,150,000	1,150,000	1,150,000	-
Net change in fund balance	-	-	45,028	45,028
RECONCILIATION OF BUDGETARY BASIS TO FUND FINANCIAL STATEMENT				
Total budget basis expenditures for fiscal year 2014:			\$ 1,104,972	
Adjustments:				
Current year accounts payable that required a request to pay current-year bills out of the FY2015 budget			(1,430)	
Prior year accounts payable paid out of FY2014 budget			832	
Rounding			-	
Total GAAP Basis Expenditures for the fiscal year ended June 30, 2014:			\$ 1,104,374	

See Independent Auditor's 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, 2014**

	<u>Agency Funds</u>
ASSETS	
Cash in local banks	\$ <u>136,317</u>
Total assets	\$ <u><u>136,317</u></u>
LIABILITIES	
Deposits held for others	\$ <u>136,317</u>
Total liabilities	\$ <u><u>136,317</u></u>

See Independent Auditor's 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, 2014

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, 2014

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, 2014

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, 2014

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, 2014

- *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, deferred outflows, liabilities, deferred inflows, 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, deferred outflows, liabilities, deferred inflows, 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.

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
Notes to Financial Statements
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E. Basis of Accounting

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

The government-wide financial statements are presented on an accrual basis of accounting. Under the accrual method of accounting, revenues are recognized when earned and expenditures are recognized when incurred. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*, which was adopted by the Department as of July 1, 2000.

All governmental funds utilize the modified accrual basis of accounting. Under this method, revenues and other governmental fund financial resource increments are recognized in the accounting period in which they become susceptible to accrual -that is, when they become both measurable and available to finance expenditures of the current fiscal period; available meaning collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Revenues from grants that are restricted for specific uses are recognized as revenues and as receivables when the related costs are incurred. Contributions and other monies held by other state and local agencies are recorded as a receivable at the time the money is made available to the specific fund. All other revenues are recognized when they are received and are not susceptible to accrual.

Expenditures are recorded as liabilities when incurred. An exception to this general rule is that accumulated unpaid annual, compensatory and certain sick leave are not accrued as current liabilities but as non-current liabilities. Expenditures charged to federal programs are recorded utilizing the cost principles described by the various funding sources.

In applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenues when the applicable eligibility requirements 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

STATE OF NEW MEXICO
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Notes to Financial Statements
For the Year Ended June 30, 2014

amounts as legally revised during the year. The legal level of budgetary control is at the appropriation program level.

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

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

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
Notes to Financial Statements
For the Year Ended June 30, 2014

footnote 53, the budgetary comparison statements prepared on the modified accrual basis have been included as part of the basic financial statements.

Each year the Legislature approves multiple year appropriations, which the State considers as continuing appropriations. The Legislature authorizes these appropriations for two to five years; however, it does not identify the authorized amount by fiscal year. Consequently, the appropriation is budgeted in its entirety the first year the Legislature authorizes it. The unexpended portion of the budget is carried forward as the next year's beginning budget balance until either the project period has expired or the appropriation has been fully expended. The budget presentations in these financial statements are consistent with this budgeting methodology.

G. Encumbrances – Multi-Year Projects and Appropriations

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

H. Receivables

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

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.

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For the Year Ended June 30, 2014

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 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 2014.

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 2014 on the fund financials, related to federal grant receivables that were not available to the Department in 60 days after year end:

<u>Deferred Inflows of Resources - Fund Financials</u>	
<u>Governmental Activities</u>	
Non-exchange transactions	\$ <u>1,499,137</u>
Total governmental deferred inflows of resources	\$ <u><u>1,499,137</u></u>

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

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

L. Accrued Compensated Absences – Annual Leave

Qualified employees accumulate annual leave as follows:

Years of Service	Hours Earned Per Month	Days Earned Per Month	Days of Maximum Accrual
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:

Years of Service	Hours Earned Per Month	Days Earned Per Month	Days of Maximum Accrual
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, 2014, 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

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was implemented in the current fiscal year. Details of the Department's fund balance classifications and policies follows.

Non-spendable - amounts that are not in spendable form (such as inventory) or are required to be maintained intact.

Restricted - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed - amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.

Assigned - amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.

Unassigned - amounts that are available for any purpose; positive amounts are reported only in the general fund.

When an expense 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 expense 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

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by the enabling legislation. The government-wide statement of net position reports \$694,208 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.

O. Use of Estimates

The preparation of financial statements in conformity with U.S. 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.

P. Evaluation of 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 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 15, 2014, which is the date the financial statements were available to be issued.

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STATE OF NEW MEXICO
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Notes to Financial Statements
For the Year Ended June 30, 2014

NOTE 3 – CASH AND INVESTMENT POLICY

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

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

<u>Fund</u>	<u>SHARE</u> <u>Agency-Acct</u>	<u>Location</u>	<u>Balance Per</u> <u>State</u> <u>Treasurer</u>	<u>Balance Per</u> <u>Financials</u>
Dept. of Military Affairs	70500-06900	STO	\$ -	-
State Armory Board	70500-99200	STO	-	-
Subtotal General Fund			-	-
Adjutant General's Emergency Fund	70500-07000	STO	-	-
NM Military Family Relief Fund	70500-10580	STO	25,744	25,744
Service Members' Life Insurance				
Reimbursement Fund	70500-93200	STO	1,039,481	1,039,481
Armory Improvements	70500-89700	STO	6,021	6,021
STB Capital Outlay	70500-89200	STO	-	-
Total			\$ <u>1,071,246</u>	<u>1,071,246</u>

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

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

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

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for a specified fee rate. No such contract shall be invested in unless the contract is fully secured by exchange of an irrevocable letter of credit running to the state, cash or equivalent collateral of at least one hundred two percent of the market value of the securities plus accrued interest temporarily exchanged. The collateral required for either of the forms of investment in sections (b) and (c) shall be delivered to the fiscal agent of New Mexico or its designee contemporaneously with the transfer of funds or delivery of the securities at the earliest time industry practice permits, but in all cases, settlement shall be on the same-day basis. Neither of the contracts in (b) or (c) shall be invested in unless the contracting bank, brokerage firm or recognized institutional investor has a net worth in excess of five hundred million dollars;

- d) Any of the following investments in an amount not to exceed forty percent of any fund that the state treasurer invests: (1) commercial paper rated "prime" quality by a national rating service, issued by corporations organized and operating within the U.S.; (2) medium-term notes and corporate notes with a maturity not exceeding five years that are rated A or its equivalent or better by a nationally recognized rating service and that are issued by a corporation organized and operating in the U.S.; or (3) an asset-backed obligation with a maturity not exceeding five years that is rated AAA or its equivalent by a nationally recognized rating service;
- e) Shares of a diversified investment company registered pursuant to the federal Investment Company Act of 1940 that invests in U.S. fixed income securities or debt instruments authorized pursuant to (a), (b) and (d) above provided that the investment company has total assets under management of at least one billion dollars and the investments made by the State Treasurer pursuant to this paragraph are less than five percent of the assets of the investment company; or
- f) Individual, common or collective trust funds of banks or trust companies that invest in U.S. fixed income securities or debt instruments authorized pursuant to (a), (b) and (d) above provided that the investment manager has assets under management of at least one billion dollars and the investments made by the state treasurer pursuant to this paragraph are less than five percent of the assets of the individual, common or collective trust fund.

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

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

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:

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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 2014.

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 2014 to mitigate the risk that the agency's cash balances would be misstated as of June 30, 2014.

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

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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, 2014. 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.

