

**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS**  
**AND STATE ARMORY BOARD**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR-ENDED JUNE 30, 2015**



## **INTRODUCTORY SECTION**

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DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD  
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FOR THE YEAR ENDED JUNE 30, 2015**

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DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD  
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**STATE OF NEW MEXICO  
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD  
OFFICIAL ROSTER  
FOR THE YEAR ENDED JUNE 30, 2015**

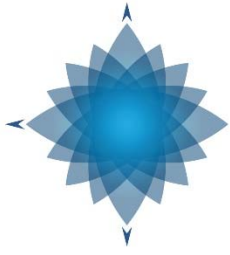
**DEPARTMENT OF MILITARY AFFAIRS**

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

**STATE ARMORY BOARD**

Brigadier General Andrew E. Salas	Chairman
Command Sergeant Major Gregory Ivey	Secretary/Treasurer
Theresa V. Martinez	Executive Director
Colonel Kenneth Nava	Member – (Comm. Officer)
Colonel (RET) Daniel McCormack	Member
Colonel (RET) Edward Rougemont	Member
LTC (RET) Mark Gonzales	Member

## **FINANCIAL SECTION**



## Independent Auditor's Report

Brigadier General Andrew Salas, Adjutant General  
State of New Mexico  
Department of Military Affairs and State Armory Board  
and  
Mr. Timothy Keller  
New Mexico State Auditor  
Santa Fe, New Mexico

### **Report of 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, 2015, 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 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, 2015, 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, 2015, 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 nonmajor governmental fund of the Department as of June 30, 2015 and the respective changes in financial position thereof and the respective budgetary comparisons for the major capital projects funds and all nonmajor funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Management has omitted the Management Discussion and Analysis that accounting principles generally accepted in the United States of America require 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, and the combining and individual fund financial statements, and the budgetary comparisons. The schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the other schedules required by 2.2.2 NMAC are presented for purposes of additional analysis and are not a required part of the basic financial statements.



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

The schedule of vendor information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2015, 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 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 Department's internal control over financial reporting and compliance.

*Integrity Accounting + Consulting, LLC*

Integrity Accounting & Consulting, LLC  
Albuquerque, NM

November 30, 2015

**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD**  
**STATEMENT OF NET POSITION**  
**GOVERNMENT-WIDE**  
**As of June 30, 2015**

	<b>Governmental Activities</b>
Assets and deferred inflows of resources:	
Assets:	
Current assets	
Investment in State Treasurer General Fund Investment Pool	\$ -
Petty cash	200
Receivables	12,816
Due from other state agencies	883,432
Due from federal government	4,160,624
Total current assets	5,057,072
Non-current assets:	
Capital assets not being depreciated	8,644,078
Capital assets being depreciated	184,642,233
Less accumulated depreciation	(106,284,579)
Total capital assets, net of depreciation	87,001,732
Total assets	92,058,804
Deferred Outflows of Resources:	
Total deferred outflows of resources	-
Total assets and deferred outflows of resources	\$ 92,058,804
Liabilities, deferred inflows of resources and net position	
Liabilities:	
Current liabilities	
Cash overdraft	\$ 13,477
Accounts payable	1,265,083
Accrued salaries payable	93,748
Accrued payroll liabilities	115,420
Other accrued liabilities	1,123
Due to other state agencies	555
Due to State General Fund	2,432,208
Receipts held in suspense	16,071
Compensated absences - current portion	250,862
Total current liabilities	4,188,547
Long-term liabilities:	
Compensated absences payable	62,714
Total liabilities	4,251,261
Deferred Inflows of Resources:	
Total deferred inflows of resources	-
Net position:	
Net investment in capital assets	87,001,732
Restricted	
Special revenue funds	1,171,048
Unrestricted	(365,237)
Total net position	87,807,543
Total liabilities, deferred inflows of resources and net position:	\$ 92,058,804

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

**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD**  
**STATEMENT OF ACTIVITIES**  
**GOVERNMENT-WIDE**  
**For The Year Ended June 30, 2015**

	<u>Governmental Activities</u>
<b>Expenses:</b>	
Public Safety	\$ 16,889,179
Depreciation expense	<u>6,831,886</u>
Total program expenses	23,721,065
<b>Program revenues:</b>	
Federal grants - operating	12,087,675
Federal grants - capital	276,189
State-federal pass-through grants	<u>961,236</u>
Total program revenues	<u>13,325,100</u>
Net program (expense) revenue	<u>(10,395,965)</u>
<b>General revenues and (expenses):</b>	
Transfer - State General Fund appropriations	8,725,100
Transfer - Severance tax bond appropriations (capital projects)	737,805
Transfer - Compensation appropriation	49,300
Transfer - Reversions to state general fund - FY15	(1,732,144)
Interest income	1,261
Miscellaneous revenue	<u>541,212</u>
Total general revenues and expenses	<u>8,322,534</u>
Change in net position	(2,073,431)
Beginning net position	<u>89,880,974</u>
Ending net position	<u>\$ 87,807,543</u>

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

**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**As of June 30, 2015**

	Major Funds			Non-Major	Total	
	General Fund (99200)	Adjutant General Emergency (07000)	Service Members' Life Insurance (93200)	Armory Improv. Capital Projects (89700)		Other Funds
Assets and deferred inflows of resources:						
Assets:						
Investment in State Treasurer General Fund Investment Pool	\$ -	1,424,656	1,031,997	-	139,646	2,596,299
Petty cash	200	-	-	-	-	200
Receivables	12,816	-	-	-	-	12,816
Due from other funds	-	-	-	-	442	442
Due from other state agencies	12,917	836,937	93	-	33,485	883,432
Due from federal government	3,930,909	-	-	229,715	-	4,160,624
Total assets	\$ 3,956,842	2,261,593	1,032,090	229,715	173,573	7,653,813
Deferred Outflows of Resources:						
Total deferred outflows of resources	-	-	-	-	-	-
Total assets and deferred outflows of resources	3,956,842	2,261,593	1,032,090	229,715	173,573	7,653,813
Liabilities, deferred inflows of resources and fund balance						
Liabilities:						
Investment overdraft	\$ 2,397,455	-	-	211,542	778	2,609,775
Accounts payable	1,237,536	168	676	-	26,703	1,265,083
Accrued salaries payable	93,748	-	-	-	-	93,748
Accrued payroll liabilities	92,351	23,070	-	-	-	115,421
Other accrued liabilities	1,111	-	12	-	-	1,123
Due to other funds	442	-	-	-	-	442
Due to other state agencies	555	-	-	-	-	555
Due to State General Fund	113,621	2,238,355	-	73,786	6,446	2,432,208
Receipts held in suspense	16,071	-	-	-	-	16,071
Total liabilities	3,952,890	2,261,593	688	285,328	33,927	6,534,426
Deferred Inflows of Resources:						
Unavailable revenues - grants	2,178,184	814,281	-	229,715	-	3,222,180
Total deferred inflows of resources	2,178,184	814,281	-	229,715	-	3,222,180
Fund balance:						
Nonspendable	200	-	-	-	-	200
Restricted						
Service Members' Life Insurance						
Reimbursements	-	-	1,031,402	-	-	1,031,402
Financial assistance for NM						
Guard members' families	-	-	-	-	139,646	139,646
Committed	-	-	-	-	-	-
Unassigned	(2,174,432)	(814,281)	-	(285,328)	-	(3,274,041)
Total fund balance	(2,174,232)	(814,281)	1,031,402	(285,328)	139,646	(2,102,793)
Total liabilities, deferred inflows of resources and fund balances:	\$ 3,956,842	2,261,593	1,032,090	229,715	173,573	7,653,813

See independent auditors' report.  
The accompanying notes are an integral part of these financial statements.  
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**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, 2015**

Total fund balance - Governmental funds	\$	(2,102,793)
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds.		87,001,732
Unavailable deferred inflows of revenues from grant funds not reimbursed within sixty days after year end are not considered "available" revenues and are considered to be deferred inflows of resources in the fund financial statements, but are considered revenue in the Statement of Activities		3,222,180
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. Long-term liabilities at year-end consist of:		
Current compensated absences	\$	(250,862)
Noncurrent compensated absences	\$	<u>(62,714)</u>
		<u>(313,576)</u>
Net position for governmental activities	\$	<u><u>87,807,543</u></u>

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

STATE OF NEW MEXICO  
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD  
NON-MAJOR GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
For The Year Ended June 30, 2015

	Major Funds				Non-Major Funds	Total Governmental Funds
	General Fund (99200)	Adjutant General Emergency (07000)	Service Members' Life Insurance (93200)	Armory Improv. Capital Projects (89700)	Other Funds	
<b>Revenues:</b>						
Federal sources	\$ 11,408,627	-	-	46,474	-	11,455,101
State-federal pass-through grants	146,955	-	-	-	-	146,955
Interest on investments	-	-	1,261	-	-	1,261
Miscellaneous revenue	56,440	-	476,773	-	7,999	541,212
Total revenues	<u>11,612,022</u>	<u>-</u>	<u>478,034</u>	<u>46,474</u>	<u>7,999</u>	<u>12,144,529</u>
<b>Expenditures:</b>						
Public Safety						
Current:						
Personal services and benefits	7,275,147	279,425	-	-	-	7,554,572
Contractual services	3,073,882	345,470	-	276,189	27,718	3,723,259
Other costs	4,546,262	268,687	1,144,365	-	10,817	5,970,131
Capital outlay	3,262,905	-	-	-	649,851	3,912,756
Total expenditures	<u>18,158,196</u>	<u>893,582</u>	<u>1,144,365</u>	<u>276,189</u>	<u>688,386</u>	<u>21,160,718</u>
Excess (deficiency) of revenue over expenditures	<u>(6,546,174)</u>	<u>(893,582)</u>	<u>(666,331)</u>	<u>(229,715)</u>	<u>(680,387)</u>	<u>(9,016,189)</u>
<b>Other financing sources (uses)</b>						
Severance tax bond						
proceed appropriations	-	-	-	-	688,505	688,505
Transfer - State General Fund appropriations	5,889,400	1,750,000	1,135,000	-	-	8,774,400
Transfer - Compensation appropriation	49,300	-	-	-	-	49,300
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
Transfer - Reversions to state general fund - FY15	(61,498)	(1,670,527)	-	-	(119)	(1,732,144)
Total other financing sources (uses):	<u>5,877,202</u>	<u>79,473</u>	<u>1,135,000</u>	<u>-</u>	<u>688,386</u>	<u>7,780,061</u>
Net change in fund balance	<u>(668,972)</u>	<u>(814,109)</u>	<u>468,669</u>	<u>(229,715)</u>	<u>7,999</u>	<u>(1,236,128)</u>
Beginning 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>
Ending fund balance	<u>\$ (2,174,232)</u>	<u>(814,281)</u>	<u>1,031,402</u>	<u>(285,328)</u>	<u>139,646</u>	<u>(2,102,793)</u>

