

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS
AND STATE ARMORY BOARD
FINANCIAL STATEMENTS
FOR THE YEAR-ENDED JUNE 30, 2016



INTRODUCTORY SECTION

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DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
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FOR THE YEAR ENDED JUNE 30, 2016**

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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, 2016**

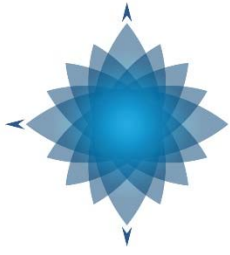
DEPARTMENT OF MILITARY AFFAIRS

Name	Title
Brigadier General Andrew E. Salas	Adjutant General
Brigadier General Kenneth A. Nava	Deputy Adjutant General
Theresa V. Martinez	Director of State Programs
Lawrence Montano	Deputy Director of State Programs
Kathy A. Romero	Chief Financial Officer

STATE ARMORY BOARD

Brigadier General Andrew E. Salas	Chairman
Command Sergeant Major Gregory Ivey	Secretary/Treasurer
Theresa V. Martinez	Executive Director
Brigadier General Kenneth A. 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, 2016, 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, 2016, 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, 2016, 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, 2016 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 is presented for purposes of additional analysis as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the

other schedules required by 2.2.2 NMAC are also not a required part of the basic financial statements.

The combining and individual nonmajor fund 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 28, 2016, 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 28, 2016

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
STATEMENT OF NET POSITION
GOVERNMENT-WIDE
As of June 30, 2016

	<u>Governmental Activities</u>
Assets and deferred inflows of resources:	
Assets:	
Current assets	
Investment in State Treasurer General	
Fund Investment Pool	\$ 2,020,891
Petty cash	200
Receivables	572,509
Due from other state agencies	208,081
Due from federal government	4,545,282
Total current assets	<u>7,346,963</u>
Non-current assets:	
Capital assets not being depreciated	9,394,287
Capital assets being depreciated	189,955,659
Less accumulated depreciation	<u>(112,979,277)</u>
Total capital assets, net of depreciation	<u>86,370,669</u>
Total assets	<u>93,717,632</u>
Deferred Outflows of Resources:	
Total deferred outflows of resources	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 93,717,632</u>
Liabilities, deferred inflows of resources and net position	
Liabilities:	
Current liabilities	
Accounts payable	\$ 1,239,404
Accrued salaries payable	142,678
Accrued payroll liabilities	158,355
Other accrued liabilities	1,111
Due to other state agencies	103,874
Due to State General Fund	3,682,124
Receipts held in suspense	16,071
Compensated absences - current portion	<u>250,862</u>
Total current liabilities	<u>5,594,479</u>
Long-term liabilities:	
Compensated absences payable	<u>73,147</u>
Total liabilities	<u>5,667,626</u>
Deferred Inflows of Resources:	
Total deferred inflows of resources	<u>-</u>
Net position:	
Net investment in capital assets	86,370,669
Restricted	
Special revenue funds	1,105,217
Unrestricted	<u>574,120</u>
Total net position	<u>88,050,006</u>
Total liabilities, deferred inflows of resources and net position:	<u>\$ 93,717,632</u>

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

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
STATEMENT OF ACTIVITIES
GOVERNMENT-WIDE
For The Year Ended June 30, 2016

	<u>Governmental Activities</u>
Expenses:	
Public Safety	\$ 17,286,073
Depreciation expense	<u>6,694,697</u>
Total program expenses	23,980,770
Program revenues:	
Federal grants - operating	14,523,015
Federal grants - capital	122,046
State-federal pass-through grants	<u>471,475</u>
Total program revenues	<u>15,116,536</u>
Net program (expense) revenue	<u>(8,864,234)</u>
General revenues and (expenses):	
Transfer - State General Fund appropriations	8,262,400
Transfer - Severance tax bond appropriations (capital projects)	1,755,004
Transfer - Compensation appropriation	-
Transfer - Reversions to state general fund - FY16	(1,148,811)
Interest income	2,799
Miscellaneous revenue	<u>47,599</u>
Total general revenues and expenses	<u>8,918,991</u>
Change in net position	54,757
Beginning net position	87,807,543
Restatement	<u>187,706</u>
Beginning net position, as restated	<u>87,995,249</u>
Ending net position	<u><u>\$ 88,050,006</u></u>

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

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
BALANCE SHEET
GOVERNMENTAL FUNDS
As of June 30, 2016