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

At June 30, 2014, 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>06/30/14</u>	<u>Armory</u>	<u>Bank Name</u>	<u>Balance</u> <u>06/30/14</u>
Alamogordo	Western Bank	\$ 1,104	Las Cruces	Bank of America	1,407
Albuquerque	Wells Fargo	8,894	Las Vegas	Bank of Las Vegas	42
Belen	Wells Fargo	1,733	Rio Rancho	US NM Fed CU	9,689
Carlsbad	Eddy Fed CU	1,010	Roswell	Wells Fargo	1,860
Clayton	Farmers & Stockmens	782	Santa Clara	AM Bank	1,262
Clovis	Western Bank	2,176	Santa Fe	First National	37,511
Espanola	Del Norte CU	4,839	Santa Rosa	Wells Fargo	1,568
Farmington	Citizens Bank	1,038	Springer	Wells Fargo	398
Grants	Wells Fargo	740	Taos	Peoples Bank	413
Hobbs	Western Commerce	494	Tucumcari	Everyone's Fed CU	287
Joint Forces HQ	Century Bank	59,070	Total		\$ <u>136,317</u>

All funds held in bank accounts by the various local armory boards are covered by FDIC insurance totaling up to \$250,000 per bank, per Board. As a result, all bank accounts are fully covered

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C. Summary of Cash

<u>Type</u>	<u>Amount</u>
Governmental funds:	
Investment in State Treasurer General Fund	
Investment Pool	\$ 1,071,246
Petty cash - held onsite	200
Subtotal governmental funds	<u>1,071,446</u>
Agency funds:	
Local Armory Board accounts	<u>136,317</u>
Subtotal agency funds	<u>136,317</u>
Total cash and investments	<u><u>\$ 1,207,763</u></u>

NOTE 4 – DUE FROM OTHER STATE AGENCIES

Severance tax bonds:

The State Board of Finance sells severance tax bonds as authorized by the State Legislature and hold the proceeds until such time that the Department requests such funds as reimbursement for expenditures. In accordance with GASBS 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the Department recognizes revenue and any related expenses related to severance tax bonds when all applicable eligibility requirements have been met. As a result, amounts shown as receivable at June 30, 2014 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, 2014, the amounts receivable totaled \$6,552.

A summary of amounts held by project, as reported by the Administrative Services Division of the Department of Finance and Administration, can be found in the Schedule of Special, Deficiency, Specific, and Capital Outlay Appropriations, as listed in the table of contents.

Other:

A summary of receivables from other agencies as of June 30, 2014 is as follows:

<u>Due from</u>	<u>Due to</u>	<u>Amount</u>
U.S. Department of Homeland Security & Emergency Management	Adjutant General Emergency Fund (07000)	\$ 67,002
NM Department of Finance and Administration	STB Capital Outlay (89200)	785
NM State General Fund	STB Capital Outlay (89200)	5,767
NM STB Fund	Service Members' Life Insurance (93200)	37
U.S. Department of Agriculture - PED	General Fund (99200)	<u>15,993</u>
	Total due from other state agencies	<u><u>\$ 89,584</u></u>

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NOTE 5 – DUE FROM FEDERAL GOVERNMENT

At June 30, 2014, the following amount was due from the federal government representing reimbursable expenditures for grant awards:

<u>Due from</u>	<u>Due to</u>	<u>Amount</u>
U.S. Department of Defense	Armory Improvement Capital Projects (89700)	\$ 2,351
U.S. Department of Defense	General Fund (99200)	4,151,645
	Total due from federal government	<u>\$ 4,153,996</u>

NOTE 6 – RECEIVABLES

Additional receivables from others totaled \$16,176 as of June 30, 2014. These amounts are all considered to be collectible and as a result, no allowance had been created for potential uncollectible amounts.

NOTE 7 – DUE TO/FROM OTHER FUNDS

The following schedule shows the due to/from other funds as of June 30, 2014:

<u>Due from</u>	<u>Fund #</u>	<u>Due to</u>	<u>Fund #</u>	<u>Amount</u>
Adjutant General's Emergency Fund	07000	General Fund	99200	\$ 2,104,812
NM Member Family Assistance Fund	10580	General Fund STB Capital	99200	101,114
NM Member Family Assistance Fund	10580	Outlay Fund	89200	4,789
STB Capital Outlay Fund	89200	General Fund	99200	442
				<u>\$ 2,211,157</u>

NOTE 8 – INTERFUND TRANSFERS

The Department recorded interfund transfers to reflect activity occurring between funds. Transfers and payments within the Department are substantially for the purpose of subsidizing operating functions and funding various projects within the Department. The composition of interfund transfers during the year ended June 30, 2014 was as follows:

<u>Transfer Out</u>	<u>Transfer In</u>
	99200 General Fund
06900	General Fund
	\$ <u>200</u>
	<u>\$ 200</u>

The Department recorded interfund receivables/payables to reflect temporary loans between funds. The purpose of the loans between the two general funds was to close the remaining balance in the 06900 General Fund to the 99200 General Fund, since the Department no longer uses fund 06900. All

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interfund receivables/payables are expected to be repaid within one year.

NOTE 9 – CAPITAL ASSETS – GOVERNMENTAL FUNDS

The capital assets activity for the year ended June 30, 2014, is as follows:

Capital Asset Description	Balance June 30, 2013	Additions	Deletions /Adj	Balance June 30, 2014
Capital assets not being depreciated:				
Land	\$ 8,644,078	-	-	8,644,078
Capital assets being depreciated:				
Buildings and Improvements	174,001,356	3,388,874	(301,918)	177,088,312
Machinery and Equipment	2,712,893	504,514	-	3,217,407
Leasehold Improvements	1,880,000	-	(1,880,000)	-
Subtotal capital assets being depreciated	178,594,249	3,893,388	(2,181,918)	180,305,719
Less accumulated depreciation:				
Buildings and Improvements	(90,675,789)	(6,160,030)	(321,738)	(97,157,557)
Machinery and Equipment	(2,036,791)	(258,344)	-	(2,295,135)
Leasehold Improvements	(495,824)	-	495,824	-
Total accumulated depreciation	(93,208,404)	(6,418,374)	174,086	(99,452,692)
Total capital assets being depreciated	85,385,845	(2,524,986)	(2,007,832)	80,853,027
Total capital assets (net)	\$ 94,029,923	(2,524,986)	(2,007,832)	89,497,105

The Department does not have any debt related to capital assets at June 30, 2014. Depreciation expense for the year was \$6,418,374 and is attributable to public safety functions throughout the Department. See Note 21, restatements, for more information about the adjustments in the schedule above.

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.

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NOTE 10 – 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, 2014, were as follows:

General Fund (99200)	2014
Due to State General Fund	\$ 69,341
Stale-dated warrants	9,525
Total 99200	<u>\$ 78,866</u>

Reversion identified by fiscal year appropriation	
Fiscal year 2011	\$ (198,988)
Fiscal year 2012	130,537
Fiscal year 2013	91,888
Fiscal year 2014	45,904
Stale-dated warrants	9,525
Total reversions 99200	<u>\$ 78,866</u>

Adjutant General's Emergency Fund (07000)	2014	Armory Improvement Capital Projects (89700)	2014
Due to State General Fund	\$ 2,112,790	Due to State General Fund	\$ 59,948
Stale-dated warrants	18,648	Stale-dated warrants	2,141
Total 07000	<u>\$ 2,131,438</u>	Total 89700	<u>\$ 62,089</u>

Reversion identified by fiscal year appropriation		Reversion identified by fiscal year appropriation	
Fiscal year 2010	\$ 195	Fiscal year 2010	\$ 1,499
Fiscal year 2011	374,364	Fiscal year 2011	53,696
Fiscal year 2012	1,206,844	Fiscal year 2012	-
Fiscal year 2013	25,008	Fiscal year 2013	4,753
Fiscal year 2014	506,379	Fiscal year 2014	-
Stale-dated warrants	18,648	Stale-dated warrants	2,141
Total reversions 07000	<u>\$ 2,131,438</u>	Total reversions 89700	<u>\$ 62,089</u>

Service Members' Life Insurance (93200)	2014
Stale-dated warrants	\$ 476,773
Total 93200	<u>\$ 476,773</u>

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NOTE 11 – CHANGES IN COMPENSATED ABSENCES

A summary of changes in the compensated absences payable for the year ended June 30, 2014, is as follows:

<u>Governmental Activities</u>	<u>Balance 06/30/13</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance 06/30/14</u>	<u>Current due within one year</u>
Annual Leave	\$ 250,815	205,056	(218,669)	237,202	198,451
Sick Leave	1,216	168,338	(168,300)	1,254	1,254
Compensatory	17,991	68,960	(76,803)	10,148	10,148
Total	<u>\$ 270,022</u>	<u>442,354</u>	<u>(463,772)</u>	<u>248,604</u>	<u>209,853</u>

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

NOTE 12 – ENCUMBRANCES – MULTI-YEAR PROJECTS AND APPROPRIATIONS

There were no outstanding encumbrances related to the Department's multi-year projects as of June 30, 2014.