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

**STATE OF NEW MEXICO  
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD  
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
For The Year Ended June 30, 2015**

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

Net change in fund balances (deficit) - total governmental funds	\$	(1,236,128)
Governmental funds report capital outlays as expenditures. However in the		
Capital expenditures recorded as capital outlay or other expenses		4,336,513
Depreciation expense on capital assets is reported in the government-wide		(6,831,886)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Change in deferred inflows of resources related to grants		1,723,044
The issuance of long-term debt (e.g. bonds, notes, capital leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however has any effect on net position. Also, governmental funds report the effect of premiums and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.		
(Increase)/decrease in compensated absences		(64,972)
Rounding		<u>(2)</u>
Change in net position of governmental activities	\$	<u><u>(2,073,431)</u></u>

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

**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD**  
**GENERAL FUND (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, 2015**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues</b>				
Federal grants-operating	\$ 14,958,800	14,983,800	11,418,700	(3,565,100)
State-federal pass through grants	120,000	145,300	136,882	(8,418)
Miscellaneous revenue	48,000	13,000	14,078	1,078
Building - Rental or Lease	30,800	30,800	40,346	9,546
Land royalties	2,600	2,600	2,016	(584)
Total revenues	<u>15,160,200</u>	<u>15,175,500</u>	<u>11,612,022</u>	<u>(3,563,478)</u>
<b>Expenditures</b>				
Current (Public Safety):				
Personal services and employee benefits	8,118,400	7,876,500	7,275,147	601,353
Contractual services	4,085,200	4,440,500	3,092,719	1,347,781
Other	8,895,300	8,797,200	4,546,262	4,250,938
Capital outlay	-	-	3,262,905	(3,262,905)
Total expenditures	<u>21,098,900</u>	<u>21,114,200</u>	<u>18,177,033</u>	<u>2,937,167</u>
Excess (deficiency) of revenues over expenditures	<u>(5,938,700)</u>	<u>(5,938,700)</u>	<u>(6,565,011)</u>	<u>(626,311)</u>
<b>Other Financing Sources (Uses)</b>				
State general fund appropriations	5,889,400	5,889,400	5,889,400	-
Compensation appropriation	49,300	49,300	49,300	-
Reversion to state general fund FY15	-	-	(61,498)	(61,498)
Net interagency transfers and financial sources (uses)	<u>5,938,700</u>	<u>5,938,700</u>	<u>5,877,202</u>	<u>(61,498)</u>
Net change in fund balance	<u>\$ -</u>	<u>-</u>	<u>(687,809)</u>	<u>(687,809)</u>
<b>Reconciliation of Budgetary Basis to Fund Financial Statement</b>				
Total budget basis expenditures for fiscal year 2015:			\$ 18,177,033	
Adjustments:				
Accounts payable that required a request to pay prior-year bills out of the FY2016 budget			(31,719)	
Prior year accounts payable paid out of FY2015 budget			<u>12,882</u>	
Total GAAP Basis Expenditures for the fiscal year ended June 30, 2015:			<u>\$ 18,158,196</u>	

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



**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD**  
**ADJUTANT GENERAL EMERGENCY SPECIAL REVENUE FUND (07000) - MAJOR FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND NET ASSETS BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
**For The Year Ended June 30, 2015**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual (Budgetary Basis)</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Revenues</b>				
Federal grants-operating	\$ -	-	(187,706)	(187,706)
Total revenues	-	-	-	-
<b>Expenditures</b>				
Current (Public Safety):				
Personal services and employee benefits	200,000	469,000	279,424	189,576
Contractual services	475,000	875,000	345,903	529,097
Other	75,000	406,000	268,687	137,313
Total expenditures	750,000	1,750,000	894,014	855,986
Excess (deficiency) of revenues over expenditures	(750,000)	(1,750,000)	(894,014)	855,986
<b>Other Financing Sources (Uses)</b>				
State general fund appropriations	750,000	1,750,000	1,750,000	-
Reversion to state general fund FY15	-	-	(1,670,527)	(1,670,527)
Net interagency transfers and financial sources (uses)	750,000	1,750,000	79,473	(1,670,527)
Net change in fund balance	-	-	(814,541)	(814,541)
<b>Reconciliation of Budgetary Basis to Fund Financial Statement</b>				
Total budget basis expenditures for fiscal year 2015:			\$ 894,014	
Adjustments:				
Accounts payable that required a request to pay prior-year bills out of the FY2016 budget			-	
Prior year accounts payable paid out of FY2015 budget			(432)	
Total GAAP Basis Expenditures for the fiscal year ended June 30, 2015:			\$ 893,582	

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

**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD**  
**SERVICE MEMBERS' LIFE INSURANCE REIMBURSEMENT FUND (93200) - MAJOR FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND NET ASSETS BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
**For The Year Ended June 30, 2015**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual (Budgetary Basis)</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Revenues</b>				
Miscellaneous revenue	\$ -	-	476,773	476,773
Total revenues	-	-	476,773	476,773
Reissued prior year budget	-	150,000	-	
Total resources	-	150,000	476,773	
<b>Expenditures</b>				
Current (Public Safety):				
Other	1,135,000	1,285,000	1,143,689	141,311
Total expenditures	1,135,000	1,285,000	1,143,689	141,311
Excess (deficiency) of revenues over expenditures	(1,135,000)	(1,135,000)	(666,916)	468,084
<b>Other Financing Sources (Uses)</b>				
State general fund appropriations	1,135,000	1,135,000	1,135,000	-
Net interagency transfers and financial sources (uses)	1,135,000	1,135,000	1,135,000	-
Net change in fund balance	\$ -	-	468,084	468,084
<b>Reconciliation of Budgetary Basis to Fund Financial Statement</b>				
Total budget basis expenditures for fiscal year 2015:			\$ 1,143,689	
Adjustments:				
Accounts payable that required a request to pay prior-year bills out of the FY2016 budget			676	
Prior year accounts payable paid out of FY2015 budget			-	
Total GAAP Basis Expenditures for the fiscal year ended June 30, 2015:			\$ 1,144,365	

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

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**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - AGENCY FUNDS**  
**As of June 30, 2015**

	<u>Agency Funds</u>
<b>Assets</b>	
Cash in local banks	\$ <u>125,574</u>
Total assets	\$ <u><u>125,574</u></u>
<b>Liabilities</b>	
Deposits held for others	\$ <u>125,574</u>
Total liabilities	\$ <u><u>125,574</u></u>

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

**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2015**

**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. 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.

**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.

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Department have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Department's most significant accounting policies are described below.

*A. Reporting Entity*

The Department 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. 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. 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).

The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is accountable and (c) 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.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body, and either it is able to impose its will on that organization, or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens, on the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

In evaluating how to define the Department, for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in GASB-14. The first criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters.

A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of

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whether the government is able to exercise oversight responsibilities. Based upon the application of these criteria, the Department has no component units.

*B. Basis of Accounting/Measurement Focus*

The accounts of the Department are organized on the basis of 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, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

*Government-Wide Financial Statements*

The Department's Government-Wide Financial Statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of Governmental and Business-Type Activities for the Department accompanied by a total column. Fiduciary activities of the Department are not included in these statements.

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the Department's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows. The types of transactions reported as program revenues for the Department include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Appropriations from the State General Fund not included among program revenues are reported instead as general revenue.

Certain eliminations have been made to interfund activities, payables, and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, those transactions between governmental and business-type activities have not been eliminated.

*Governmental Fund Financial Statements*

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the

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net position and changes in net position presented in the Government-Wide financial statements.

The Department reports the general fund as a major governmental fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Revenues are provided through 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. Expenditures include all costs associated with the daily operation of the Department except for items included in other funds.

In addition, the Department reports the following other major funds:

*Adjutant General's Emergency Fund* – Special revenue 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* – Special revenue 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)

*Armory Improvements Capital Projects Fund* – 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)

All governmental funds are accounted for on a spending or “current financial resources” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets, deferred outflows of resources, current liabilities, and deferred inflows of resources are included on the Balance Sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. 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. The primary revenue sources, which have been treated as susceptible to accrual by the Department are intergovernmental revenues. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met and the susceptible to accrual criteria have been met.

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Under the terms of grant agreements, the Department funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Department's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

*Proprietary Fund Financial Statements*

Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, and a Statement of Cash Flows for each major proprietary fund and for the non-major funds aggregated.

Proprietary funds are accounted for using the “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities (whether current or noncurrent), and deferred inflows of resources are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

Operating revenues, such as charges for services, in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues, such as subsidies/grants and investment earnings, are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

The Department does not report any funds as proprietary funds.

*Fiduciary Fund Financial Statements*

Fiduciary fund financial statements include a Statement of Net Position. The Department's fiduciary funds are Agency Funds, which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Agency funds are accounted for on a spending or “economic resources” measurement focus and the accrual basis of accounting as are the proprietary funds explained above. 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)



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*C. Assets, Liabilities and Equity*

Cash Equivalents

The Department's cash and cash equivalents are considered to be cash on hand and demand deposits and short-term investments with original maturities of three months or less from the date of acquisition held by the Local Armory Boards.

Investments

The Department's investments consist of amounts held in the State Treasurer General Fund Investment Pool. State law and regulations regulate this pool. Investment in the pool is reported at carrying amount, which reasonably estimates fair value.

Receivables and Payables

Receivables from and payables to external parties are reported separately and are not offset in the financial statements unless a right of offset exists.

Receivables primarily consist of amounts due from state and federal agencies for expenses incurred as part of joint operating agreements.

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.

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. The Department considers all of its receivables as fully collectible. As a result, an allowance for uncollectible accounts is not reflected in these financials.

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Inventories and Prepaid Items

Inventories in governmental funds consist of expendable supplies held for consumption, and are valued at cost using a first-in, first-out (FIFO) method. Expendable supplies are accounted for using the consumption method. Proprietary fund inventories are recorded at the lower of cost or market on a first-in, first-out basis, and consist of operating supplies held for use in operations and are recorded as expenditures when consumed rather than when purchased. The Department current does not hold any items in inventory.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Pursuant to the implementation of GASB Statement No. 34, the historical cost of infrastructure assets, (retroactive to 1979) are included as part of the governmental capital assets reported in the government wide statements. Information technology equipment including software is being capitalized and included in machinery and equipment in accordance with NMAC 2.20.1.9 C (5). Donated capital assets are recorded at estimated fair market value at the date of donation. Capital assets that have been disposed of are recorded as deletions on the government-wide financial statements. Accumulated depreciation is adjusted for all deletions.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense capitalized by the Department during the current fiscal year was \$-0-. No interest was included as part of the cost of capital assets under construction.

Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Type</u>	<u>Years</u>
Land	Perpetuity
Construction in progress	Perpetuity
Buildings and improvements	30 - 40
Machinery and equipment	5 - 15

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Analysis of Impairment

Management reviews long-lived assets and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In management's opinion, there is no impairment of such Department assets at June 30, 2015.

Deferred Outflows of Resources

In addition to assets, the balance sheet reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a use of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenditure) until that time. The Department does not have any items that qualify for reporting in this category.

Deferred Inflows of Resources

In addition to liabilities, the balance sheet reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Revenue must be susceptible to accrual (measurable and available to finance expenditures of the current fiscal period) to be recognized.

If assets are recognized in connection with a transaction, but those assets are not yet available to finance expenditures of the current fiscal period, then the assets must be offset by a corresponding liability for deferred inflows of resources.

The Department has one type of item which arises under the modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue – grants are reported only in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The Department has recorded \$3,222,181 related to grants that are considered “unavailable”.

Compensated Absences

Full-time permanent employees are granted vacation benefits in varying amounts to specified maximums depending on their tenure with the Department. Accumulated unused vacation may be carried from one calendar year to another but the amount of annual leave carry over cannot exceed 240 hours.

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, 2015, 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.

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A liability for compensated absences is recorded as a liability in the government-wide financial statements. The liability is not reported in the governmental fund balance sheet unless it was actually due and payable at year end for payments due to retired or terminated employees.

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of fund net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as debt issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

Fund Balance

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy based primarily on the extent to which the organization is bound to honor constraints on the specific purpose for which amounts in the funds can be spent.

*Governmental Fund Financial Statements.* In accordance with GASBS No. 54, the Department classifies fund balances in the governmental funds as follows:

*Nonspendable Fund Balance* includes fund balance amounts that cannot be spent either because they are not in spendable form or because of legal/contractual requirements. Examples are Prepaid Expenses and Inventory.

*Spendable Fund Balance* includes Restricted, Committed, Assigned, and Unassigned designations:

*Restricted* includes fund balance amounts that are limited for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

*Committed* includes fund balance amounts that are obligated to a specific purpose which are internally imposed by the government through formal action at the highest level of decision making authority. These commitments can only be overturned by a like action.

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*Assigned* includes spendable fund balance 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* includes residual positive fund balances within the General Fund, which have not been classified within the other above mentioned categories. Unassigned Fund Balances may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

When both restricted and unrestricted resources are available for use, it is the Department's policy to use restricted resources first, then unrestricted resources (committed, assigned, and unassigned) as they are needed. When unrestricted resources (committed, assigned, and unassigned) are available for use in the General Fund, it is the Department's policy to use unassigned resources first, then assigned, and then committed as needed. When unrestricted resources (committed, assigned, and unassigned) are available for use in any other governmental fund, it is the Department's policy to use committed resources first, then assigned, and then unassigned as needed.

The Department does not have a formal minimum fund balance requirement.

Net Position

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

*Net Investment in Capital Assets* – is intended to reflect the portion of net position which are associated with non-liquid, capital assets less outstanding capital asset related debt. The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost.

*Restricted Assets* – are liquid assets (generated from revenues and not bond proceeds), with constraints placed on their use by either: 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. These are assets which have a legally enforceable third-party (statutory or granting agency) limitation on their use. Legally enforceable means that a government can be compelled by an external party, such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for purposes specified by the legislation. Generally the enforceability of an enabling legislation restriction is determined by professional judgment. If it is determined that the restrictions continue to be legally enforceable, then for the purposes of financial reporting, the restricted net position should not reflect any reduction for resources used for purposes not stipulated by the enabling legislation. The government-wide statement of net position reports \$1,171,048 of restricted

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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.

*D. Inter-Fund Transactions*

Interfund activity is reported as loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or between proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

*E. Income Taxes*

As a governmental entity, the Department is not subject to federal or state income taxes. The Department is generally no longer subject to examination by federal and state taxing authorities for years prior to 2012. For the year ended June 30, 2015, no interest or penalties were recorded or included in the financial statements.

*F. Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

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 f r 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

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Department of Finance and Administration within the limitations as specified in the General Appropriations Act. The budget amounts shown in the financial statements are the original and final authorized amounts as legally revised during the year. The legal level of budgetary control is at the appropriation program level.

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

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

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8. Appropriations lapse at the end of the fiscal year for those goods and services received by June 30th.

In accordance with the requirements of Section 2.2.2.10.A(2)(b) of 2.2.2 NMAC, Requirements for Conducting Audits of Agencies and the allowance made by GASB 34, footnote 53, the budgetary comparison statements prepared on the modified accrual basis have been included as part of the basic financial statements. The accompanying Statements of Revenue, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual present comparisons of the legally adopted budget with actual data on a budgetary basis.

Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) a reconciliation of resultant basis, perspective, equity and timing differences in the excess (deficiency) of revenues and other sources of financial resources for the year ended June 30, 2015 is presented. Reconciliations between the Non-GAAP budgetary basis amounts and the financial statements on the GAAP basis by fund can be found on each individual budgetary statement.

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.

**NOTE 3 – CASH AND CASH EQUIVALENTS**

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

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

<u>Fund</u>	<u>SHARE</u>	<u>Location</u>	<u>Balance Per</u>	<u>Balance Per</u>
	<u>Agency-Acct</u>		<u>State</u>	<u>Financials</u>
			<u>Treasurer</u>	
State Armory Board	70500-99200	STO	\$ (13,477)	(13,477)
Adjutant General's Emergency Fund	70500-07000	STO	-	-
NM Military Family Relief Fund	70500-10580	STO	-	-
Service Members' Life Insurance				
Reimbursement Fund	70500-93200	STO	-	-
Armory Improvements	70500-89700	STO	-	-
STB Capital Outlay	70500-89200	STO	-	-
Total			\$ <u>(13,477)</u>	<u>(13,477)</u>



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The Department has overdrawn its available balance in the State Treasurer General Fund Investment Pool. This is presented in the accompanying financial statements as a cash overdraft in the General Fund. The overdraft is expected to be resolved by the receipt of amounts due from the federal government totaling \$3,930,909 and amounts due related to severance tax bonds totaling \$33,485.

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 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;

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- 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.

The Financial Control Division of the Department of Finance and Administration (DFA) permits the Department to override into a negative cash portion in its Capital Projects Funds, since reimbursement is often received for expenditures from either a federal government agency or DFA itself from severance tax bonds proceeds.

**Statewide Cash Reconciliation**

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*

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*Processes*, dated October 11, 2012, also prepared by Deloitte Consulting, LLP. The Diagnostic reports are available in the Resources section of the Cash Control page of the NM DFA's website: [www.nmdfa.state.nm.us/Cash\\_Control.aspx](http://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

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the Department's share of the state general fund investment pool provides management assurance that the balance reflected in State General Fund Investment Pool account is accurate as of the end of the reporting period. In addition, the Department reconciles other asset and liability accounts on the Balance Sheet of each fund type. This process also provides additional assurance that transactions affecting the Department's share in the State General Fund Investment Pool account are accurate.

**Credit Risk for Investments**

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

**Interest Rate Risk for Investments**

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

**Custodial Credit Risk—Investment Accounts**

The Office of the State Treasurer (STO) monitors the collateral for deposits it holds, which would include the investment accounts of the Department. Therefore, collateralization of the Department's accounts is the responsibility of the STO. The STO has its own separate annual independent audit in which the collateral pledged to secure these deposits is disclosed. By law, the Department is not permitted to have any investments other than what is held at the State Treasurer's Office and the Department did not have any other investments during the year ended June 30, 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, 2015, cash (checking) accounts for the armory boards consisted of the following noninterest bearing accounts:

<u>Armory</u>	<u>Bank Name</u>	<u>Balance</u>	<u>Armory</u>	<u>Bank Name</u>	<u>Balance</u>
		<u>06/30/15</u>			<u>06/30/15</u>
Alamogordo	Western Bank	\$ 1,851	Joint Forces HQ	Century Bank	53,666
Albuquerque	Wells Fargo	11,157	Las Cruces	Bank of America	2,344
Belen	Wells Fargo	4,690	Las Vegas	Bank of Las Vegas	360
Clayton	Farmers & Stockmens	263	Rio Rancho	US NM Fed CU	3,338
Clovis	Western Bank	1,295	Roswell	Wells Fargo	11,157
Espanola	Del Norte CU	1,072	Santa Fe	First National	24,966
Farmington	Citizens Bank	2,694	Santa Rosa	Wells Fargo	953
Grants	Wells Fargo	1,377	Springer	Wells Fargo	863
Hobbs	Western Commerce	\$ 2,438	Taos	Peoples Bank	1,071
			Tucumcari	Everyone's Fed CU	19
				Total	<u>\$ 125,574</u>

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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.

**C. Summary of Cash**

Type	Amount
<b>Governmental funds:</b>	
Investment in State Treasurer General Fund	
Investment Pool	\$ (13,477)
Petty cash - held onsite	200
Subtotal governmental funds	(13,277)
Agency funds:	
Local Armory Board accounts	125,574
Subtotal agency funds	125,574
Total cash and investments	\$ 112,297

**NOTE 5 – RECEIVABLES**

**A. Due From Other State Agencies**

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

Due From Agency/Fund	Agency Name	Due To Agency/Fund	Amount	Purpose of Receivable
34100/60900	Dept of Finance and Administration	70500/89200	\$ 5,767	Excess reversion
	Dept of Finance and Administration	70500/89200		STB draws receivables
34103/20610	Dept of Finance and Administration	70500/89200	26,703	STB draws receivables
34103/11720	Dept of Finance and Administration	70500/89200	1,015	
79500/00000	Dept of Homeland Security and Emergency Management	70500/07000	836,937	Emergency responder services
67000/06500	Dept of Vetrans Services	70500/99200	2,844	Employee costs
92400/67202	NM Public Education Dept	70500/99200	8,658	School lunch program
	Dept of Homeland Security and Emergency Management	70500/99200		
79500/20052	Emergency Management		1,415	Utility costs
39403/80100	NM STB Fund	70500/93200	93	SGFIP interest receivable
Receivable from other agencies			\$ 883,432	

*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, 2015 relate only to those amounts in which applicable eligibility requirements

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have been met, but the drawdowns have not yet been received by the Department. As of June 30, 2015, the amounts receivable totaled \$33,485.