	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	
Assets and deferred inflows of resources:						
Assets:						
Investment in State Treasurer General Fund Investment Pool	\$ (228,362)	2,620,940	1,053,615	929,177	146,762	4,522,132
Petty cash	200	-	-	-	-	200
Receivables	789	-	1,512	-	-	2,301
Due from other funds	-	-	-	-	442	442
Due from other state agencies	11,701	757,914	-	-	8,675	778,290
Due from federal government	4,506,494	-	-	38,787	-	4,545,281
Total assets	<u>\$ 4,290,822</u>	<u>3,378,854</u>	<u>1,055,127</u>	<u>967,964</u>	<u>155,879</u>	<u>9,848,646</u>
Deferred Outflows of Resources:						
Total deferred outflows of resources	-	-	-	-	-	-
Total assets and deferred outflows of resources	<u>4,290,822</u>	<u>3,378,854</u>	<u>1,055,127</u>	<u>967,964</u>	<u>155,879</u>	<u>9,848,646</u>
Liabilities, deferred inflows of resources and fund balance						
Liabilities:						
Investment overdraft	\$ 2,498,731	-	-	-	2,510	2,501,241
Accounts payable	1,017,099	220,137	2,168	-	-	1,239,404
Accrued salaries payable	142,678	-	-	-	-	142,678
Accrued payroll liabilities	135,285	23,070	-	-	-	158,355
Other accrued liabilities	1,111	-	-	-	-	1,111
Due to other funds	442	-	-	-	-	442
Due to other state agencies	5,532	98,342	-	-	-	103,874
Due to State General Fund	469,922	3,037,305	94,665	73,786	6,446	3,682,124
Receipts held in suspense	16,071	-	-	-	-	16,071
Total liabilities	<u>4,286,871</u>	<u>3,378,854</u>	<u>96,833</u>	<u>73,786</u>	<u>8,956</u>	<u>7,845,300</u>
Deferred Inflows of Resources:						
Unavailable revenues - grants	1,711,507	570,208	-	38,787	-	2,320,502
Total deferred inflows of resources	<u>1,711,507</u>	<u>570,208</u>	<u>-</u>	<u>38,787</u>	<u>-</u>	<u>2,320,502</u>
Fund balance:						
Nonspendable	200	-	-	-	-	200
Restricted						
Service Members' Life Insurance Reimbursements	-	-	958,294	-	-	958,294
Financial assistance for NM Guard members' families	-	-	-	-	146,923	146,923
Purchase land for joint operation and first responder campus	-	-	-	949,791	-	949,791
Committed	-	-	-	-	-	-
Assigned	-	-	-	-	-	-
Unassigned	(1,707,756)	(570,208)	-	(94,400)	-	(2,372,364)
Total fund balance	<u>(1,707,556)</u>	<u>(570,208)</u>	<u>958,294</u>	<u>855,391</u>	<u>146,923</u>	<u>(317,156)</u>
Total liabilities, deferred inflows of resources and fund balances:	<u>\$ 4,290,822</u>	<u>3,378,854</u>	<u>1,055,127</u>	<u>967,964</u>	<u>155,879</u>	<u>9,848,646</u>

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

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
GOVERNMENT-WIDE STATEMENT OF NET POSITION
As of June 30, 2016

Total fund balance - Governmental funds	\$	(317,156)
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.		86,370,669
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		2,320,502
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>(73,147)</u>
		<u>(324,009)</u>
Net position for governmental activities	\$	<u><u>88,050,006</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, 2016

	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	
Revenues:						
Federal sources	\$ 14,989,693	-	-	312,974	-	15,302,667
State-federal pass-through grants	88,974	626,575	-	-	-	715,549
Interest on investments	-	-	2,799	-	-	2,799
Miscellaneous revenue	25,356	14,954	12	-	7,277	47,599
Total revenues	<u>15,104,023</u>	<u>641,529</u>	<u>2,811</u>	<u>312,974</u>	<u>7,277</u>	<u>16,068,614</u>
Expenditures:						
Public Safety						
Current:						
Personal services and benefits	8,361,895	298,144	-	-	-	8,660,039
Contractual services	2,313,241	415,397	-	122,046	31,859	2,882,543
Other costs	4,452,582	74,783	1,200,919	-	-	5,728,284
Capital outlay	5,295,056	-	-	750,209	23,145	6,068,410
Total expenditures	<u>20,422,774</u>	<u>788,324</u>	<u>1,200,919</u>	<u>872,255</u>	<u>55,004</u>	<u>23,339,276</u>
Excess (deficiency) of revenue over expenditures	<u>(5,318,751)</u>	<u>(146,795)</u>	<u>(1,198,108)</u>	<u>(559,281)</u>	<u>(47,727)</u>	<u>(7,270,662)</u>
Other financing sources (uses)						
Severance tax bond						
proceed appropriations	-	-	-	-	55,004	55,004
Transfer - State General Fund appropriations	6,137,400	1,000,000	1,125,000	-	-	8,262,400
Transfer - Special appropriation	-	-	-	1,700,000	-	1,700,000
Transfer - Reversions to state general fund - FY16	(351,973)	(796,838)	-	-	-	(1,148,811)
Total other financing sources (uses):	<u>5,785,427</u>	<u>203,162</u>	<u>1,125,000</u>	<u>1,700,000</u>	<u>55,004</u>	<u>8,868,593</u>
Net change in fund balance	<u>466,676</u>	<u>56,367</u>	<u>(73,108)</u>	<u>1,140,719</u>	<u>7,277</u>	<u>1,597,931</u>
Beginning fund balance	(2,174,232)	(814,281)	1,031,402	(285,328)	139,646	(2,102,793)
Restatement	-	187,706	-	-	-	187,706
Beginning fund balance, as restated	<u>(2,174,232)</u>	<u>(626,575)</u>	<u>1,031,402</u>	<u>(285,328)</u>	<u>139,646</u>	<u>(1,915,087)</u>
Ending fund balance	\$ <u>(1,707,556)</u>	<u>(570,208)</u>	<u>958,294</u>	<u>855,391</u>	<u>146,923</u>	<u>(317,156)</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, 2016**