NOTE 13 – 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.

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The cumulative expenditures for operating leases for the year ended June 30, 2014, were \$234,229. Future minimum rental payments under these operating leases are as follows:

For the Year Ended June 30	Total
2015	\$ 92,820
2016	52,803
2017	5,378
2018	-
2019	-
Thereafter	-
Total	\$ 151,001

NOTE 14 – LEASE REVENUE

The Department receives lease revenue from two cell tower providers from a tower that the Department owns, Verizon and Cricket. The amount of rent paid to the Department increases each year, 4% for Verizon and 2.5% for Cricket. The Department expects these leases to continue indefinitely. Expected future lease revenue under for the next five years is as follows:

Year Ended 30-Jun	Amount
2015	\$ 38,666
2016	40,026
2017	41,435
2018	42,896
2019	44,411
Total	\$ 207,434

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, 2014, the total royalties recognized from this lease was \$2,507. 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 15 – PENSION PLAN- PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

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 8.92% (ranges from 3.83% to 16.65% depending upon the plan - i.e., state general, state hazardous duty, state police and adult correctional officers, municipal general, municipal police, municipal fire, municipal detention officer) of their gross salary. The Department is required to contribute 16.59% (ranges from 7.0% to 25.72% depending upon

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the plan) 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, 2014, 2013 and 2012 were \$682,705, \$611,049, and \$533,044, respectively, which equal the amount of the required contributions for each fiscal year.

NOTE 16 – POST EMPLOYMENT BENEFITS- STATE RETIREE HEALTH CARE PLAN

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

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

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5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2014, 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, 2014, 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, 2014, 2013 and 2012 were \$82,436, \$79,835 and \$72,798 , respectively, which equal the required contributions for each year.

NOTE 17 – 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, 2013, through June 30, 2014. 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 18 – CONTINGENCIES

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

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

NOTE 19 – 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

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
Notes to Financial Statements
For the Year Ended June 30, 2014

unemployed or under-employed.

NOTE 20 – DEFICIT FUND BALANCE

The General Fund, Fund 07000, and Fund 89700 show a deficit fund balance as of June 30, 2014. The deficits are due to the following items reconciled in the tables below:

<u>General Fund (99200)</u>	
Fund Balance	\$ (1,505,260)
Adjustment made for deferred inflow of grant revenue	1,499,137
Expenditures paid in subsequent budget	6,123
	<u>\$ -</u>
 <u>Adjutant General's Emergency Fund (07000)</u>	
Fund Balance	\$ (172)
Expenditures paid in subsequent budget	172
	<u>\$ -</u>
 <u>Armory Improv. Capital Projects Fund (89700)</u>	
Fund Balance	\$ (55,613)
Restatement	50,878
Adjustments	4,735
	<u>\$ -</u>

NOTE 21 – RESTATEMENT

The following restatements were made for the fiscal year ended June 30, 2014 to the Department's fund financials:

<u>Description</u>	<u>Fund</u>	<u>Reason</u>	<u>Amount</u>
Armory Improvements Capital Projects Fund	89700	To remove receivable collected in prior years.	\$ (50,878)
STB Capital Outlay Fund	89200	To remove reversion payable due to amount being non-revertable multi-year appropriation.	19,233
		Total restatements to funds	<u>\$ (31,645)</u>

The following restatements were made for the fiscal year ended June 30, 2014 to the Department's government-wide financials:

<u>Description</u>	<u>Fund</u>	<u>Reason</u>	<u>Amount</u>
General Fund	99200	To remove leasehold improvements that are no longer with the Department.	\$ (1,384,176)
General Fund	99200	To remove assets from books	(623,656)
Armory Improvements Capital Projects Fund	89700	To remove receivable collected in prior years.	(50,878)
STB Capital Outlay Fund	89200	To remove reversion payable due to amount being non-revertable multi-year appropriation.	19,233
		Total restatements to government wides	<u>\$ (2,039,477)</u>

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
Notes to Financial Statements
For the Year Ended June 30, 2014

NOTE 22 – IMPLEMENTATION OF NEW GASB STANDARDS

In June 2012, The Governmental Accounting Standards Board (GASB) approved Statement No. 67, Financial Reporting for Pension Plans, which applies to pension plans that administer pension benefits. The Public Employees Retirement Association (PERA) administers the pension for the Department. Statement No. 68, Accounting and Financial Reporting for Pensions, which applies to governments that provide pension benefits to their employees.

GASB 67 Financial Reporting for Pension Plans

Requires changes to presentation in financial statements, notes to the financial statements, and required supplementary information in PERA's financial report. GASB 67 will be implemented in FY 2014 by PERA.

GASB 68 Accounting and Financial Reporting for Pensions

Applies the changes implemented at the pension plan level (PERA) under GASB 67 and segregates and divides, or allocates, the pension liability to each participating employer (state, municipal, judicial, magistrate, volunteer firefighters, and legislative). The statement implementation date is FY 2015.

PERA's Current Implementation and Timeline

Implementation GASB 67

GASB 67 will require the net pension liability to be disclosed in PERA's FY 2014 financial report. The total "collective" pension liability will then be allocated to the participant employers for FY 2015 financial reporting.

PERA plans to separately issue an audited report, referred to as the "Schedule of Employer Allocations" that will allocate the total pension liability *by employer*. The report will also include other required information that will be used by each employer participant for disclosure in each employer's FY 2015 financial reports.

Anticipated process and timeline is as follows:

1. The "Schedule of Employer Allocations" is provided to PERA's external auditor in January of 2015.
2. PERA's external auditor's will audit the "Schedule of Employer Allocations" in February of 2015 and submit that report to the State Auditor's Office for review in March of 2015. *(See also 2.2.2.10 NMAC Sections CC and DD)*
3. The "Schedule of Employer Allocations" will be provided to employers in April of 2015, allowing enough time for incorporation into financial reports as required by GASB 68, after the June 30, 2015 year end.

In FY 15, the Department will report a net pension liability based on its proportion of the collective net pension liability of all of the governments participating.

SUPPLEMENTAL INFORMATION

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
Description of Funds
For The Year Ended June 30, 2014
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 was absorbed by the general fund State Armory Board (#99200) during fiscal year 2014. As a result this fund will not be presented in next year's financial statements. 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 Funds
For The Year Ended June 30, 2014

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*)

Capital Projects Funds

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

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
MAJOR GOVERNMENTAL FUNDS
BALANCE SHEET
GENERAL FUND - ALL SUBFUNDS
As of June 30, 2014

	Department of Military Affairs Fund 06900	State Armory Board Fund 99200	Total General Fund
ASSETS			
Petty cash	\$ -	200	200
Receivables	-	14,823	14,823
Due from other funds	-	-	-
Due from other state agencies	-	15,993	15,993
Due from Federal government	-	4,151,645	4,151,645
	<hr/>	<hr/>	<hr/>
Total assets	\$ -	4,182,661	4,182,661
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
LIABILITIES			
Accounts payable	\$ -	1,765,817	1,765,817
Accrued salaries payable	-	64,951	64,951
Payroll taxes payable	-	21,649	21,649
Other payroll liabilities payable	-	35,688	35,688
Due to other funds	-	2,206,368	2,206,368
Due to State General Fund	-	78,866	78,866
Receipts held in suspense	-	15,445	15,445
	<hr/>	<hr/>	<hr/>
Total liabilities	-	4,188,784	4,188,784
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
DEFERRED INFLOWS OF RESOURCES	-	1,499,137	1,499,137
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
FUND BALANCE			
Nonspendable	-	-	-
Restricted	-	-	-
Committed	-	-	-
Assigned	-	200	200
Unassigned	-	(1,505,460)	(1,505,460)
Total fund balance	<hr/>	<hr/>	<hr/>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Total liabilities, deferred inflows of resources, and fund balance	\$ -	4,182,661	4,182,661
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