**Due From Federal Government**

At June 30, 2015, \$4,160,624 was due from the U. S. Department of Defense, National Guard Bureau for National Guard Military Operations and Maintenance Projects and for the National Guard Youth Challenge Program.

**B. Due From Others**

Additional receivables from others totaled \$12,816 as of June 30, 2015. These amounts are all considered to be collectible and as a result, no allowance had been created for potential uncollectible amounts.

**NOTE 6 – CAPITAL ASSETS**

A summary of capital assets and changes occurring during the year ended June 30, 2015 follows. Land and construction in progress are not subject to depreciation.

<u>Capital Asset Description</u>	<u>Balance 06/30/14</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 06/30/15</u>
<b>Capital assets not being depreciated:</b>				
Land	\$ 8,644,078	-	-	<u>8,644,078</u>
<b>Capital assets being depreciated:</b>				
Buildings and Improvements	177,088,312	3,912,892	-	<u>181,001,204</u>
Machinery and Equipment	<u>3,217,407</u>	<u>423,621</u>	-	<u>3,641,028</u>
Subtotal capital assets being depreciated	180,305,719	4,336,513	-	<u>184,642,232</u>
Less accumulated depreciation:				
Buildings and Improvements	(97,157,557)	(6,446,692)	-	<u>(103,604,249)</u>
Machinery and Equipment	<u>(2,295,135)</u>	<u>(385,194)</u>	-	<u>(2,680,329)</u>
Total accumulated depreciation	<u>(99,452,692)</u>	<u>(6,831,886)</u>	-	<u>(106,284,578)</u>
Total capital assets being depreciated	<u>80,853,027</u>	<u>(2,495,373)</u>	-	<u>78,357,654</u>
Total capital assets (net)	\$ <u>89,497,105</u>	<u>(2,495,373)</u>	-	<u>87,001,732</u>

The Department does not have any debt related to capital assets at June 30, 2015. Depreciation expense for the year was \$6,831,886 and is attributable to public safety functions throughout the Department.

Buildings and improvements purchased with federal funds are considered state property. However, if a building or other asset purchased with federal funds is sold or disposed of prior to 25 years, the funding agency is entitled to a portion of the proceeds equal to the percentage of federal funds used to acquire the asset.

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**NOTE 7 – DUE TO STATE GENERAL FUND (REVERSIONS)**

Unexpended cash balances of State General Fund monies appropriated to the Department, as well as various other miscellaneous funds collected by the Department, are reverted to the State General Fund.

Amounts due to the State General Fund at June 30, 2015, were as follows:

<u>General Fund - State Armory Board (99200)</u>	<u>Amount</u>
Due to State General Fund	\$ 103,799
Stale-dated warrants	<u>9,822</u>
Total 99200	<u>\$ 113,621</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	18,864
Fiscal year 2015	61,498
Stale-dated warrants	<u>9,822</u>
Total reversions - Fund 99200	<u>\$ 113,621</u>
<b>Adjutant General's Emergency Fund (07000)</b>	
Due to State General Fund	\$ 2,219,707
Stale-dated warrants	<u>18,648</u>
Total 07000	<u>\$ 2,238,355</u>
Reversion identified by fiscal year appropriation	
Fiscal year 2011	\$ 374,364
Fiscal year 2012	177,342
Fiscal year 2014	(2,526)
Fiscal year 2015	1,670,527
Stale-dated warrants	<u>18,648</u>
Total reversions - Fund 07000	<u>\$ 2,238,355</u>

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

Due to State General Fund	\$ 71,645
Stale-dated warrants	<u>2,141</u>
Total 89700	<u>\$ 73,786</u>

Reversion identified by fiscal year appropriation

Fiscal year 2010	\$ 1,499
Fiscal year 2011	53,696
Fiscal year 2013	4,753
Other amounts	11,697
Stale-dated warrants	<u>2,141</u>
Total reversions - Fund 89700	<u>\$ 73,786</u>

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

Due to State General Fund	\$ <u>6,446</u>
Total 89200	<u>\$ 6,446</u>

Reversion identified by fiscal year appropriation

Fiscal year 2015	\$ 119
Other amounts	<u>6,327</u>
Total reversions - Fund 89200	<u>\$ 6,446</u>

**NOTE 8 – LONG-TERM DEBT**

A summary of changes in the compensated absences payable for the year ended June 30, 2015, is as follows:

	Balance			Amount due	
	06/30/14	Increases	Decreases	06/30/15	within one
					year
Governmental activities					
Annual Leave	\$ 237,202	257,837	(206,851)	288,188	230,550
Sick Leave	1,254	17,291	(17,045)	1,500	1,200
Compensatory	<u>10,148</u>	<u>110,009</u>	<u>(96,269)</u>	<u>23,888</u>	<u>19,110</u>
Total governmental activities	<u>\$ 248,604</u>	<u>385,137</u>	<u>(320,165)</u>	<u>313,576</u>	<u>250,860</u>

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

**NOTE 8 – INTERFUND BALANCES**

The Department recorded interfund receivables/payables to reflect temporary loans between funds. The primary purpose of the loans was to cover cash shortages until grant reimbursements or other funding measures could be obtained. All interfund balances are expected to be repaid within one year. Interfund balances as of June 30, 2015, are as follows:



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<u>Due To Fund</u>	<u>Fund #</u>	<u>Due From Fund</u>	<u>Fund #</u>	<u>Amount</u>
STB Capital Outlay				
Fund	89200	General Fund	99200	\$ <u>442</u>
				\$ <u><u>442</u></u>

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

There were no outstanding encumbrances related to the Department’s multi-year projects as of June 30, 2015.

**NOTE 10 – OPERATING LEASES**

The Department leases certain office equipment and an airport hangar under lease agreements with terms ranging from one year to five years with options to renew for additional one-year terms. All leases may be terminated at any time with sixty days’ notice if the New Mexico Legislature does not grant sufficient appropriation for the lease or if the Department decides that termination is necessary to protect the best interests of the State of New Mexico.

*Buildings and Structures*

The Agency leases airport hangar space at three locations throughout the State. The terms of the leases are for one year with additional renewal periods at the end of each lease year. All leases contain fiscal funding clauses.

*Machinery & Equipment*

The Agency leases various copiers and postage machines. The terms of the leases run from three to four years. The leases on the copy machines also provide for maintenance and copy charges. All leases contain fiscal funding clauses.

*Vehicles*

The Agency leases multiple vehicles on an annual basis from the New Mexico General Services Department.

The cumulative expenditures for operating leases for the year ended June 30, 2015, were \$238,634. Future minimum rental payments under these operating leases are as follows:

<u>Fiscal Year</u>	<u>Ending June 30,</u>	<u>Amount</u>
2016	\$	52,803
2017		5,378
2018		-
2019		-
2020		-
Total	\$	<u><u>58,181</u></u>

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**NOTE 11 – 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:

Fiscal Year	
<u>Ending June 30,</u>	<u>Amount</u>
2016	\$ 40,026
2017	41,435
2018	42,896
2019	44,411
2020	<u>45,980</u>
Total \$	<u><u>214,748</u></u>

The Department also receives lease revenue in the form of oil/gas royalties from a lease with Chevron Oil & Gas. For the year ended June 30, 2015, the total royalties recognized from this lease was \$2,016. The amounts earned vary depending upon the production rates achieved, so any amounts related to this lease have not been included in the above expected future lease revenue.

**NOTE 12 – PERA PENSION PLAN**

Compliant with the requirements of Government Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions, the State of New Mexico has implemented the standard for the fiscal year ending June 30, 2015.

The Department, as part of the primary government of the State of New Mexico, is a contributing employer to a cost-sharing multiple employer defined benefit pension plan administered by the Public Employees Retirement Association (PERA). Disclosure requirements for governmental funds apply to the primary government as a whole, and as such, this information will be presented in the Component Appropriation Funds Annual Financial Report (General Fund) and the Comprehensive Annual Financial Report (CAFR) of the State of New Mexico.

Information concerning the net pension liability, pension expense, and pension-related deferred inflows and outflows of resources of the primary government will be contained in the General Fund and the CAFR and will be available, when issued, from the Office of State Controller, Room 166, Bataan Memorial Building, 407 Galisteo Street, Santa Fe, New Mexico, 87501.

**NOTE 13 – POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN**

*Plan Description.* The Department 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

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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 event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

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

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

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

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2015, the statutes 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, 2015, 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,

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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, 2015, 2014, and 2013 were \$96,747, \$82,436 and \$79,835, respectively, which equal the required contributions for each year.

**NOTE 9 – RISK MANAGEMENT**

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, 2014, through June 30, 2015. 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 10 – 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 11 – COMMITMENTS**

The Department has entered into a Military Construction Cooperative Agreement with the National Guard Bureau to assist in the design and construction of the Alamogordo Readiness Center and Las Cruces Readiness Center. The estimated costs for the Alamogordo project call for \$5,200,490 in federal construction costs with no cost to the state. The Las Cruces project has an estimated total cost of \$14,607,000 with the state's share being \$5,269,000. Severance tax bonds totaling \$200,000 have been authorized to assist in funding the Department's share of the A&E costs. The Department received \$1,700,000 in an appropriation from the Capital Program Repair Fund to purchase lands for a

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multiagency joint operation and first responder campus in Santa Fe County. At the conclusion of the projects, the property will be transferred to the Department to be depreciated over its useful life.

The Department has entered into a cooperative agreement with the State of New Mexico, Youth Conservation Corps Commission and the Children Youth and Families Agency (CYFD) to operate a project to be known as the New Mexico Youth ChalleNGe Academy. This program will operate a residential training program targeting at risk youth that have dropped out of high school and are unemployed or under-employed.

**NOTE 12 – FUND DEFICITS AND NON-COMPLIANCE**

Deficit Fund Balances

The following funds incurred a deficit fund balance at June 30, 2015:

<u>Fund</u>	<u>Fund Type</u>	<u>Amount</u>
General Fund - 99200	General Fund	\$ (2,174,232)
Adjutant General Emergency Fund - 07000	Special Revenue Fund	(814,281)
Armory Improvement Fund - 89700	Capital Projects Fund	\$ (285,328)

Legal Compliance with Budget

The Department was in compliance with Section 6-6-6 of the New Mexico State Statues regarding legal compliance with approved budgets. No funds exceeded budgeted expenditures as of June 30, 2015.