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

Net change in fund balances (deficit) - total governmental funds	\$	1,597,931
Governmental funds report capital outlays as expenditures. However in the		
Capital expenditures recorded as capital outlay or other expenses		6,063,635
Depreciation expense on capital assets is reported in the government-wide		(6,694,697)
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		(901,679)
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		<u>(10,433)</u>
Change in net position of governmental activities	\$	<u><u>54,757</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, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Federal grants-operating	\$ 15,000,900	17,040,350	14,919,366	(2,120,984)
State-federal pass through grants	147,400	88,200	88,218	18
Miscellaneous revenue	49,500	1,800	(11,556)	(13,356)
Building - Rental or Lease	49,600	34,700	36,007	1,307
Land royalties	2,500	1,400	905	(495)
Total revenues	<u>15,249,900</u>	<u>17,166,450</u>	<u>15,032,940</u>	<u>(2,133,510)</u>
Expenditures				
Current (Public Safety):				
Personal services and employee benefits	8,982,200	8,901,800	8,361,895	539,905
Contractual services	3,624,800	3,685,800	2,337,644	1,348,156
Other	8,824,100	10,716,250	4,452,582	6,263,668
Capital outlay	-	-	5,295,056	(5,295,056)
Total expenditures	<u>21,431,100</u>	<u>23,303,850</u>	<u>20,447,177</u>	<u>2,856,673</u>
Excess (deficiency) of revenues over expenditures	<u>(6,181,200)</u>	<u>(6,137,400)</u>	<u>(5,414,237)</u>	<u>723,163</u>
Other Financing Sources (Uses)				
State general fund appropriations	6,181,200	6,137,400	6,137,400	-
Reversion to state general fund FY16	-	-	(351,973)	(351,973)
Net interagency transfers and financial sources (uses)	<u>6,181,200</u>	<u>6,137,400</u>	<u>5,785,427</u>	<u>(351,973)</u>
Net change in fund balance	<u>\$ -</u>	<u>-</u>	<u>371,190</u>	<u>371,190</u>
Reconciliation of Budgetary Basis to Fund Financial Statement				
Total budget basis expenditures for fiscal year 2016:			\$ 20,447,177	
Adjustments:				
Accounts payable that required a request to pay prior-year bills out of the FY2017 budget			7,316	
Prior year accounts payable paid out of FY2016 budget			<u>(31,719)</u>	
Total GAAP Basis Expenditures for the fiscal year ended June 30, 2016:			<u>\$ 20,422,774</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, 2016

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance Favorable (Unfavorable)
Revenues				
Federal grants-operating	\$ -	-	626,575	626,575
Miscellaneous revenue	-	-	14,954	14,954
Total revenues	-	-	641,529	641,529
 Total resources	-	-	641,529	
 Expenditures				
Current (Public Safety):				
Personal services and employee benefits	350,000	350,000	298,143	51,857
Contractual services	475,000	475,000	413,933	61,067
Other	175,000	175,000	74,783	100,217
Total expenditures	1,000,000	1,000,000	786,859	213,141
 Excess (deficiency) of revenues over expenditures	(1,000,000)	(1,000,000)	(145,330)	854,670
 Other Financing Sources (Uses)				
State general fund appropriations	1,000,000	1,000,000	1,000,000	-
Reversion to state general fund FY16	-	-	(796,838)	(796,838)
Net interagency transfers and financial sources (uses)	1,000,000	1,000,000	203,162	(796,838)
Net change in fund balance	\$ -	-	57,832	57,832
 Reconciliation of Budgetary Basis to Fund Financial Statement				
Total budget basis expenditures for fiscal year 2016:			\$ 786,859	
Adjustments:				
Accounts payable that required a request to pay prior-year bills out of the FY2017 budget			1,465	
Prior year accounts payable paid out of FY2016 budget			-	
Rounding			-	
 Total GAAP Basis Expenditures for the fiscal year ended June 30, 2016:			\$ 788,324	

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, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Miscellaneous revenue	\$ -	-	12	12
Total revenues	<u>-</u>	<u>-</u>	<u>12</u>	<u>12</u>
Reissued prior year budget	<u>-</u>	<u>75,000</u>	<u>-</u>	
Total resources	<u>-</u>	<u>75,000</u>	<u>12</u>	
Expenditures				
Current (Public Safety):				
Other	<u>1,125,000</u>	<u>1,200,000</u>	<u>1,199,595</u>	<u>405</u>
Total expenditures	<u>1,125,000</u>	<u>1,200,000</u>	<u>1,199,595</u>	<u>405</u>
Excess (deficiency) of revenues over expenditures	<u>(1,125,000)</u>	<u>(1,125,000)</u>	<u>(1,199,583)</u>	<u>(74,583)</u>
Other Financing Sources (Uses)				
State general fund appropriations	<u>1,125,000</u>	<u>1,125,000</u>	<u>1,125,000</u>	<u>-</u>
Net interagency transfers and financial sources (uses)	<u>1,125,000</u>	<u>1,125,000</u>	<u>1,125,000</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>-</u>	<u>(74,583)</u>	<u>(74,583)</u>
Reconciliation of Budgetary Basis to Fund Financial Statement				
Total budget basis expenditures for fiscal year 2016:			\$ 1,199,595	
Adjustments:				
Accounts payable that required a request to pay prior-year bills out of the FY2017 budget			2,000	
Prior year accounts payable paid out of FY2016 budget			<u>(676)</u>	
Total GAAP Basis Expenditures for the fiscal year ended June 30, 2016:			<u>\$ 1,200,919</u>	

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

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - AGENCY FUNDS
As of June 30, 2016

	<u>Agency Funds</u>
Assets	
Cash in local banks	\$ <u>110,305</u>
Total assets	\$ <u><u>110,305</u></u>
Liabilities	
Deposits held for others	\$ <u>110,305</u>
Total liabilities	\$ <u><u>110,305</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, 2016

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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DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

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

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

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

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

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)

STATE OF NEW MEXICO
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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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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

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, 2016.