See Independent Auditor's 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, 2014

	Department of Military Affairs Fund 06900	State Armory Board Fund 99200	Total General Fund
REVENUES			
Federal sources	\$ -	12,161,981	12,161,981
State-federal pass-through grants	-	92,305	92,305
Miscellaneous revenue	-	74,501	74,501
Total revenues	-	12,328,787	12,328,787
EXPENDITURES			
Public Safety			
Current:			
Personal services and benefits	-	6,274,394	6,274,394
Contractual services	-	3,362,169	3,362,169
Other costs	-	4,459,872	4,459,872
Capital outlay	-	3,786,029	3,786,029
Total expenditures	-	17,882,464	17,882,464
Excess (deficiency) of revenue over expenditures	-	(5,553,677)	(5,553,677)
OTHER FINANCING SOURCES (USES)			
State General Fund appropriations	-	5,660,400	5,660,400
Compensation appropriation	-	33,300	33,300
Transfers in	-	200	200
Transfers out	(200)	-	(200)
Reversions to state general fund FY14	-	(45,904)	(45,904)
Total other financing sources (uses):	(200)	5,647,996	5,647,796
Net change in fund balance	(200)	94,319	94,119
Beginning fund balance	200	(1,599,579)	(1,599,379)
Ending fund balance	\$ -	(1,505,260)	(1,505,260)

See Independent Auditor's 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, 2014

	<u>Special Revenue</u>	<u>Capital Projects</u>	
	NM Member Family Assistance Fund 10580	STB Capital Outlay Fund 89200	Total Non- Major Governmental Funds
ASSETS			
Investment in State Treasurer			
General Fund Investment Pool	\$ 25,744	-	25,744
Due from other funds	105,903	442	106,345
Due from other state agencies	-	6,552	6,552
Due from Federal government	-	-	-
Prepaid expenses	-	-	-
 Total assets	 \$ <u>131,647</u>	 <u>6,994</u>	 <u>138,641</u>
LIABILITIES			
Accounts payable	\$ -	2,205	2,205
Due to other funds	-	4,789	4,789
 Total liabilities	 -	 <u>6,994</u>	 <u>6,994</u>
FUND BALANCE			
Nonspendable	-	-	-
Restricted			
Financial assistance for NM			
Guard members' families	131,647	-	131,647
Committed	-	-	-
Assigned-petty cash	-	-	-
Unassigned	-	-	-
 Total fund balance	 <u>131,647</u>	 <u>-</u>	 <u>131,647</u>
 Total liabilities and fund balance \$	 <u>131,647</u>	 <u>6,994</u>	 <u>138,641</u>

See Independent Auditor's 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, 2014

	<u>Special Revenue</u>	<u>Capital Projects</u>	
	<u>NM Member Family Assistance Fund Fund 10580</u>	<u>STB Capital Outlay Fund 89200</u>	<u>Total Non- Major Governmental Funds</u>
REVENUES			
Miscellaneous revenue	\$ 9,757	5,767	15,524
Total revenues	<u>9,757</u>	<u>5,767</u>	<u>15,524</u>
EXPENDITURES			
Public Safety			
Current:			
Contractual services	-	6,540	6,540
Other costs	-	25,243	25,243
Capital outlay	-	47,033	47,033
Total expenditures	<u>-</u>	<u>78,816</u>	<u>78,816</u>
Excess (deficiency) of revenue over expenditures	<u>9,757</u>	<u>(73,049)</u>	<u>(63,292)</u>
OTHER FINANCING SOURCES (USES)			
State General Fund appropriations	-	-	-
Severance tax bond			
proceed appropriations	-	53,816	53,816
Transfers in	-	-	-
Transfers out	-	-	-
Reversions to state general fund FY14	-	-	-
Total other financing sources (uses):	<u>-</u>	<u>53,816</u>	<u>53,816</u>
Net change in fund balance	9,757	(19,233)	(9,476)
Beginning fund balance	121,890	-	121,890
Restatement	-	19,233	19,233
Beginning fund balance, as restated	<u>121,890</u>	<u>19,233</u>	<u>141,123</u>
Ending fund balance	<u>\$ 131,647</u>	<u>-</u>	<u>131,647</u>

See Independent Auditor's 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, 2014

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance Favorable (Unfavorable)
REVENUES				
State-federal pass through grants	\$ -	-	-	-
Miscellaneous revenue	-	8,953	9,757	804
Total revenues	-	8,953	9,757	804
Available cash balance	-	100,333	-	
Total resources	-	109,286	9,757	
EXPENDITURES				
Current (Public Safety):				
Personal services and employee benefits	-	-	-	-
Contractual services	-	-	-	-
Other	-	109,286	-	109,286
Total expenditures	-	109,286	-	109,286
Excess (deficiency) of revenues over expenditures	-	-	9,757	9,757
Net change in fund balance	\$ -	-	9,757	9,757

RECONCILIATION OF BUDGETARY BASIS TO FUND FINANCIAL STATEMENT

Total budget basis expenditures for fiscal year 2014:	\$ -
Adjustments:	
Current year accounts payable that required a request to pay current-year bills out of the FY2015 budget	-
Prior year accounts payable paid out of FY2014 budget	-
Rounding	-
Total GAAP Basis Expenditures for the fiscal year ended June 30, 2014:	\$ -

See Independent Auditor's 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, 2014

	<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	\$ 2,100,000	2,100,000	53,816	(2,046,184)
General fund appropriations	25,000	25,000	-	(25,000)
Total revenues	<u>2,125,000</u>	<u>2,125,000</u>	<u>53,816</u>	<u>(2,071,184)</u>
EXPENDITURES				
Armories Infrastructure Statewide				
A131225				
Contractual services	-	10,000	6,238	3,762
Other costs	500,000	490,000	46,810	443,190
Other uses	-	-	-	-
Total Statewide Infrastructure	<u>500,000</u>	<u>500,000</u>	<u>53,048</u>	<u>446,952</u>
DMA STB Farmington Aviation				
Readiness center: A111299				
Contractual services	86,018	86,018	302	85,716
Other costs	1,497,982	1,497,982	342	1,497,640
Other uses	16,000	16,000	-	16,000
Total Farmington Readiness Center	<u>1,600,000</u>	<u>1,600,000</u>	<u>644</u>	<u>1,599,356</u>
USS New Mexico				
Z30559				
Contractual services	-	-	-	-
Other costs	25,000	25,000	24,882	118
Total USS New Mexico	<u>25,000</u>	<u>25,000</u>	<u>24,882</u>	<u>118</u>
Total expenditures	<u>2,125,000</u>	<u>2,125,000</u>	<u>78,574</u>	<u>2,046,426</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>(24,758)</u>	<u>(24,758)</u>
OTHER FINANCING SOURCES (USES)				
Reversion to state general fund	-	-	-	-
Net other financing sources (uses)	-	-	-	-
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(24,758)</u>	<u>(24,758)</u>
Fund balance carryover	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ -</u>	<u>-</u>	<u>(24,758)</u>	<u>(24,758)</u>
RECONCILIATION OF BUDGETARY BASIS TO FUND FINANCIAL STATEMENT				
Total budget basis expenditures for fiscal year 2014:			\$ 78,574	
Adjustments:				
Current year accounts payable that required a request to pay current-year bills out of the FY2015 budget			-	
Prior year accounts payable paid out of FY2014 budget			242	
Rounding			-	
Total GAAP Basis Expenditures for the fiscal year ended June 30, 2014:			<u>\$ 78,816</u>	

See Independent Auditor's 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, 2014