**NOTE 13 – EVALUATION OF SUBSEQUENT EVENTS**

The Department has evaluated subsequent events through November 30, 2015, the date which the financial statements were available to be issued.

**NOTE 14 – SUBSEQUENT PRONOUNCEMENTS**

In February 2015, GASB Statement No. 72 *Fair Value Measurement and Application*, was issued. Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2015. Earlier application is encouraged. The Department will implement this standard during the fiscal year ended June 30, 2016. The Department is still evaluating how this pronouncement will affect the financial statements.

In June 2015, GASB Statement No. 73 *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, was issued. Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2016. Earlier application is encouraged. The Department is still evaluating how this pronouncement will affect the financial statements.

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In June 2015, GASB Statement No. 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, was issued. Effective Date: The provisions of this Statement are effective for fiscal years beginning after June 15, 2016. The Department is still evaluating how this pronouncement will affect the financial statements.

In June 2015, GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was issued. Effective Date: The provisions of this Statement are effective for fiscal years beginning after June 15, 2017. The standard will be implemented during the fiscal year ended June 30, 2018. The Department is still evaluating how this pronouncement will affect the financial statements.

In June 2015, GASB Statement No. 76 *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, was issued. Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2015. Earlier application is encouraged. The Department will implement this standard during the fiscal year ended June 30, 2016. The Department expects the pronouncement to have a material effect on the financial statements.

In August 2015, GASB Statement No. 77 *Tax Abatement Disclosures*, was issued. Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2015. Earlier application is encouraged. The Department will implement this standard during the fiscal year ended June 30, 2017. The Department is still evaluating how this pronouncement will affect the financial statements.

## **SUPPLEMENTAL INFORMATION**

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**NON-MAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2015**

**SPECIAL REVENUE FUNDS**

**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 PROJECT FUNDS**

**STB Capital Outlay** – To account for expenditures related to severance tax bond issuances 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)



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**NON-MAJOR GOVERNMENTAL FUNDS**  
**COMBINING BALANCE SHEET**  
**As of June 30, 2015**

	<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 Other Governmental Funds</u>
Assets and deferred inflows of resources:			
Assets:			
Investment in State Treasurer General			
Fund Investment Pool	\$ 139,646	-	139,646
Due from other funds	-	442	442
Due from other state agencies	-	33,485	33,485
Total assets	<u>\$ 139,646</u>	<u>33,927</u>	<u>173,573</u>
Deferred Outflows of Resources:			
Total deferred outflows of resources	<u>-</u>	<u>-</u>	<u>-</u>
Total assests and deferred outflows of resources	<u><u>139,646</u></u>	<u><u>33,927</u></u>	<u><u>173,573</u></u>
Liabilities, deferred inflows of resources and fund balance			
Liabilities:			
Investment overdraft	-	778	778
Accounts payable	\$ -	26,703	26,703
Due to State General Fund	-	6,446	6,446
Total liabilities	<u>-</u>	<u>33,927</u>	<u>33,927</u>
Deferred Inflows of Resources:			
Unavailable revenues - grants	<u>-</u>	<u>-</u>	<u>-</u>
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance:			
Nonspendable	-	-	-
Restricted			
Service Members' Life Insurance			
Reimbursements	-	-	-
Financial assistance for NM			
Guard members' families	139,646	-	139,646
Capital projects	-	-	-
Committed	-	-	-
Assigned	-	-	-
Unassigned	-	-	-
Total fund balance	<u>139,646</u>	<u>-</u>	<u>139,646</u>
Total liabilities, deferred inflows of resources and fund balances:	<u><u>\$ 139,646</u></u>	<u><u>33,927</u></u>	<u><u>173,573</u></u>

See independent auditors' report.  
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**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, 2015**

	<b>Special Revenue</b>	<b>Capital Projects</b>		<b>Total Other Governmental Funds</b>
	<b>NM Member Family Assistance Fund Fund 10580</b>	<b>STB Capital Outlay Fund 89200</b>		<b>Funds</b>
<b>Revenues:</b>				
Miscellaneous revenue	\$ 7,999	-		7,999
Total revenues	7,999	-		7,999
<b>Expenditures:</b>				
Public Safety				
Current:				
Personal services and benefits	-	-		-
Contractual services	-	27,718		27,718
Other costs	-	10,817		10,817
Capital outlay	-	649,851		649,851
Total expenditures	-	688,386		688,386
Excess (deficiency) of revenue over expenditures	7,999	(688,386)		(680,387)
<b>Other financing sources (uses)</b>				
Severance tax bond				
proceed appropriations	-	688,505		688,505
Transfer - Reversions to state general fund - FY15	-	(119)		(119)
Total other financing sources (uses):	-	688,386		688,386
Net change in fund balance	7,999	-		7,999
Beginning fund balance	131,647	-		131,647
Ending fund balance	\$ 139,646	-		139,646

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**NEW MEXICO MEMBER FAMILY ASSISTANCE FUND (10580)**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND NET ASSETS BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
**For The Year Ended June 30, 2015**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues</b>				
Miscellaneous revenue	\$ -	6,960	7,999	1,039
Total revenues	<u>-</u>	<u>6,960</u>	<u>7,999</u>	<u>1,039</u>
Reissued prior year budget	<u>-</u>	<u>109,286</u>	<u>-</u>	
Total resources	<u>-</u>	<u>116,246</u>	<u>7,999</u>	
<b>Expenditures</b>				
Current (Public Safety):				
Personal services and employee benefits	-	-	-	-
Contractual services	-	-	-	-
Other	-	116,246	-	116,246
Capital outlay	-	-	-	-
Total expenditures	<u>-</u>	<u>116,246</u>	<u>-</u>	<u>116,246</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>7,999</u>	<u>7,999</u>
<b>Other Financing Sources (Uses)</b>				
Reversion to state general fund FY15	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net interagency transfers and financial sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>-</u>	<u>7,999</u>	<u>7,999</u>
<b>Reconciliation of Budgetary Basis to Fund Financial Statement</b>				
Total budget basis expenditures for fiscal year 2015:			\$ -	
Adjustments:				
Accounts payable that required a request to pay prior-year bills out of the FY2016 budget			-	
Prior year accounts payable paid out of FY2015 budget			<u>-</u>	
Total GAAP Basis Expenditures for the fiscal year ended June 30, 2015:			<u>\$ -</u>	

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**STB CAPITAL OUTLAY FUND - CAPITAL PROJECTS (89200)**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND NET ASSETS BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
**For The Year Ended June 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance from Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Severance tax bond appropriations	\$ 957,665	957,665	688,505	(269,160)
Total revenues	957,665	957,665	688,505	(269,160)
<b>Expenditures</b>				
DMA STB Farmington Aviation				
A111299				
Contractual services	5,912	-	-	-
Other costs	5,024	10,936	10,817	119
Total Farmington aviation	10,936	10,936	10,817	119
Armories Infrastructure Statewide				
A131225				
Contractual services	3,762	3,762	1,015	2,747
Other costs	442,967	442,967	432,036	10,931
Total statewide infrastructure	446,729	446,729	433,051	13,678
Armory Improvement/Energy Efficiency				
A141334				
Contractual services	258,562	258,562	26,703	231,859
Other costs	241,438	241,438	217,815	23,623
Total armory improvements	500,000	500,000	244,518	255,482
Total expenditures	957,665	957,665	688,386	269,279
Excess (deficiency) of revenues over expenditures	-	-	119	119
<b>Other Financing Sources (Uses)</b>				
Reversion to state general fund FY12	-	-	(119)	(119)
Net other financing sources (uses)	-	-	(119)	(119)
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	-	-	-	-
Total	\$ -	-	-	-

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

Total budget basis expenditures for fiscal year 2015:	\$ 688,386
Adjustments:	
Accounts payable that required a request to pay prior-year bills out of the FY2016 budget	-
Prior year accounts payable paid out of FY2015 budget	-
Total GAAP Basis Expenditures for the fiscal year ended June 30, 2015:	\$ <u>688,386</u>

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**ARMORY IMPROVEMENTS FUND - CAPITAL PROJECTS (89700) - MAJOR FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND NET ASSETS BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
**For The Year Ended June 30, 2015**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance from</b>
	<b>Original</b>	<b>Final</b>	<b>(Budgetary</b>	<b>Final Budget</b>
			<b>Basis)</b>	<b>Favorable</b>
				<b>(Unfavorable)</b>
<b>Revenues</b>				
Federal grants-capital	\$ 5,826,277	5,826,277	276,189	(5,550,088)
Total revenues	5,826,277	5,826,277	276,189	(5,550,088)
<b>Expenditures</b>				
Farmington Readiness Center				
100% Federal: A031321				
Contractual Services	332,503	332,503	-	332,503
Other Costs	293,284	293,284	-	293,284
Total Farmington readiness center	625,787	625,787	-	625,787
Alamogordo Readiness Center				
100% Federal: A120021				
Contractual Services	583,490	583,490	276,189	307,301
Other Costs	4,617,000	4,617,000	-	4,617,000
Total Alamogordo readiness center	5,200,490	5,200,490	276,189	4,924,301
Total expenditures	5,826,277	5,826,277	276,189	5,550,088
Excess (deficiency) of revenues over expenditures	\$ -	-	-	-
<b>Reconciliation of Budgetary Basis to Fund Financial Statement</b>				
Total budget basis expenditures for fiscal year 2015:			\$ 276,189	
Adjustments:				
Accounts payable that required a request to pay prior-year bills out of the FY2016 budget			-	
Prior year accounts payable paid out of FY2015 budget			-	
Total GAAP Basis Expenditures for the fiscal year ended June 30, 2015:			\$ 276,189	

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

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**DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD**  
**SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUNDS**  
**For The Year Ended June 30, 2015**