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 \$2,320,502 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, 2016, 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 \$2,053,484 of

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restricted net position that are considered as restricted by enabling legislation.

Unrestricted Assets – represent unrestricted liquid assets. These are comprised off all net position that is not otherwise classified as restricted or invested in capital assets. The Department allocates expenses to restricted or unrestricted resources based on the budgeted source of funds. It is the Department’s practice to apply restricted resources prior to unrestricted funds when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

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 2013. For the year ended June 30, 2016, 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, 2016 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	\$ (2,727,093)	(2,727,093)
Adjutant General's Emergency Fund	70500-07000	STO	2,620,940	2,620,940
NM Military Family Relief Fund	70500-10580	STO	146,762	146,762
Service Members' Life Insurance				
Reimbursement Fund	70500-93200	STO	1,053,615	1,053,615
Armory Improvements	70500-89700	STO	929,177	929,177
STB Capital Outlay	70500-89200	STO	(2,510)	(2,510)
Total			<u>\$ 2,020,891</u>	<u>2,020,891</u>

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Certain funds of the Department have overdrawn their available balance in the State Treasurer General Fund Investment Pool. These are presented in the accompanying financial statements as an investment overdraft in the General Fund and the STB Capital Outlay fund. The overdraft is expected to be resolved by the receipt of amounts due from the federal government totaling \$4,506,494 and amounts due related to severance tax bonds totaling \$8,513.

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

On August 8, 2016, the New Mexico Department of Finance and Administration, Financial Control Division issued a memorandum regarding the reconciliation of the State General Fund Investment Pool. It stated that the Financial Control Division in collaboration with the State Treasurer's Office, implemented a comprehensive reconciliation model that compared aggregated agency claims on the State General Fund Investment Pool and to the associated resources held by the State Treasurer's Office. This process now has been reviewed by the IPAs performing audits of the General Fund, the Department of Finance and Administration and the State of New Mexico's Comprehensive Annual

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Financial Report for fiscal year 2015. Each review of the process deemed it to be adequate and the findings related to Cash Reconciliation were significantly reduced or eliminated. Successfully addressing this issue allowed the Department to reinstate \$100M that had been reserved as a loss contingency.

For fiscal year 2016 the following assertions are provided:

1. The calculated difference between resources maintained by STO and the agency claims has remained stable and within a narrow and acceptable range < \$200k standard deviation) over the last twelve months;
2. Resources are sufficient to cover claims and there is no need to adjust any specific business unit claim on the SGFIP, and
3. All claims will be honored at face value

With specific reference to the Department, the Department has provided copies of the referenced diagnostic reports to the IPA. The Department has also explained and provided copies to the IPA what policies and procedures are in place that ensures that the cash balances in SHARE are correct to the extent that the Department has control (i.e. collection, depositing, reconciling, bank statement validation, and documentation of outstanding reconciling items) of the cash it receives and transfers to the state general fund and other state agencies pursuant to state statute.

The Department has an interest in the State General Fund Investment Pool allocated between their funds operating under the oversight of SHARE and the State Treasurers Office. The cash transactions processed by the Department flow through the state general fund investment pool.

The Department 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. 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 and a review of outstanding warrants. The Department conducts ongoing tracking of all cash deposits and financial transactions to ensure that they are accurately recorded and posted to the SHARE system. This monthly internal reconciliation of cash receipts and disbursements flowing through the Department 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.

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.

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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, 2016. 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, 2016, 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>06/30/16</u>			<u>06/30/16</u>
Alamogordo	Western Bank	\$ 643	Joint Forces HQ	Century Bank	35,558
Albuquerque	Wells Fargo	8,669	Las Cruces	Bank of America	11,574
Belen	Wells Fargo	5,032	Las Vegas	Bank of Las Vegas	302
Clayton	Farmers & Stockmens	338	Rio Rancho	US NM Fed CU	5,882
Clovis	Western Bank	170	Roswell	Wells Fargo	2,618
Espanola	Del Norte CU	320	Santa Fe	First National	33,427
Farmington	Citizens Bank	1,271	Santa Rosa	Wells Fargo	858
Grants	Wells Fargo	1,270	Springer	Wells Fargo	400
Hobbs	Western Commerce	\$ 1,616	Taos	Peoples Bank	<u>357</u>
				Total	\$ <u>110,305</u>

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

C. Summary of Cash

<u>Type</u>	<u>Amount</u>
Governmental funds:	
Investment in State Treasurer General Fund	
Investment Pool	\$ 2,020,890
Petty cash - held onsite	<u>200</u>
Subtotal governmental funds	2,021,090
Agency funds:	
Local Armory Board accounts	<u>110,305</u>
Subtotal agency funds	<u>110,305</u>
Total cash and investments	\$ <u>2,131,395</u>

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NOTE 5 – RECEIVABLES

A. Due From Federal Government

At June 30, 2016, \$4,545,282 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 Other State Agencies

Severance tax bonds:

The State Board of Finance sells severance tax bonds as authorized by the State Legislature and hold the proceeds until such time that the Department requests such funds as reimbursement for expenditures. In accordance with GASBS 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the Department recognizes revenue and any related expenses related to severance tax bonds when all applicable eligibility requirements have been met. As a result, amounts shown as receivable at June 30, 2016 relate only to those amounts in which applicable eligibility requirements have been met, but the drawdowns have not yet been received by the Department. As of June 30, 2016, the amounts receivable totaled \$2,746 as reflected in the following schedule.