	<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	\$ 21,386,487	21,386,487	76,435	(21,310,052)
Total revenues	<u>21,386,487</u>	<u>21,386,487</u>	<u>76,435</u>	<u>(21,310,052)</u>
EXPENDITURES				
Santa Fe Readiness Center				
100% Federal: A031320				
Contractual Services	605,408	625,408	13,430	611,978
Other Costs	<u>4,299,931</u>	<u>4,279,931</u>	<u>59,902</u>	<u>4,220,029</u>
Total Santa Fe Readiness Center	<u>4,905,339</u>	<u>4,905,339</u>	<u>73,332</u>	<u>4,832,007</u>
Farmington Readiness Center				
100% Federal: A031321				
Contractual Services	1,100,491	1,100,491	1,753	1,098,738
Other Costs	<u>10,180,167</u>	<u>10,180,167</u>	<u>1,350</u>	<u>10,178,817</u>
Total Farmington Readiness Center	<u>11,280,658</u>	<u>11,280,658</u>	<u>3,103</u>	<u>11,277,555</u>
Alamogordo Readiness Center				
100% Federal: A120021				
Contractual Services	583,490	583,490	-	583,490
Other Costs	<u>4,617,000</u>	<u>4,617,000</u>	<u>-</u>	<u>4,617,000</u>
Total Alamogordo Readiness Center	<u>5,200,490</u>	<u>5,200,490</u>	<u>-</u>	<u>5,200,490</u>
Total expenditures	<u>21,386,487</u>	<u>21,386,487</u>	<u>76,435</u>	<u>21,310,052</u>
Excess (deficiency) of revenues over expenditures	\$ -	-	-	-
OTHER FINANCING SOURCES (USES)				
Reversion to state general fund	-	-	-	-
Net other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	-	-	-	<u>-</u>
Fund balance carryover	-	-	-	
Total	\$ <u>-</u>	<u>-</u>	<u>-</u>	
RECONCILIATION OF BUDGETARY BASIS TO FUND FINANCIAL STATEMENT				
Total budget basis expenditures for fiscal year 2014:			\$ 76,435	
Adjustments:				
Current year accounts payable that required a request to pay current-year bills out of the FY2015 budget			-	
Prior year accounts payable paid out of FY2014 budget			209	
Rounding			<u>-</u>	
Total GAAP Basis Expenditures for the fiscal year ended June 30, 2014:			<u>\$ 76,644</u>	

See Independent Auditor's 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, 2014

	Balance			Balance
	June 30, 2013	Additions	Deletions	June 30, 2014
ASSETS				
Cash in local banks	\$ 123,432	135,351	(122,465)	136,317
Total assets	<u>123,432</u>	<u>135,351</u>	<u>(122,465)</u>	<u>136,317</u>
LIABILITIES				
Deposits held for others	123,432	135,351	(122,465)	136,317
Total liabilities	<u>\$ 123,432</u>	<u>135,351</u>	<u>(122,465)</u>	<u>136,317</u>
ARMORY				
	Balance			Balance
	June 30, 2013	Additions	Deletions	June 30, 2014
Alamogordo	\$ 848	3,300	(3,044)	1,104
Albuquerque	1,597	17,145	(9,849)	8,894
Belen	1,308	3,100	(2,676)	1,733
Carlsbad	1,604	4,200	(4,794)	1,010
Clayton	1,672	3,692	(4,582)	782
Clovis	150	3,000	(974)	2,176
Espanola	(423)	9,057	(3,795)	4,839
Farmington	602	2,093	(1,658)	1,038
Gallup	1,257	-	(1,257)	-
Grants	186	1,868	(1,314)	740
Hobbs	1,373	-	(879)	494
Joint Forces HQ	51,671	19,918	(12,521)	59,069
Las Cruces	3,736	10,445	(12,774)	1,407
Las Vegas	443	590	(991)	42
Raton	3	510	(513)	-
Rio Rancho	11,976	10,911	(13,197)	9,689
Roswell	9,491	3,044	(10,674)	1,860
Santa Clara	2,136	3,763	(4,637)	1,262
Santa Fe	30,621	34,733	(27,843)	37,511
Santa Rosa	992	2,816	(2,240)	1,568
Socorro	65	-	(65)	-
Springer	640	-	(242)	398
Taos	1,384	765	(1,736)	413
Tucumcari	98	401	(212)	287
Total	<u>\$ 123,432</u>	<u>135,351</u>	<u>(122,465)</u>	<u>136,317</u>

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

**STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS/STATE ARMORY BOARD
SCHEDULE OF INTERAGENCY TRANSFERS
For The Year Ended June 30, 2014**

Description	Agency Transferred From	From Fund	To Fund	Reference	Appropriation Period	Amount Transferred In
General Fund Appropriation	DFA	34101	99200	51st Legislature, 1st Session, Laws 2013, Chapter 227, Section 4	FY 14	\$ 5,660,400
General Fund Appropriation	DFA	34101	93200	51st Legislature, 1st Session, Laws 2013, Chapter 227, Section 4	FY 14	1,150,000
Total Transfers In						<u>\$ 6,810,400</u>
Description	Agency Transferred To	From Fund	To Fund	Reference	Appropriation Period	Amount Transferred Out*
General Fund Reversion	DFA	99200	34101	Reversion of FY 14	FY 14	\$ 45,904
General Fund Reversion	DFA	07000	34101	Reversion of FY 14	FY 14	<u>506,379</u>
Total Transfers Out						<u>\$ 552,283</u>

*Transfers will be completed after FY 14

**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, 2014**

Description	Project Title	SHARE Identifier #	Appropriation Period	Original Appropriation	Prior Year Expenditures	Current Year Expenditures	Approps Expired	Unencumb- ered Balances
Fund 89200								
Severance Tax Bonds Outstanding*								
Laws 2011 - Chapter 183, Section 114	Farmington Readiness Center	11-1299	07/01/2011 - 06/30/2016	1,600,000	1,588,520	544	-	10,936
Laws 2011 - Chapter 183, Section 114	Statewide Facility	13-1225	07/01/2013 - 06/30/2017	500,000	-	53,271	-	446,729
House Bill 55, 51st Legislature, 2nd Session, 2014 - Section 5	Infrastructure State Armory Board Improvements/Energy Efficiency	14-1334	07/01/2014 - 06/30/2018	<u>500,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>500,000</u>
Total severance tax bonds outstanding				<u>2,600,000</u>	<u>1,588,520</u>	<u>53,815</u>	<u>-</u>	<u>957,665</u>
Special Appropriation								
Laws 2013, 1st Session, Chapter 227, Section 5	USS New Mexico Special Appropriation	Z30559	06/30/2013 - 06/30/2014	<u>25,000</u>	<u>-</u>	<u>24,882</u>	<u>118</u>	<u>-</u>
Total special appropriations				<u>25,000</u>	<u>-</u>	<u>24,882</u>	<u>118</u>	<u>-</u>
Total Amounts				<u>\$ 2,625,000</u>	<u>1,588,520</u>	<u>78,697</u>	<u>118</u>	<u>957,665</u>

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

Note:

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

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS/STATE ARMORY BOARD
SCHEDULE OF EXECUTIVE ORDERS
For the Year Ended June 30, 2014

Description	Appropriation Period	Original Appropriation	Balance June 30, 2013	New Orders	Current Year Expenditures	Balance June 30, 2014
Fund 07000						
Executive Orders						
NMEO 2007-033 Funds for the NM National Guard	7/8/07 - 6/30/08	250,000	-	-	-	-
NMEO 2008-034 Emergency Funds for the NM National Guard	7/1/08 - 6/30/09	250,000	-	-	-	-
NMEO 2009-029 Funds for Emergency Disasters	7/13/09 - 6/30/10	500,000	-	-	-	-
NMEO 2010-026 Funds for the NM National Guard	7/1/10 - 6/30/11	500,000	-	-	-	-
NMEO 2011-029 Funds for the NM National Guard	5/12/11 - 6/30/11	500,000	-	-	-	-
NMEO 2011-054 Wildland Fire Response in FY11	6/1/11 - 6/30/11	500,000	-	-	-	-
NMEO 2011-062 Funds for the NM National Guard for FY12	7/1/11 - 6/30/12	500,000	-	-	-	-
NMEO 2012-011 Funds for the NM National Guard	6/1/12 - 6/30/12	500,000	-	-	-	-
NMEO 2012-016 Funds for the NM National Guard	6/12/12 - 6/30/12	750,000	-	-	-	-
NMEO 2012-013 Funds for the NM National Guard	7/1/12 - 6/30/13	750,000	-	-	-	-
NMEO 2013-011 Funds for the NM National Guard	6/10/13 - 6/30/13	500,000	-	-	-	-
NMEO 2013-009 Funds for the NM National Guard	7/1/13 - 6/30/14	750,000	-	750,000	(243,793)	506,207
Total executive orders		<u>6,250,000</u>	<u>-</u>	<u>750,000</u>	<u>(243,793)</u>	<u>506,207</u>