	<u>Balance</u>			<u>Balance</u>
	<u>June 30, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2015</u>
<b>Assets</b>				
Cash in local banks	\$ 136,317	160,104	(170,847)	125,574
Total assets	<u>136,317</u>	<u>160,104</u>	<u>(170,847)</u>	<u>125,574</u>
<b>Liabilities</b>				
Deposits held for others	136,317	160,104	(170,847)	125,574
Total liabilities	<u>\$ 136,317</u>	<u>160,104</u>	<u>(170,847)</u>	<u>125,574</u>
<b>Armory</b>				
	<u>Balance</u>			<u>Balance</u>
	<u>June 30, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2015</u>
Alamogordo	\$ 1,104	1,400	(653)	1,851
Albuquerque	8,895	21,375	(19,113)	11,157
Belen	1,733	5,924	(2,967)	4,690
Carlsbad	1,010	687	(1,697)	-
Clayton	782	2,135	(2,654)	263
Clovis	2,176	2,162	(3,043)	1,295
Espanola	4,839	2,145	(5,912)	1,072
Farmington	1,038	2,979	(1,323)	2,694
Grants	740	1,622	(985)	1,377
Hobbs	494	3,898	(1,954)	2,438
Joint Forces HQ	59,069	25,537	(30,940)	53,666
Las Cruces	1,407	5,622	(4,685)	2,344
Las Vegas	42	497	(179)	360
Rio Rancho	9,689	17,029	(23,380)	3,338
Roswell	1,860	26,628	(17,331)	11,157
Santa Clara	1,262	707	(1,969)	-
Santa Fe	37,511	34,684	(47,229)	24,966
Santa Rosa	1,568	1,350	(1,965)	953
Springer	398	520	(55)	863
Taos	413	3,044	(2,386)	1,071
Tucumcari	287	159	(427)	19
Total	<u>\$ 136,317</u>	<u>160,104</u>	<u>(170,847)</u>	<u>125,574</u>

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

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**DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For The Year Ended June 30, 2015**

<u>Federal Grantor/Pass-Through Program Title</u>	<u>Federal CFDA Number</u>	<u>Report Category</u>	<u>Adjusted Federal Awards Expended</u>
<b>U.S. Department of Defense</b>			
<b>National Guard Bureau</b>			
<b>National Guard Military Operations and Maintenance Projects:</b>			
	*	12.401	
<b>FACILITIES OPERATIONS AND MAINTENANCE</b>			
	A01100, A01075, A01050		
W912J3-13-2-1001		\$	56,051
W912J3-14-2-1001			3,643,907
W912J3-15-2-1001			3,294,943
In-kind federal assistance			-
<b>ENVIRONMENTAL RESOURCE MGMT:</b>			
	A02100,A02075		
W912J3-11-2-1002			1,882
W912J3-12-2-1002			44,114
W912J3-13-2-1002			102,404
W912J3-14-2-1002			270,159
W912J3-15-2-1002			350,544
<b>PHYSICAL SECURITY:</b>			
	A03100		
W912J3-14-2-1003			242,847
W912J3-15-2-1003			448,258
<b>ELECTRONIC SECURITY:</b>			
	A04100		
W912J3-14-2-1004			76,530
W912J3-15-2-1004			133,595
<b>SUSTAINABLE RANGE PROGRAM:</b>			
	A07100		
W912J3-14-2-1007			44,832
W912J3-15-2-1007			60,966
<b>ANTI-TERRORISM PROGRAM MANAGER:</b>			
	A10100		
W912J3-14-2-1010			24,115
W912J3-15-2-1010			54,047
<b>AIR NAT. GUARD O&amp;M:</b>			
	A21000		
W912J3-14-2-1021			109,060
W912J3-15-2-1021			382,673
<b>AIR NAT. GUARD ENVIRONMENT:</b>			
	A22075		
W912J3-14-2-1022			14,745
W912J3-15-2-1022			39,926
<b>DISTANCE LEARNING:</b>			
	A40100		
W912J3-14-2-1040			107,561
W912J3-15-2-1040			231,515
Subtotal CFDA # 12.401			\$ <u>9,734,674</u>

See independent auditors' report.

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**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For The Year Ended June 30, 2015**

<u>Federal Grantor/Pass-Through Program Title</u>	<u>Federal CFDA Number</u>	<u>Report Category</u>	<u>Adjusted Federal Awards Expended</u>
<b>MILITARY CONSTRUCTION:</b>	12.400		
W912J3-13-2-2001 (Alamogordo Readiness)		A031320	\$ <u>276,189</u>
Subtotal CFDA # 12.400			<u>276,189</u>
<b>NATIONAL GUARD YOUTH CHALLENGE PROGRAM:</b>	*		
W912J3-14-2-4002	12.404	360000	<u>2,353,000</u>
Subtotal CFDA # 12.404			<u>2,353,000</u>
<b>TOTAL NATIONAL GUARD BUREAU</b>			<u>12,363,863</u>
<b>U.S. Department of Homeland Security - FEMA</b>			
<b>    Passed through the NM Department of Homeland     Security and Emergency Management</b>			
Public Assistance Grant Program	*	97.036	FEMA-4199-010
Homeland Security Grant Program	97.067	Unknown	626,575
<b>TOTAL US DEPARTMENT OF HOMELAND SECURITY</b>			<u>187,706</u> <u>814,281</u>
<b>U.S. Department of Agriculture:</b>			
<b>    Passed through the NM Public     Education Department</b>			
Child Nutrition Cluster:			
National School Lunch Program (NSL)	10.555	360100	146,955
School Breakfast Program (SBP)	10.553	360100	<u>146,955</u>
<b>TOTAL NM PUBLIC EDUCATION DEPT.</b>			<u>146,955</u>
<b>TOTAL FEDERAL AWARDS</b>			<u>13,325,099</u>
Federal revenue per financials			11,602,056
Add: "Unavailable" revenues in current year deferred to future years			3,222,180
Less: Prior year "unavailable" revenues recognized in current year			<u>(1,499,137)</u>
			<u>\$ 13,325,099</u>

\*Major Program

**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.



**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, 2015**

<u>Description</u>	<u>SHARE Identifier #</u>	<u>Appropriation Period</u>	<u>Original Appropriation</u>	<u>Prior Year Expenditures</u>	<u>Current Expenditures</u>	<u>Approps Expired</u>	<u>Unencumbered Balances</u>
<b>Fund 89200</b>							
<b>Severance Tax Bonds Outstanding*</b>							
Laws 2011 - Chapter 5, Section 12	11-1299	07/01/2011 - 06/30/2016	\$ 1,600,000	1,589,064	10,936	-	-
Laws 2013 - Chapter 226, Section 6	13-1225	07/01/2013 - 06/30/2017	500,000	53,271	433,051	-	13,678
Laws 2014 - Chapter 66, Section 5	14-1334	07/01/2014 - 06/30/2018	500,000	-	244,518	-	255,482
Laws 2015 - Chapter 3, Section 29	15-0893	07/01/2015 - 06/30/2019	200,000	-	-	-	200,000
Laws 2015 - Chapter 3, Section 29	15-0894	07/01/2015 - 06/30/2019	500,000	-	-	-	500,000
Laws 2015 - Chapter 3, Section 55	15-1039	07/01/2015 - 06/30/2019	1,700,000	-	-	-	1,700,000
Total severance tax bonds outstanding			<u>5,000,000</u>	<u>1,642,335</u>	<u>688,505</u>	<u>-</u>	<u>2,669,160</u>
<b>Total Amounts</b>			<u>\$ 5,000,000</u>	<u>1,642,335</u>	<u>688,505</u>	<u>-</u>	<u>2,669,160</u>

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

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.

See independent auditors' report.

**STATE OF NEW MEXICO**  
**DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD**  
**SCHEDULE OF INTERAGENCY TRANSFERS**  
**For The Year Ended June 30, 2015**

Description	Agency	From Fund	To Fund	Appropriation Period	Amount Transferred
	From				
General Fund Appropriation	DFA	34101	99200	FY15	\$ 5,889,400
Compensation Appropriation	DFA	34101	99200	FY15	49,300
General Fund Appropriation	DFA	34101	93200	FY15	1,135,000
Executive order appropriation	DFA	34101	07000	FY15	1,750,000
					<u>\$ 8,823,700</u>

Description	Agency	From Fund	To Fund	Appropriation Period	Amount Transferred
	Transferred To				
General Fund Reversion	DFA	99200	34101	FY15	\$ 61,498
General Fund Reversion	DFA	07000	34101	FY15	1,670,527
General Fund Reversion	DFA	89200	34101	FY15	119
					<u>\$ 1,732,144</u>

\*Transfers will be completed after FY 15

**STATE OF NEW MEXICO  
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD  
SCHEDULE OF JOINT POWERS AGREEMENTS, MEMORANDUMS OF UNDERSTANDING, AND CONTRACTS  
For The Year Ended June 30, 2015**

<u>Participants</u>	<u>Responsible Party for Operations</u>	<u>Description</u>	<u>Beginning &amp; Ending Dates</u>	<u>Total Estimated Amount of Project</u>	<u>Agency Contributions in FY 2011</u>	<u>Revenues &amp; Expenditures Reported On By:</u>	<u>Audit Responsibility</u>	<u>Fiscal Agent</u>
Advantage Global Inc. 15-1501 PO# 9235	DMA	Legal Services	7/1/2014 7/31/2014	\$26,750.00	\$26,750.00	DMA	DMA	N/A
Hinkle & Landers PC 15-1502 PO #9236	DMA	Annual Audit	7/19/2014 5/19/2015	\$28,890.00	\$28,890.00	DMA	DMA	N/A
Eastern NM University 15-1503 PO# 9250	DMA	NMYCA Food Service Cycle 27	7/10/2014 6/30/2015	\$415,000.00	\$415,000.00	DMA	DMA	N/A
Eastern NM University 15-1504, PO# 9249	DMA	NMYCA Curriculum Cycle 27	7/10/2014 6/30/2015	\$230,000.00	\$230,000.00	DMA	DMA	N/A
Southwest Mountain Surveys 15-1505, PO# 9633	DMA	Survey Hobbs Armory	8/28/2014 12/1/2014	\$12,333.38	\$12,333.38	DMA	DMA	N/A
Morris Surveying & Engineering 15-1506, PO#9634	DMA	Survey Gallup & ABQ Properties	9/16/2014 1/15/2015	\$27,847.46	\$27,847.46	DMA	DMA	N/A
Oden & Associates 15-1507 PO# n/a	DMA	Contract not processed due to short timeline.		\$0.00	0	DMA	DMA	N/A
Lopez Engineering Inc 15-1508, PO# 10874	DMA	Provide Energy Management Plan got NMARNG	9/16/2014 9/15/2015	\$46,308.15	\$23,616.15	DMA	DMA	N/A
ACME Environmental, Inc. 15-1509, PO# 9336	DMA	Industrial Hygiene survey for lead/abestos, pre-renovation Alamogordo Armory	9/24/2014 12/31/2014	\$9,710.25	\$9,710.25	DMA	DMA	N/A
Clover Leaf Solutions, Inc. 15-1510, PO# 9712	DMA	Energy Security Plan addressing requirements specific to NMARNG	10/9/2014 9/15/2015	\$42,779.67	\$32,460.74	DMA	DMA	N/A
Clover Leaf Solutions Inc. 15-1511, PO# 10875	DMA	Development of Task Mgmt. with Learning Mgmt. Solution for Env. Training Courses	10/9/2014 4/17/2016	\$159,281.00	\$85,422.85	DMA	DMA	N/A
WH Pacific 15-1512, PO# 10856	DMA	Commissioning services for addition renovation Alamogordo Readiness	6/5/2015 11/13/2018	\$449,408.32	0	DMA	DMA	N/A

See independent auditor's report.