A summary of receivables from other agencies as of June 30, 2016 is as follows:

<u>Due From</u> <u>Agency/Fund</u>	<u>Agency Name</u>	<u>Due To</u> <u>Agency/Fund</u>	<u>Amount</u>	<u>Purpose of Receivable</u>
67000/06500	Dept of Veterans Services	70500/99200	\$ 2,205	Employee costs
92400/67202	NM Public Education Dept	70500/99200	8,740	School lunch program
79500/20052	Dept of Homeland Security and Emergency Management	70500/99200	756	Utility costs
34100/60900	Dept of Finance and Admin	70500/07000	187,706	Excess reversion
79500/00000	Dept of Homeland Security and Emergency Management	70500/07000	570,208	Emergency responder services
33300/81900	Taxation and Revenue Dept	70500/10580	162	Voluntary contributions
34100/60900	Dept of Finance and Admin	70500/89200	5,767	Excess reversion
34103/11720	Dept of Finance and Admin	70500/89200	<u>2,746</u>	STB draws receivable
Receivable from other agencies			<u>\$ 778,290</u>	

C. Due From Others

Additional receivables from others totaled \$789 as of June 30, 2016. These amounts are all considered to be collectible and as a result, no allowance had been created for potential uncollectible amounts.

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NOTE 6 – CAPITAL ASSETS

A summary of capital assets and changes occurring during the year ended June 30, 2016 follows. Land and construction in progress are not subject to depreciation.

<u>Capital Asset Description</u>	<u>Balance 06/30/15</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 06/30/16</u>
Capital assets not being depreciated:				
Land	\$ 8,644,078	750,209	-	9,394,287
Capital assets being depreciated:				
Buildings and Improvements	181,001,204	5,085,707	-	186,086,911
Machinery and Equipment	3,641,028	227,720	-	3,868,748
Subtotal capital assets being depreciated	184,642,232	5,313,427	-	189,955,659
Less accumulated depreciation:				
Buildings and Improvements	(103,604,249)	(6,387,325)	-	(109,991,574)
Machinery and Equipment	(2,680,329)	(307,374)	-	(2,987,703)
Total accumulated depreciation	(106,284,578)	(6,694,699)	-	(112,979,277)
Total capital assets being depreciated	78,357,654	(1,381,272)	-	76,976,382
Total capital assets (net)	\$ 87,001,732	(631,063)	-	86,370,669

The Department does not have any debt related to capital assets at June 30, 2016. Depreciation expense for the year was \$6,694,697 and is attributable to public safety functions throughout the Department.

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

NOTE 7 – DUE TO STATE GENERAL FUND (REVERSIONS)

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

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Amounts due to the State General Fund at June 30, 2016, were as follows:

<u>General Fund - State Armory Board (99200)</u>	<u>Amount</u>
Due to State General Fund	\$ 455,773
Stale-dated warrants	14,150
Total 99200	<u>\$ 469,923</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	61,499
Fiscal year 2016	351,973
Stale-dated warrants	14,150
Total reversions - Fund 99200	<u>\$ 469,923</u>
Adjutant General's Emergency Fund (07000)	
Due to State General Fund	\$ 3,016,544
Stale-dated warrants	20,761
Total 07000	<u>\$ 3,037,305</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	1,670,526
Fiscal year 2016	796,838
Stale-dated warrants	20,761
Total reversions - Fund 07000	<u>\$ 3,037,305</u>
Service Members' Life Insurance Reimbursement (93200)	
Stale-dated warrants	\$ 94,665
Total 93200	<u>\$ 94,665</u>
Armory Improvements - Capital Projects Fund (89700)	
Due to State General Fund	\$ 71,645
Stale-dated warrants	2,141
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	2,141
Total reversions - Fund 89700	<u>\$ 73,786</u>

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STB Capital Outlay - Capital Projects Fund (89200)

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

Reversion identified by fiscal year appropriation

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

NOTE 8 – LONG-TERM DEBT

A summary of changes in the compensated absences payable for the year ended June 30, 2016, is as follows:

	Balance			Balance	Amount due
Governmental activities	<u>06/30/15</u>	<u>Increases</u>	<u>Decreases</u>	<u>06/30/16</u>	<u>within one</u>
					<u>year</u>
Annual Leave	\$ 288,188	247,769	(240,300)	295,657	236,526
Sick Leave	1,500	222,199	(221,506)	2,193	1,754
Compensatory	<u>23,888</u>	<u>118,984</u>	<u>(116,713)</u>	<u>26,159</u>	<u>20,927</u>
Total governmental activities	\$ <u><u>313,576</u></u>	<u><u>588,952</u></u>	<u><u>(578,519)</u></u>	<u><u>324,009</u></u>	<u><u>259,207</u></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, 2016, are as follows:

<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, 2016.