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, 2014

Participants	Responsible Party for Operations	Description	Beginning & Ending Dates	Total Estimated Amount of Project	Agency Contributions in FY 2014	Revenues & Expenditures Reported On By:	Audit Responsibility
Hinkle Landers PC #14-01 PO7911	DMA	FY-13 Agency Audit	7/1/2013 6/30/2014	\$ 28,783.00	28,783	DMA	DMA
Clover Leaf Solutions, Inc. #14-02 PO 7884	DMA	SPCC for AASF	7/15/2013 9/30/2013	14,968	14,968	DMA	DMA
George C. Kraehe, Esq. #14-03 PO 7910	DMA	Legal Consultant Services	7/19/2013 1/14/2014	32,100	27,503	DMA	DMA
ENMUR #14-04 PO 8015	DMA	Food Service Agreement w/NMYCA	7/1/2013 6/30/2014	370,000	370,000	DMA	DMA
ENMUR #14-05 PO 8017	DMA	Curriculum for NMYCA	7/1/2013 6/30/2014	180,000	179,179,995	DMA	DMA
Clover Leaf Solutions, Inc #12-07, PO 5925	DMA	Conservation Project	9/13/2013 8/29/2014	42,711	12,813	DMA	DMA
Haller & Associates, Inc. #14-07 PO 8239	DMA	Estimate Closure Activities for Injection Wells Santa Rosa & Grants	9/25/2013 8/30/2014	32,119	32,119	DMA	DMA
Clover Leaf Solutions, Inc #14-08 PO 8242	DMA	No cost time extension due to Government sut down	9/20/2013 6/27/2014	12,335	8,327	DMA	DMA
Souder Miller & Associates #14-09 PO 8241	DMA	Storm water pollution Prevention	9/25/2013 8/24/2014	20,234	3,938	DMA	DMA
Elliot Surveying #14-10 PO 8314	DMA	Survey, Raton, Espanola & Rio Rancho	10/30/2013 12/31/2013	30,794	30,794	DMA	DMA
Glorieta Geoscience #14-11 PO 8313	DMA	Well Testing RG-72824 Taos Armory	10/30/2013 5/31/2014	27,934	2,192	DMA	DMA
Glorieta Geoscience # 14-12 PO 8496	DMA	Discharge Permit Monitoring	1/14/2014 12/30/2014	28,999	13,015	DMA	DMA
George Kraehe, LLC #14-13 PO 8556	DMA	Legal Consultant Services	2/3/2014 6/30/2014	21,400	17,916	DMA	DMA
Haller & Associates #14-14 PO 8682	DMA	Groundwater Monitoring Belen	3/4/2014 12/30/2014	18,004	1,219	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, 2014

Participants	Responsible Party for Operations	Description	Beginning & Ending Dates	Total Estimated Amount of Project	Agency Contributions in FY 2014	Revenues & Expenditures Reported On By:	Audit Responsibility
Gryphon Environmental #14-15 PO 8886	DMA	Training on Clean Water Act & Oil Pollution Prevention	4/23/2014 12/31/2014	28,587	7,146	DMA	DMA
Clover Leaf Solutions, nc. #14-16 PO 8942	DMA	Training for facilities w/storm water permits, ponds, & OWS	5/9/2014 12/31/2014	10,981	3,855	DMA	DMA
Dekker Perich Sabatini #14-17	DMA	Alamogordo A & E	5/12/2014 5/14/2018	388,805	-	DMA	DMA
Elliott Surveying #14-18 PO 9029	DMA	Survey Springer, Clayton & Taos Armory	5/24/2014 6/30/2014	24,289	24,289.00	DMA	DMA
Santa Fe Surveying Co. #14-19 PO 9027	DMA	Property Survey Onate Complex	5/28/2014 6/30/2014	26,225	26,225.00	DMA	DMA
Elliott Surveying #14-20 PO 9026	DMA	Survey Bataan Memeorial Museum Property, Santa Fe	5/22/2014 6/30/20147	9,951	9,951	DMA	DMA
Souder Miller & Associates #14-21 PO 9028	DMA	Surveys for Tucumcari, Santa Clara & Belen Armory Properties	5/22/2014 6/30/2014	28,914	28,914.00	DMA	DMA
HDR Engineering, Inc. #14-22 PO 9062	DMA	Design Services for RTI Parking Lot Project	5/30/2014 7/18/2014	28,569	19,260.00	DMA	DMA
UNM #12-10 PO 7066	DMA	Cultural Resource Management	9/29/2011 9/30/2014	96,200	1,678	DMA	DMA
UNM #13-09 PO 8091	DMA	Threatened & Endangered Species Planing level surveys @BLK MTN, Carlsbad & Roswell Wets	9/28/2011 6/1/2015	139,414	27,919.40	DMA	DMA
UNM #13-21 PO 8091	DMA	Natural Resource Management Program throughout the ARNG Roswell Wets	4/30/2013 9/30/2014	139,414	68,168	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, 2014**

Participants	Responsible Party for Operations	Description	Beginning & Ending Dates	Total Estimated Amount of Project	Agency Contributions in FY 2014	Revenues & Expenditures Reported On By:	Audit Responsibility
UNM #13-16 PO 8091	DMA	Cultural Resource Support Las Cruces Project #10130002	4/9/2013 9/30/2012	25,000	1,632.71	DMA	DMA
UNM #13-19 PO 8091	DMA	Natural Resource Management Endangered Species, Happy Valley	4/30/2013 6/1/2015	48,000	23,500.00	DMA	DMA
UNM #13-20 PO 8091	DMA	Cultural Resource Management Natural Historic Preservation Roswell Wets Project# NM545100001	4/30/2013 4/29/2015	25,000	22,901.40	DMA	DMA
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	N/A	N/A	DMA & SAB	DAM & SAB

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2014

Federal Grantor/Pass-Through Program Title	Federal CFDA Number	Pass- Through Entity Identifying Number	Report Category	Adjusted Grants Receivable 06/30/13	Adjusted Federal Awards Expended	Program Income (rec'd fr 3rd party but applied to grant)	Federal Receipts	Grants Receivable (Deferred Revenue) 06/30/14
U.S. Department of Defense National Guard Bureau								
National Guard Military Operations and Maintenance Projects: * 12.401								
FACILITIES OPERATIONS AND MAINTENANCE								
			A01050, A01075, A01100					
W912J3-12-2-1001				\$ 137,020	-	-	(137,107)	\$ (87)
W912J3-13-2-1001				2,260,770	4,025,763	492	(5,556,462)	730,563
W912J3-14-2-1001				-	3,227,187	2,279	(1,503,870)	1,725,596
ENVIRONMENTAL RESOURCE MGMT:								
			A02100, A02075					
W912J3-11-2-1002				11,164	72,067	-	(42,084)	41,147
W912J3-12-2-1002				65,234	127,823	-	(183,029)	10,028
W912J3-13-2-1002				126,736	452,378	-	(484,423)	94,691
W912J3-14-2-1002				-	268,759	-	(187,658)	81,101
PHYSICAL SECURITY:								
			A03100					
W912J3-13-2-1003				136,798	158,432	-	(295,230)	-
W912J3-14-2-1003				-	553,524	-	(240,970)	312,554
ELECTRONIC SECURITY:								
			A04100					
W912J3-13-2-1004				25,276	84,308	-	(109,584)	-
W912J3-14-2-1004				-	139,507	-	(94,544)	44,963
SUSTAINABLE RANGE PROGRAM:								
			A07100					
W912J3-13-2-1007				5,319	19,565	-	(24,884)	-
W912J3-14-2-1007				-	17,980	-	(4,389)	13,591
ANTI-TERRORISM PROGRAM MANAGER:								
			A10100					
W912J3-13-2-1010				15,299	28,365	-	(43,664)	-
W912J3-14-2-1010				-	67,470	-	(26,321)	41,149
AIR NAT. GUARD O&M:								
			A21000, A21100					
W912J3-13-2-1021				109,488	227,128	-	(336,616)	-
W912J3-14-2-1021				-	392,066	-	(266,130)	125,936
AIR NAT. GUARD ENVIRONMENT:								
			A22075					
W912J3-13-2-1022				4,286	13,459	-	(17,745)	-
W912J3-14-2-1022				-	23,146	-	(18,119)	5,027
AIR NAT. GUARD SECURITY:								
			A23100					
W912J3-13-2-1023				14,355	-	-	(14,352)	3
DISTANCE LEARNING:								
			A40100					
W912J3-13-2-1040				11,406	76,358	-	(87,764)	-
W912J3-14-2-1040				-	132,353	-	(69,172)	63,181
Subtotal CFDA # 12.401				\$ 2,923,151	10,107,638	2,771	(9,744,117)	\$ 3,289,443