**STATE OF NEW MEXICO  
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD  
SCHEDULE OF JOINT POWERS AGREEMENTS, MEMORANDUMS OF UNDERSTANDING, AND CONTRACTS  
For The Year Ended June 30, 2015**

<b>Participants</b>	<b>Responsible Party for Operations</b>	<b>Description</b>	<b>Beginning &amp; Ending Dates</b>	<b>Total Estimated Amount of Project</b>	<b>Agency Contributions in FY 2011</b>	<b>Revenues &amp; Expenditures Reported On By:</b>	<b>Audit Responsibility</b>	<b>Fiscal Agent</b>
Public Service Co. of NM 15-1513, PO# 10695	DMA	Consultation & design Services for power modification near Las Vegas Readiness Center	6/19/2015 6/30/2015	\$17,646.46	\$17,646.46	DMA	DMA	N/A
Haller & Associates Inc. 15-1514, PO# 10305	DMA	Portales Armory Discharge Permt #820 Monitoring	4/17/2015 3/15/2016	\$18,487.75	<u>11,726.30</u>	DMA	DMA	N/A
ACME Environmental 15-1515, PO#10042	DMA	Conduct Environmental Assessment Alamorgorde, focus on flood plain.	2/24/2015 6/26/2015	\$33,972.50	\$33,972.50	DMA	DMA	N/A
Haller & Associates, Inc. 15-1516, PO#10747	DMA	Groundwater Monitoring, old Belen Armory.	3/20/2015 2/28/2016	\$16,748.39	\$15,564.68	DMA	DMA	N/A
Haller & Associates, Inc. 15-1517, PO# 10876	DMA	Waste water compliance, Rio Rancho, Las Cruces, Taos, Belen, Inspection, monitoring, reporting	2/15/2015 3/13/2016	\$28,615.67	\$14,010.86	DMA	DMA	N/A
University of New Mexico 15-1518, PO# 10943	DMA	Artifact curation and collection management	3/26/2015 4/30/2016	\$5,000.00	\$443.53	DMA	DMA	N/A
Gossamer Research Group 15-1519, PO# 10887	DMA	Environmental Assessment at Las ruces Readiness	5/5/2015 4/24/2016	\$40,734.00	\$14,659.00	DMA	DMA	N/A
HDR EOC, Inc. 15-1520, PO# 10880	DMA	Conduct waste stream analysis of NMARNG solid waste and recycling processed and procedures,	5/20/2015 4/30/2016	\$31,415.20	\$3,013.11	DMA	DMA	N/A
Gryphon Environmental, LLC 15-1521, PO# 10888	DMA	Develop a Green Procurement Plan EO# 1369333].	5/20/2015 4/30/2016	\$16,237.91	\$14,784.22	DMA	DMA	N/A
HDR EOC< Inc. 15-1522, PO# 10878	DMA	Develop NMARNG integrated solid waste and recycling mgmt. plan.	5/20/2015 5/10/2016	\$27,316.64	\$3,007.47	DMA	DMA	N/A
Clover Leaf Solutions, nc. 15-1523, PO# 10877	DMA	Fauna Planning survey at Camel Tracks training site.	5/20/2015 5/15/2016	\$33,250.00	\$2,626.40	DMA	DMA	N/A
University of New Mexico 15-1524, PO#10902	DMA	Intergrated Natural Resource Plan Annual review.	8/5/2015 4/30/2016	\$5,000.00	0	DMA	DMA	N/A

See independent auditor's report.

**STATE OF NEW MEXICO  
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD  
SCHEDULE OF JOINT POWERS AGREEMENTS, MEMORANDUMS OF UNDERSTANDING, AND CONTRACTS  
For The Year Ended June 30, 2015**

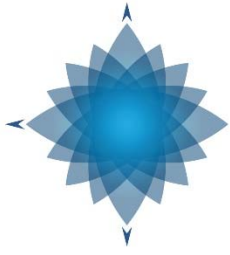
<u>Participants</u>	<u>Responsible Party for Operations</u>	<u>Description</u>	<u>Beginning &amp; Ending Dates</u>	<u>Total Estimated Amount of Project</u>	<u>Agency Contributions in FY 2011</u>	<u>Revenues &amp; Expenditures Reported On By:</u>	<u>Audit Responsibility</u>	<u>Fiscal Agent</u>
Clover Leaf Solutions, Inc. 15-1525, PO# 10879	DMA	Design storm water drainage system for AASF.	5/2/2015 5/31/2016	\$49,939.12	\$34,141.61	DMA	DMA	N/A
Dekker Perich Sabatini 14-17, PO #9637 A1 for Redesign PO #10261	DMA	A & E services for Alamogordo  Amendment processed 4/13/15	5/12/2014 5/14/2018	\$388,804.83 \$58,562.17	\$123,637.42 \$26,702.60	DMA DMA		
HDR Engineering Inc. 14-1422, PO# 9416	DMA	RTI Parking Lot design services	5/30/2014 7/18/2014	28,569.00	\$9,309.00	DMA	DMA	N/A
Clover Leaf Solutions, Inc. 14-1416, PO# 9412	DMA	Training services for facilities that have storm water permits, ponds, OWS.	5/9/2014 12/31/2014	\$10,981.71	\$7,126.46	DMA	DMA	N/A
Haller & Associates, Inc. 14-1414, PO# 9424	DMA	Groundwater monitoring at old Belen Armory.	3/4/2014 12/30/2014	\$18,004.14	16,784.39	DMA	DMA	N/A
Gryphon Environmental, LLC 14-1415, PO# 9417	DMA	Training for Clean Water Act and Oil Pollution Prevention Act	4/23/2014 12/31/2014	\$28,587.53	\$21,440.65	DMA	DMA	N/A
Glorieta Geoscience Inc. 14-1412, PO#9420	DMA	Discharge permit monitoring of wells throughout the state	1/14/2014 12/30/2014	\$28,999.66	\$14,984.67	DMA	DMA	N/A
Souder, Miller & Associates 14-1409, PO# 9415	DMA	Storm Water Pollution Prevention Plann for AASF.	3/25/2013 9/24/2014	\$20,234.31	\$16,296.28	DMA	DMA	N/A
Haller & Associates, Inc. 14-1407, PO# 9418	DMA	Provide cost estimate of all pre-closure & closure activities of the Santa Rosa & Grants Armories	9/25/2013 8/31/2014	\$32,118.91	\$1,826.39	DMA	DMA	N/A
University of New Mexico 13-13-21, PO#9477	DMA	INRMP Roswell Wetts	4/18/2013 6/1/2015	\$45,000.00	\$19,700.00	DMA	DMA	N/A
University of New Mexico 13-1319	DMA	INRMP Happy Valley #NM922070004	4/18/2013 6/1/2015	\$48,000.00	\$28,600.00	DMA	DMA	N/A
University of New Mexico 13-1309, PO# 9477	DMA	Endangered Species monitoring Black Mountain	4/27/2012 6/1/2015	\$139,414.10	\$43,945.95	DMA	DMA	N/A
University of New Mexico 12-1210, PO# 9477	DMA	Cultural Resource Support Project #NM505100002	9/28/2011 9/30/2014	\$96,200.00	\$1,881.91	DMA	DMA	N/A

See independent auditor's report.

STATE OF NEW MEXICO  
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD  
SCHEDULE OF VENDOR INFORMATION FOR PURCHASES EXCEEDING \$60,000  
For The Year Ended June 30, 2015

RFB#/ RFP#	Type of Procurement	Awarded Vendor	\$ Amount of Awarded Contract	\$ Amount of Amended Contract	Name and Physical Address per the procurement documentation, of ALL Vendor(s) that responded	In-State/ Out- of-State Vendor (Y or N) (Based on Statutory Definition)	Was the vendor in-state and chose Veteran's preference (Y or N) For federal funds answer N/A	Brief Description of the Scope of Work
50-705-14- 00207	ITB	Southwest Door Services	\$ 103,927	NA	Southwest Door Services 1550 Stephanie Road, Suite 116 Rio Rancho NM 87124	Y	N	Replace exterior doors & windows @ 93rd Troop Command Bldg. in Santa Fe, Headquarters Complex
50-705-14- 00210	ITB	Vision Build, Inc.	\$ 231,560	NA	Longhorn Construction Services, Inc. 9208 Lona Lane NE Albuquerque NM 87111 Vision Build, Inc. 116 Park Ave. SW Albuquerque NM 87105	Y	N	Remodel latrines at the Roswell Armory
50-705-14- 00214	ITB	LLR Construction, LLC	\$ 196,269	NA	Vantage Engineering & Construction, Inc. PO Box 2602 Roswell, NM 88202 LLR Construction, LLC 1000 Cordova Place #91 Santa Fe NM 87505	Y	N	Remodel latrines @ RTI Billeting, Oñate Complex
50-705-14- 00209	ITB	Longhorn Construction Inc.	\$ 223,300	NA	AIC General Contractor, Inc. 2703 G Broadbent Parkway NE Albuquerque NM 87107 Longhorn Construction Services, Inc 9208 Lona Lane NE Albuquerque NM 87111	Y	N	Remodel latrines @ Albuquerque Armory
50-705-14- 00206	ITB	Longhorn Construction Inc.	\$ 278,600	NA	Longhorn Construction Services, Inc 9208 Lona Lane NE Albuquerque NM 87111	Y	N	Replace Exterior Windows & Doors at the Albuquerque Armory
50-705-14- 00208	ITB	Longhorn Construction Inc.	\$ 272,200	NA	Longhorn Construction Services, Inc 9208 Lona Lane NE Albuquerque NM 87111	Y	N	Install De-icing roof cable system on northern elevation of AASF building
50-705-14- 00213	ITB	Everguard Roofing	\$ 180,880	NA	AIC General Contractor, Inc. 2703 G Broadbent Parkway NE Albuquerque NM 87107 Everguard Roofing 512 Veranda Road NW Albuquerque NM 87107	Y	N	Re-roof the Department of Military Affairs Headquarters Bldg. #10
50-705-14- 00215	ITB	Universal Constructors, Inc.	\$ 233,281	NA	DKG & Associates, Inc 6920 Huseman Place SW Albuquerque NM 87121 Longhorn Construction Services, Inc 9208 Lona Lane NE Albuquerque NM 87111 National Roofing Company, Inc. 3408 Columbia DR NE Albuquerque NM 87107 Progressive Roofing 6320 Second Street NW Albuquerque NM 87107 Queston Construction, Inc. 7518 2nd Street NW Albuquerque NM 87107 Universal Constructors, Inc. PO Box 6008 Albuquerque NM 87197	Y	N	Construct a parking lot for the Regional Training Institute
					Blueline Construction #20 Reata Road Santa Fe NM 87507			
					RL Leeder Company PO Box 15147 Santa a Fe NM 87592			
					Sparling Construction Co. PO Box 90548 Albuquerque NM 87199			

See independent auditors' report.