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

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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, 2016, were \$261,029. Future minimum rental payments under these operating leases are as follows:

<u>Fiscal Year</u>		
<u>Ending June 30,</u>	<u>Amount</u>	
2017	\$	52,803
2018		5,378
2019		-
2020		-
2021		-
Total	\$	<u>58,181</u>

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:

<u>Fiscal Year</u>		
<u>Ending June 30,</u>	<u>Amount</u>	
2017	\$	41,435
2018		42,896
2019		44,411
2020		45,980
2021		<u>47,604</u>
Total	\$	<u>222,326</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, 2016, the total royalties recognized from this lease was \$905.

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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 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.

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

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

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2016, 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, 2016, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The Department's contributions to the RHCA for the years ended June 30, 2016, 2015, and 2014 were \$110,147, \$96,747 and \$82,436, 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

**STATE OF NEW MEXICO
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NOTES TO THE FINANCIAL STATEMENTS
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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, 2015, through June 30, 2016. 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 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, 2016:

<u>Fund</u>	<u>Fund Type</u>	<u>Amount</u>
General Fund - 99200	General Fund	\$ (1,707,756)
Adjutant General Emergency Fund - 07000	Special Revenue Fund	\$ (570,208)

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
NOTES TO THE FINANCIAL STATEMENTS
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Legal Compliance with Budget

The Department was in compliance with Section 6-6-6 of the New Mexico State Statutes regarding legal compliance with approved budgets. No funds exceeded budgeted expenditures as of June 30, 2016.

NOTE 13 – EVALUATION OF SUBSEQUENT EVENTS

The Department has evaluated subsequent events through November 28, 2016, the date which the financial statements were available to be issued.

NOTE 14 – RESTATEMENT OF FUND BALANCE/NET POSITION

During the year ended June 30, 2016, it was determined that reported fund balance in the Adjutant General Emergency Fund (*SHARE #07000*) was understated by \$187,706. This was the result of an invalid receivable being used as part of the reversion calculation. This resulted in an overstated state general fund reversion for the year.

The following table outlines the cumulative effect of the adjustments to net position/fund balances:

<u>Fund</u>	<u>Purpose/Reason</u>	<u>Amount</u>
Governmental funds		
Major funds		
Adjutant General Emergency Fund	Prior year Due to State General Fund was overstated	\$ <u>187,706</u>
Total governmental funds		<u>187,706</u>
Government-wide statements	Applicable adjustments from above	<u>187,706</u>
Total governmental activities		<u>\$ 187,706</u>

NOTE 14 – SUBSEQUENT PRONOUNCEMENTS

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.

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.

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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

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

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)

STATE OF NEW MEXICO
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NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
As of June 30, 2016

	<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	\$ 146,762	-	146,762
Due from other funds	-	442	442
Due from other state agencies	161	8,514	8,675
Total assets	<u>\$ 146,923</u>	<u>8,956</u>	<u>155,879</u>
Deferred Outflows of Resources:			
Total deferred outflows of resources	<u>-</u>	<u>-</u>	<u>-</u>
Total assests and deferred outflows of resources	<u>146,923</u>	<u>8,956</u>	<u>155,879</u>
Liabilities, deferred inflows of resources and fund balance			
Liabilities:			
Investment overdraft	\$ -	2,510	2,510
Due to State General Fund	-	6,446	6,446
Total liabilities	<u>-</u>	<u>8,956</u>	<u>8,956</u>
Deferred Inflows of Resources:			
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance:			
Nonspendable	-	-	-
Restricted			
Financial assistance for NM			
Guard members' families	146,923	-	146,923
Capital projects	-	-	-
Committed	-	-	-
Assigned	-	-	-
Unassigned	-	-	-
Total fund balance	<u>146,923</u>	<u>-</u>	<u>146,923</u>
Total liabilities, deferred inflows of resources and fund balances:	<u>\$ 146,923</u>	<u>8,956</u>	<u>155,879</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
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For The Year Ended June 30, 2016

	Special Revenue	Capital Projects		Total Other Governmental Funds
	NM Member Family Assistance Fund Fund 10580	STB Capital Outlay Fund 89200		Funds
Revenues:				
Miscellaneous revenue	\$ 7,277	-		7,277
Total revenues	7,277	-		7,277
Expenditures:				
Public Safety				
Current:				
Contractual services	-	31,859		31,859
Capital outlay	-	23,145		23,145
Total expenditures	-	55,004		55,004
Excess (deficiency) of revenue over expenditures	7,277	(55,004)		(47,727)
Other financing sources (uses)				
Severance tax bond				
proceed appropriations	-	55,004		55,004
Total other financing sources (uses):	-	55,004		55,004
Net change in fund balance	7,277	-		7,277
Beginning fund balance	139,646	-		139,646
Ending fund balance	\$ 146,923	-		146,923

See independent auditors' report.
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STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
NEW MEXICO MEMBER FAMILY ASSISTANCE FUND (10580)
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND NET ASSETS BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
For The Year Ended June 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Miscellaneous revenue	\$ -	6,428	7,277	849
Total revenues	<u>-</u>	<u>6,428</u>	<u>7,277</u>	<u>849</u>
Reissued prior year budget	<u>-</u>	<u>116,246</u>	<u>-</u>	
Total resources	<u>-</u>	<u>122,674</u>	<u>7,277</u>	
Expenditures				
Current (Public Safety):				
Other	<u>-</u>	<u>122,674</u>	<u>-</u>	<u>122,674</u>
Total expenditures	<u>-</u>	<u>122,674</u>	<u>-</u>	<u>122,674</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>7,277</u>	<u>7,277</u>
Other Financing Sources (Uses)				
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>7,277</u>	<u>7,277</u>
Reconciliation of Budgetary Basis to Fund Financial Statement				
Total budget basis expenditures for fiscal year 2016:			\$ -	
Adjustments:				
Accounts payable that required a request to pay prior-year bills out of the FY2017 budget			-	
Prior year accounts payable paid out of FY2016 budget			<u>-</u>	
Total GAAP Basis Expenditures for the fiscal year ended June 30, 2016:			<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
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, 2016