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2014

Federal Grantor/Pass-Through Program Title	Federal CFDA Number	Pass- Through Entity Identifying Number	Report Category	Adjusted Grants Receivable 06/30/13	Adjusted Federal Awards Expended	Program Income (rec'd fr 3rd party but applied to grant)	Federal Receipts	Grants Receivable (Deferred Revenue) 06/30/14
MILITARY CONSTRUCTION:								
W912J3-10-2-2001 (Farmington Readiness)	12.400		A031321	\$ 77,783	1,208	-	(77,411)	1,580
W912J3-10-2-2002 (Santa Fe Readiness)			A031320	264,091	70,701	-	(334,021)	771
Subtotal CFDA # 12.400				<u>341,874</u>	<u>71,909</u>	<u>-</u>	<u>(411,432)</u>	<u>\$ 2,351</u>
NATIONAL GUARD YOUTH CHALLENGE PROGRAM:								
W912J3-12-2-4002	12.404		360X00	270,807	-	-	(270,807)	-
W912J3-13-2-4002				-	1,942,625	-	(1,080,423)	862,202
Subtotal CFDA # 12.404				<u>270,807</u>	<u>1,942,625</u>	<u>-</u>	<u>(1,351,230)</u>	<u>862,202</u>
TOTAL NATIONAL GUARD BUREAU				<u>3,535,832</u>	<u>12,122,172</u>	<u>2,771</u>	<u>(11,506,779)</u>	<u>4,153,996</u>
U.S. Department of Homeland Security - FEMA Passed through the NM Department of Homeland Security and Emergency Management								
State FY 2014 FEMA #4152	97.046	Not Available		-	207,087	-	(207,087)	-
Fire Management Assistance Grant	97.046							
State FY 2012 FMAG #2978		FEMA-2978-001		186,005	-	-	(185,916)	89
State FY 2012 FMAG #2979		FEMA-2979-001		831,132	-	-	(831,132)	-
State FY 2012 FMAG #2982		FEMA-2982-001		16,606	-	-	(12,454)	4,152
State FY 2013 FMAG #5026		Not Available		62,761	-	-	-	62,761
Total NM Department Homeland Security				<u>1,096,504</u>	<u>207,087</u>	<u>-</u>	<u>(1,236,589)</u>	<u>67,002</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	8,519	92,305	-	(84,831)	15,993
School Breakfast Program (SBP)	10.553	Not Available	360100	-	-	-	-	-
TOTAL NM PUBLIC EDUCATION DEPT.				<u>8,519</u>	<u>92,305</u>	<u>-</u>	<u>(84,831)</u>	<u>15,993</u>
TOTAL FEDERAL AWARDS				<u>\$ 4,640,855</u>	<u>12,421,564</u>	<u>2,771</u>	<u>(12,828,199)</u>	<u>4,236,991</u>

*Major Program

Reconciliation of federal expenditure to federal revenue:

Federal revenue per Statement of Activities	\$ 12,343,956
Federal awards expended per SEFA	12,421,564
Difference	<u>\$ (77,608)</u> see finding 2014-002

Note 1. Basis for Presentation

The Schedule of Expenditures of Federal Awards is presented on the modified accrual basis of accounting, with the exception of deferred inflows, 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.

**INDEPENDENT AUDITOR'S 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, 2014, 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 15, 2014.

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, 2008-003 [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 deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies, 2007-002 [07-02] and 2014-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2007-002 [07-02] and 2014-003.

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 15, 2014

**INDEPENDENT AUDITOR'S 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, 2014. 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.

Auditor's 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, 2014.

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.

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

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2014-002 to be a material weakness.

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. We did not identify any deficiencies in internal control over compliance that we consider to be a significant deficiency.

The Department's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Department's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 15, 2014

**STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2014**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements:

Type of auditor’s 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

Federal Awards:

Internal Control

Material weaknesses identified? X Yes No

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

Type of auditor’s 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? X Yes No

Identification of major program as noted below:

CFDA Numbers Funding Source	Name of Federal Programs	Funding Source
12.401	National Guard Military Operations and Maintenance Projects	U.S. Department of Defense/National Guard Bureau

Dollar threshold used to distinguish between
A and B programs: \$372,647

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, 2014

SECTION II AND III- FINANCIAL STATEMENTS AND FEDERAL AWARD FINDINGS

Reference #	Finding	Status of Prior Year Findings	Type of Finding
<u>Prior Year Findings</u>			
2007-002		Modified/ Repeated	
[07-02]	REVERSIONS TO THE STATE GENERAL FUND		B, G
2008-003		Modified/ Repeated	
[08-03]	SAS 115 - MATERIAL ADJUSTMENTS BY AUDITOR		A
<u>Current Year Findings</u>			
2014-001	CAPITAL ASSET MANAGEMENT	Current	B
2014-002	FEDERAL GRANT MANAGEMENT	Current	D
2014-003	MISSING DOCUMENTATION FOR PERSONNEL FILES	Current	C

* Legend for Type of Findings

- A. Material Weakness in Internal Control Over Financial Reporting
- B. Significant Deficiency in Internal Control Over Financial Reporting
- C. Other Matters Involving Internal Control Over Financial Reporting
- D. Material Weakness in Internal Control Over Compliance of Federal Awards
- E. Significant Deficiency in Internal Control Over Compliance of Federal Awards
- F. Instance of Noncompliance to Federal Awards
- G. Compliance with State Audit Rule

PRIOR YEAR FINDINGS

2007-002 [07-02] – REVERSIONS TO STATE GENERAL FUND

Type of Finding: B, G

Statement of Condition

As of June 30, 2014, the Department had a liability of \$1,689,796 owed to the State General Fund for unreserved and undesignated fund balances of reverting funds related to reversions and stale dated warrants from prior years that had not yet been made. These liabilities were not transferred to the State General Fund by the September 30 deadline. The reversion amounts due as of June 30, 2014 were comprised of the following:

Fiscal year 2010 reversion	\$ 1,694
Fiscal year 2011 reversion	229,072
Fiscal year 2012 reversion	1,337,381
Fiscal year 2013 reversion	121,649
	<u>\$ 1,689,796</u>

Discussion with Department finance personnel showed significant reversions were made by the Department during the year ended June 30, 2014 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.

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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 shall revert to the general fund by October 1. In addition, Section 6-5-10, NMSA 1978 requires “all unreserved, undesignated fund balances in reverting funds and accounts as reflected in the central accounting system as of June 30 shall revert by September 30 to the general fund. The division may adjust the reversion within forty five days of release of the audit report for that fiscal year.”