**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**

**Independent Auditor's Report**

Brigadier General Andrew Salas, Adjutant General  
State of New Mexico  
Department of Military Affairs and State Armory Board  
and  
Mr. Timothy Keller  
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, and 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, 2015, 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 supplementary information, and have issued our report thereon dated November 30, 2015.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the 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 the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses: 2008-003.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies described in the accompany schedule of findings and questioned costs to be significant deficiencies: 2007-002 and 2015-001.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Department's financial statements are free from 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 did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Department's Response to Findings**

The Department's response to the findings 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 the financial statements and, accordingly, we express no opinion on it.

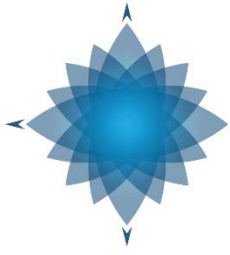
### **Purpose of this Report**

The 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Integrity Accounting + Consulting, LLC*

Integrity Accounting & Consulting, LLC  
Albuquerque, NM  
November 30, 2015





**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

**Independent Auditor’s Report**

Brigadier General Andrew Salas, Adjutant General  
State of New Mexico  
Department of Military Affairs and State Armory Board  
and  
Mr. Timothy Keller  
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’s (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, 2015. 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, 2015.

## Report on Internal Control Over Compliance

Management of the Department, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Department's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

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

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

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

*Integrity Accounting + Consulting, LLC*

Integrity Accounting & Consulting, LLC  
Albuquerque, NM  
November 30, 2015

**STATE OF NEW MEXICO  
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2015**

**SECTION I SUMMARY OF AUDIT RESULTS**

*Financial Statements:*

- |  |            |
|--|------------|
| 1. Type of auditors' report issued   | Unmodified |
| 1. Internal control over financial reporting:                                    |            |
| a. Material weakness identified?   | Yes        |
| b. Significant deficiencies identified not considered to be material weaknesses? | Yes        |
| c. Noncompliance material to the financial statements noted?                     | No         |

*Federal Awards:*

- |   |            |
|---|------------|
| 1. Internal control over major programs:  |            |
| a. Material weaknesses identified?  | No         |
| b. Significant deficiencies identified not considered to be material weaknesses?                                      | No         |
| 2. Type of auditors' report issued on compliance for major programs   | Unmodified |
| 3. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? | No         |

- |                                      |  |
|--------------------------------------|--|
| 4. Identification of major programs: |  |
| <u>CFDA</u>                          | <u>Federal Program</u>   |
| Number                               |  |
| 12.401                               | National Guard Military Operations<br>and Maintenance Projects |
| 12.404                               | National Guard CHALLENGE Program                               |
| 97.036                               | Disaster Grants – Public Assistance                            |

- |   |           |
|---|-----------|
| 5. Dollar threshold used to distinguish between type A and type B programs: | \$387,534 |
| 6. Auditee qualified as low-risk auditee?                                   | 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, 2015**

**SECTION II FINDINGS – FINANCIAL STATEMENTS**

<u>Finding</u>	<u>Status of Current and Prior Year Findings</u>	<u>Financial Statement Finding</u>	<u>Federal Awards Finding</u>
<b>Prior Year Findings</b>			
2007-002 {07-02} - Reversions to the State General Fund	Repeated/ Modified	Yes	No
2008-003 {08-03} - SAS 115 - Material Adjustments by Auditor	Repeated/ Modified	Yes	No
2014-001 - Capital Asset Management	Resolved	Yes	No
2014-002 - Federal Grant Management	Resolved	Yes	No
2014-003 - Missing Documentation for Personnel Files	Resolved	Yes	No
<b>Current Year Findings</b>			
2015-001 - Cash Management	Current	Yes	No

**PRIOR YEAR FINDINGS**

**2007-002 [07-02] – Reversions to State General Fund** – Significant Deficiency

**Statement of Condition**

As of June 30, 2015, the Department had a liability of \$2,432,208 owed to the State General Fund for unreserved and undesignated fund balances of reverting funds related to reversions and state-dated warrants from the current and prior years that had not yet been made. These liabilities were not transferred to the State General Fund by the September 30 deadline.

Discussion with Department finance personnel showed reversions totaling \$1,590,650 were made by the Department during the year ended June 30, 2015 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.

This is a repeat finding from prior audits. During the year ended June 30, 2015, the Department reverted \$1,590,650 in prior year funds. It was not able to revert any current year funds by the September 30, 2015 deadline. The Department is examining its available options in order to make the required reversions in a timely manner.

**Criteria**

The General Appropriations Act of 2010, Laws 2010, Chapter 6, Section 2 (General Provisions), requires any unencumbered balances in agency accounts remaining at the end of fiscal year 2011 shall revert to the general fund by October 1. In addition, Section 6-5-10, NMSA 1978 requires that all unreserved and undesignated fund balances in reverting funds and accounts as reflected in the central financial reporting and accounting system as of June 30, as adjusted, shall revert to the general fund within forty-five days of release of the audit report for that fiscal year.

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**Effect**

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

**Cause**

The Department did not have the available cash to pay all of its reversions payable. The Department relies on receipt of federal receivables to pay its reversions, and delays in the receipt 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 Department of Military Affairs reverted \$1,590,650 in FY-2015. The Department of Military Affairs is calculating the annual general fund reversions in accordance with Department of Finance and Administration's direction.

The Department of Military Affairs and the National Guard Bureau (NGB) entered into a Master Cooperative Agreement in September 2012 to establish the terms and conditions applicable to the contribution of NGB funds or In-Kind Assistance for the operation and training of the State Army and Air National Guard. The Department of Military Affairs must obligate sufficient state funds to pay for the costs incurred under the MCA and then seek federal reimbursement for the allowable costs incurred in performance of the MCA. Due to the cross over in fiscal years that are different between the ending of the State Fiscal year each June 30, and the Federal Fiscal Year ending each September 30, many times the agency did not have the available cash to pay all of its reversions by June 30 in calendar years. The state will work with the Department of Finance and Administration to seek an exemption to the negative cash flow rule in an effort to revert funds in a timely manner within the State's Fiscal year since the Federal reimbursement takes a minimum of 30 to 75 days after the funds have been expended to be reverted by the State.

Often times, a majority of The Department of Military Affairs reversions comes from The Adjutant General's Emergency Fund (AGEF) (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. Due to the lengthy reimbursement process with FEMA via NM Department of Homeland Security, the turnaround time is often in the next Fiscal year. This limits our ability to revert the AGEF funds within the prescribed timeframe.

In an effort to minimize these reversions the agency requested from the NM Legislature for FY16 that Adjutant General's Emergency fund become a non-reverting multi-year fund. Any federal revenues are generated by such events those revenues cannot be recorded in the fiscal year in

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which the costs were incurred and therefore end up being reverted. These reimbursements can take as long as 2 years.

The Department's State Programs Director and Chief Financial Officer are monitoring compliance with the reversion process and expect to have a more complete understanding of whether the Department can meet the reversion requirements by June 30, 2016.

**2008-003 [08-03] – SAS 115 - Material Adjustments by Auditor** – Material weakness

**Statement of Condition**

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

• Adjusting client reversion entries	\$ 822,812
• Reclassing "unavailable" receivables	2,786,090
• Adjusting federal receivables	427,985

It was observed that the Department showed improvements identifying and making entries that had previously been left to the auditors to make.

**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 made/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.

**Management Response**

Concur. The Agency did make vast improvement in this area due to the training it received from the State CAFR unit. The number of adjustments dropped from 12 to 3 entries. The Department will make the adjustments on a timely manner. We will request training from the Department of Finance and Administration and the CAFR unit. Our expectation is that this training will be complete by June 30, 2016. The Department's Chief Financial Officer will oversight this process.

The agency restructured 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 to avoid general ledger discrepancies.

**CURRENT YEAR FINDINGS**

**2015-001 – Cash Management** – Significant Deficiency

**Statement of Condition**

While conducting the audit, it was observed that the Department had overdrawn its Investment in the State General Fund Investment Pool. As of June 30, 2015, the Department showed an overdrawn balance of \$13,477.

**Criteria**

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

**Effect**

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

**Cause**

The Department did not effectively monitor its available cash balances to ensure adequate funding was available.

**Recommendation**

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

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**Management Response**

Concur. The agency will monitor the cash balances for each fund on a weekly basis. We expect to have this process in place by January 1, 2016. If the cash balance is not sufficient, projects will be delayed. The Department's Chief Financial Officer will oversight this process.

As stated above, the Federal government is spending funds through the Master Cooperative Funding Agreement to execute their budget. The Agency pays all expenditures for the Federal programs initially and seeks reimbursement subsequently, under non-negotiable terms of the Master Cooperative Funding Agreement. The Federal reimbursement takes a minimum of 30 to 75 days after the expenditure. This results in negative cash flow until the reimbursements are received from the Federal government. The agency cannot process reversions with a negative cash flow.



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**OTHER DISCLOSURES**  
**FOR THE YEAR ENDED JUNE 30, 2015**

**A. AUDITOR PREPARED FINANCIAL STATEMENTS**

Presentation: The accompanying financial statements are the responsibility of the Department and are based on information from the Department's financial records. Assistance was provided by Integrity Accounting & Consulting to the Department in preparing the financial statements.

**B. EXIT CONFERENCE**

The contents of the report for the Department of Military Affairs/State Armory Board were discussed on November 30, 2015. The following individuals were in attendance.

Department of Military Affairs/State Armory Board:

Brigadier General Andrew Salas	Adjutant General
Theresa Martinez	Director State Programs
Lawrence Montano	Chief Financial Officer
Laurie Green	Budget Director
Tamara Murillo	Budget Analyst
Joy Rico	Reimbursement Analyst
Terra Doss	Accounts Payable
Elizabeth Alvarado	State Armory Board Administrator
Sandra Gonzales-Bazan	Chief Procurement Officer
Elizabeth Chavez	Procurement Specialist

Integrity Accounting & Consulting:

Erick Robinson, CPA, CFE	Partner
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