	<u>Budgeted Amounts</u>		Actual (Budgetary Basis)	Variance from Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
Revenues				
Severance tax bond appropriations	\$ 969,160	969,160	55,004	(914,156)
Total revenues	<u>969,160</u>	<u>969,160</u>	55,004	(914,156)
Expenditures				
Armories infrastructure statewide				
A131225				
Contractual services	2,747	2,747	-	2,747
Other costs	10,931	10,931	13,678	(2,747)
Total statewide infrastructure	<u>13,678</u>	<u>13,678</u>	<u>13,678</u>	<u>-</u>
Armory improvement/energy efficiency				
A141334				
Contractual services	231,859	231,859	31,860	199,999
Other costs	23,623	23,623	9,466	14,157
Total armory improvements	<u>255,482</u>	<u>255,482</u>	<u>41,326</u>	<u>214,156</u>
Las Cruces aviation/readiness design				
A150893				
Contractual services	200,000	200,000	-	200,000
Total Las Cruces aviation	<u>200,000</u>	<u>200,000</u>	<u>-</u>	<u>200,000</u>
Armory improvement/energy efficiency				
A150894				
Contractual services	50,000	50,000	-	50,000
Other costs	450,000	450,000	-	450,000
Total armory improvements	<u>500,000</u>	<u>500,000</u>	<u>-</u>	<u>500,000</u>
Total expenditures	<u>969,160</u>	<u>969,160</u>	<u>55,004</u>	<u>914,156</u>
Excess (deficiency) of revenues over expenditures	-	-	-	-
Other Financing Sources (Uses)				
Net other financing sources (uses)	-	-	-	-
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	-	-	-	-
Total	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
Reconciliation of Budgetary Basis to Fund Financial Statement				
Total budget basis expenditures for fiscal year 2016:			\$ 55,004	
Adjustments:				
Accounts payable that required a request to pay prior-year bills out of the FY2017 budget			-	
Prior year accounts payable paid out of FY2016 budget			-	
Total GAAP Basis Expenditures for the fiscal year ended June 30, 2016:			<u>\$ 55,004</u>	

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

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
ARMORY IMPROVEMENTS FUND - CAPITAL PROJECTS (89700) - MAJOR FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND NET ASSETS BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
For The Year Ended June 30, 2016

	<u>Budgeted Amounts</u>		Actual (Budgetary Basis)	Variance from Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
Revenues				
Federal grants-capital	\$ 5,550,088	16,832,813	872,255	(15,960,558)
Total revenues	<u>5,550,088</u>	<u>16,832,813</u>	<u>872,255</u>	<u>(15,960,558)</u>
Expenditures				
Farmington readiness center				
100% Federal: A031321				
Contractual Services	332,503	332,503	-	332,503
Other Costs	<u>293,284</u>	<u>293,284</u>	-	<u>293,284</u>
Total Farmington readiness center	<u>625,787</u>	<u>625,787</u>	-	<u>625,787</u>
Alamogordo readiness center				
100% Federal: A150034				
Contractual Services	307,301	328,026	122,046	205,980
Other Costs	<u>4,617,000</u>	<u>4,832,000</u>	-	<u>4,832,000</u>
Total Alamogordo readiness center	<u>4,924,301</u>	<u>5,160,026</u>	<u>122,046</u>	<u>5,037,980</u>
Las Cruces readiness center				
100% Federal: A150034				
Contractual Services	-	1,031,000	-	1,031,000
Other Costs	-	<u>8,316,000</u>	-	<u>8,316,000</u>
Total Las Cruces readiness center	<u>-</u>	<u>9,347,000</u>	<u>-</u>	<u>9,347,000</u>
Joint operations/first responders land				
A151039 - Special appropriation				
Other Costs	-	<u>1,700,000</u>	<u>750,209</u>	<u>949,791</u>
Total Joint operations/first responder	<u>-</u>	<u>1,700,000</u>	<u>750,209</u>	<u>949,791</u>
Total expenditures	<u>5,550,088</u>	<u>16,832,813</u>	<u>872,255</u>	<u>15,960,558</u>
Excess (deficiency) of revenues over expenditures	\$ <u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Reconciliation of Budgetary Basis to Fund Financial Statement

Total budget basis expenditures for fiscal year 2016:	\$ 872,255
Adjustments:	
Accounts payable that required a request to pay prior-year bills out of the FY2017 budget	-
Prior year accounts payable paid out of FY2016 budget	<u>-</u>
Total GAAP Basis Expenditures for the fiscal year ended June 30, 2016:	<u>\$ 872,255</u>

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

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUNDS
For The Year Ended June 30, 2016