Effect

The Department was in violation of the general provisions of the 2010 Appropriation Act, of Section 6-5-10, NMSA 1978, and with the State Audit Rule. Funds required to be reverted and returned to the State General Fund were not available to be appropriated by the Legislature for use in other areas of the State government.

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 work toward paying the outstanding balances due to the state general fund for prior years. 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 of 2014:

Fiscal year 2014 reversion	\$27,039.42	Fund 99200
Fiscal year 2011 reversion	196.00	Fund 07000
Fiscal year 2012 reversion	1,029,502.00	Fund 07000
Fiscal year 2013 reversion	25,007.71	Fund 07000
Fiscal year 2014 reversion	<u>508,905.07</u>	Fund 07000
Total	<u>\$1,590,650.24</u>	

The Department did submit Fiscal Year 2014 Reversion Notification Form to Financial Control Division by their deadline of August 30, 2014 and the deadline of September 30, 2013 which is the last day to submit Fiscal Year 2014 reversions for Operating Transfers to FCD. 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 when we are actually responding to such emergencies 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. These reimbursements can take as long as 2 years.

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2008-003 [08-03] – SAS 115 - MATERIAL ADJUSTMENTS BY AUDITOR

Type of Finding: A

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:

• Adjust due to other funds	\$3,636,643
• Adjust due from other funds	\$3,636,325
• Adjust Interest in SGFIP	\$1,987,018
• Adjust due from federal government	\$970,916
• Adjust federal grants	\$970,452
• Adjust due from other state agencies	\$102,337
• Adjust STB receivables/revenue	\$54,807
• Adjust fund balance	\$31,645
• Adjust miscellaneous revenue	\$5,767
• Adjust miscellaneous expense	\$3,008
• Adjust sale-dated warrants	\$1,048
• Adjust receipts held in suspense	\$281

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.

Effect

Because these adjustments were identified by the auditor, and not by the Department, 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.

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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.

Management Response

Concur. The Department will make the adjustments on a timely manner. The Department will contract an IPA to train the staff on the General Ledger. In addition, we will request training from the Department of Finance and Administration and the CAFR unit. SEFA reconciliation for federal revenues and receivables were not completed, due to the loss of the Reimbursement Analyst. A new Reimbursement Analyst was hired in August of 2014 and is still in the process of being trained. The Department will start monthly reconciliations instead of on an annual basis. The Department did reconcile the bond draws with the Board of Finance on a monthly basis and will continue to do so. The agency has also taken steps to restructure the budget personnel so that the budget and cash management is more integrated and cross checked in order to better reconcile expenditures and revenue management.

CURRENT YEAR FINDINGS

2014-001 – CAPITAL ASSET MANAGEMENT

Type of Finding: B

Statement of Condition

Currently the Department keeps its capital asset list in excel. There are 1,319 items on the building and improvements list and 832 items on the equipment list. Both lists contain items that are under \$5,000, and in some cases the items make up a total cost of \$5,000 or greater. These items are required to be identified yearly so as to correctly present the capital assets. During the current audit the building and improvement list's beginning balance did not tie to prior year's ending balance. As a result adjustments were required. Additionally current year depreciation is not calculated on the lists and the auditor calculate it and accounts for any items fully depreciated and items under the capital asset threshold. Finally the Department does not identify construction in process; rather the improvements are captured and capitalized as the items are purchased.

Criteria

Capital assets are a significant part of the Department's business and should be tracked in a system where there are controls to prevent unwanted changes and multiple copies of the same list. Additionally when the Department undertakes significant construction, which spans multiple years, the best practice is to track the project under construction in process.

Effect

Due to changing lists there is the risk that the list used is incorrect and capital assets are misstated. Additionally the Department may not have an accurate amount that a certain project costs due to recording assets individually and not in construction in process.

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For the Year Ended June 30, 2014

Cause

The Department keeps the capital assets in an excel document that tracks the assets, any improvements to assets, and annual depreciation for every asset even if they are fully depreciated. The Department does not track projects using construction in process.

Recommendation

Due to the amount of assets the Department manages, it is important to have a system to keep track of them rather than excel. We recommend the Department implement software to track their capital assets. We also recommend that the Department begin to track projects using construction in process rather than by individual purchases, as this will help in identifying the cost per project and any items below \$5,000 that are part of a larger asset.

Management Response

Concur. The agency will purchase the capital asset software to track all the assets and depreciation. It should be noted that this capital asset excel spreadsheet has been used since 2006 without any findings.

2014-002 – FEDERAL GRANT MANAGEMENT

Type of Finding: D

Funding Agency: All

Title: Multiple

CFDA #: All

Award #: All

Award Period: All

Estimated Questioned Costs: N/A

Statement of Condition

The federal revenues were unable to be reconciled to the federal expenses during the audit. As a result there is an outstanding difference of \$77,608 which is shown on the Schedule of Federal Expenditures (SEFA), reconciliation of federal expenditures to federal revenue. Additionally the SEFA was not reconciled to the GL prior to the auditor receiving it. As a result, the auditor proposed multiple adjustments in order to adjust the GL to the correct receivable and revenue balances per the SEFA. Finally, it was noted that the SEFA was understated by \$1,014,150. It has since been corrected and adjustments have been made to federal revenues and receivables.

Criteria

Revenue for reimbursable grants must match expenditures otherwise the recording of revenue and expenditure activity is not accurate.

Effect

The GL was not correct when the audit began, and there may be additional federal expenditures that require reimbursements. The auditor could have audited an incorrect program due to the size of the misstatement of the SEFA when it was presented to the auditors.

Cause

During the year, the Department's grant manager resigned, as a result federal grant reimbursements were not submitted timely and entries into SHARE were not made. Grant expenditures were not recorded in the SEFA or in the GL for reimbursements sent in July for FY14 expenditures.

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Recommendation

We recommend that the client reconcile the SEFA to SHARE as a yearend financial close procedure. Also, the Department needs to review all reimbursements in July and the next fiscal year, to ensure all FY14 expenditures are captured in the SEFA and in SHARE. We also recommend that the client cross train staff, so in the event an employee resigns there is someone immediately available to continue the grant management.

Management Response

Concur. SEFA reconciliation for federal revenues and receivables were not completed, due to the loss of the Reimbursement Analyst. The new Reimbursement Analyst is hired and in the process of being trained. The Department will start monthly reconciliation instead of on an annual basis. The agency is in the process of cross training the budget staff in the reconciliation process. The CFO and the Budget Analyst are now well versed in the SEFA reconciliation process.

2014-003 – MISSING DOCUMENTATION FOR PERSONNEL FILES

Type of Finding: C

Statement of Condition

During testing of 12 payroll transactions it was noted that:

- For one personnel file a W-4 could not be located.
- For the same personnel file an insurance authorization form could not be located, but insurance was deducted from their pay.

Criteria

Personnel files should contain proper documentation to support payroll transactions.

Cause

The Department did not maintain proper documentation in the personnel files to support payroll transactions.

Effect

There is an increased risk of the possibility of misstated financial statements due to a loss from fraud or error.

Recommendation

The Department should maintain proper documentation in the personnel files to support payroll transactions.

Management Response

Concur. The agency will conduct a 100% inventory of all personnel files. The HRO did conduct a 100% inventory of all personnel files when the HR responsibilities shifted back from the State Personnel Office - Shared Service Bureau to the agency.

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
Exit Conference
For the Year Ended June 30, 2014

An exit conference was held on December 15, 2014. Present at the exit conference were:

For Department of Military Affairs/State Armory Board:

Brigadier General Juan L. Griego	Director State Programs
Theresa Martinez	Deputy Director State Programs
Lawrence Montaña	Chief Financial Officer
Laurie Green	Budget Director
Tamara Murillo	Budget Analyst
Terra Doss	Accounts Payable
Elizabeth Alvarado	State Armory Board Administrator
Elizabeth Chavez	Procurement Specialist
Joy Rico	Reimbursement Analyst

For Hinkle + Landers, P.C.:

Farley Vener, CPA, CFE	Managing Shareholder
Katelyn Constantin	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.