	<u>Balance</u> <u>June 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2016</u>
Assets				
Cash in local banks	\$ 125,574	128,545	(143,814)	110,305
Total assets	<u>125,574</u>	<u>128,545</u>	<u>(143,814)</u>	<u>110,305</u>
Liabilities				
Deposits held for others	125,574	128,545	(143,814)	110,305
Total liabilities	<u>\$ 125,574</u>	<u>128,545</u>	<u>(143,814)</u>	<u>110,305</u>
Armory				
	<u>Balance</u> <u>June 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2016</u>
Alamogordo	\$ 1,851	5,455	(6,663)	643
Albuquerque	11,157	5,905	(8,393)	8,669
Belen	4,690	880	(538)	5,032
Clayton	263	1,500	(1,425)	338
Clovis	1,295	-	(1,125)	170
Espanola	1,072	1,005	(1,757)	320
Farmington	2,694	865	(2,288)	1,271
Grants	1,377	-	(107)	1,270
Hobbs	2,438	-	(822)	1,616
Joint Forces HQ	53,666	42,710	(60,818)	35,558
Las Cruces	2,344	14,442	(5,212)	11,574
Las Vegas	360	500	(558)	302
Rio Rancho	3,338	11,507	(8,963)	5,882
Roswell	11,157	5,128	(13,667)	2,618
Santa Fe	24,966	36,998	(28,537)	33,427
Santa Rosa	953	150	(245)	858
Springer	863	100	(563)	400
Taos	1,071	1,400	(2,114)	357
Tucumcari	19	-	(19)	-
Total	<u>\$ 125,574</u>	<u>128,545</u>	<u>(143,814)</u>	<u>110,305</u>

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

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2016

Federal Grantor/Pass-Through Program Title	Federal CFDA Number	Report Category	Adjusted Grants Receivable 06/30/15	Adjusted Federal Awards Expended	Federal Receipts	Grants Receivable (Deferred Revenue) 06/30/16
U.S. Department of Defense						
National Guard Bureau						
National Guard Military Operations and Maintenance Projects: *						
	12.401					
FACILITIES OPERATIONS AND MAINTENANCE A01100, A01075, A01050						
W912}3-13-2-1001			\$ 56,051	-	(56,051)	\$ -
W912}3-14-2-1001			976,648	87,073	(1,063,487)	234
W912}3-15-2-1001			1,210,674	4,516,303	(5,185,346)	541,631
W912}3-16-2-1001			-	4,314,058	(1,983,141)	2,330,917
ENVIRONMENTAL RESOURCE MGMT: A02100,A02075						
W912}3-11-2-1002			1,882	-	(1,882)	-
W912}3-12-2-1002			22,500	-	(22,500)	-
W912}3-13-2-1002			39,117	-	(39,117)	-
W912}3-14-2-1002			41,263	73,857	(112,081)	3,039
W912}3-15-2-1002			123,318	177,436	(274,622)	26,132
W912}3-16-2-1002			-	390,699	(226,628)	164,071
PHYSICAL SECURITY: A03100						
W912}3-14-2-1003			179,111	-	(179,111)	-
W912}3-15-2-1003			129,996	160,821	(290,817)	-
W912}3-16-2-1003			-	628,798	(370,920)	257,878
ELECTRONIC SECURITY: A04100						
W912}3-14-2-1004			5,784	-	(5,784)	-
W912}3-15-2-1004			33,722	97,202	(129,784)	1,140
W912}3-16-2-1004			-	150,905	(114,506)	36,399
SUSTAINABLE RANGE PROGRAM: A07100						
W912}3-15-2-1007			55,284	100,504	(132,200)	23,588
W912}3-16-2-1007			-	85,059	(3,338)	81,721
ANTI-TERRORISM PROGRAM MANAGER: A10100						
W912}3-14-2-1010			10,123	-	(10,123)	-
W912}3-15-2-1010			11,112	39,589	(50,702)	(1)
W912}3-16-2-1010			-	54,228	(35,591)	18,637
AIR NAT. GUARD O&M: A21000						
W912}3-14-2-1021			7,137	-	(7,137)	-
W912}3-15-2-1021			199,816	194,275	(385,943)	8,148
W912}3-16-2-1021			-	432,632	(303,807)	128,825
AIR NAT. GUARD ENVIRONMENT: A22075						
W912}3-14-2-1022			1,547	-	-	1,547
W912}3-15-2-1022			15,931	13,391	(29,322)	-
W912}3-16-2-1022			-	37,196	(30,291)	6,905

See independent auditors' report.

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS and STATE ARMORY BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2016

Federal Grantor/Pass-Through Program Title	Federal CFDA Number	Report Category	Adjusted Grants Receivable 06/30/15	Adjusted Federal Awards Expended	Federal Receipts	Grants Receivable (Deferred Revenue) 06/30/16
DISTANCE LEARNING:						
		A40100				
W912J3-14-2-1040			4,442	-	(4,442)	-
W912J3-15-2-1040			75,757	126,518	(196,558)	5,717
W912J3-16-2-1040			-	254,811	(190,405)	64,406
Subtotal CFDA # 12.401			<u>\$ 3,201,215</u>	<u>11,935,355</u>	<u>(11,435,636)</u>	<u>\$ 3,700,934</u>
MILITARY CONSTRUCTION:						
	12.400					
W912J3-10-2-2002 (Santa Fe Readiness)		A031320	375	-	(375)	-
W912J3-13-2-2001 (Alamogordo Readiness)		A150034	228,363	122,046	(312,974)	37,435
Subtotal CFDA # 12.400			<u>228,738</u>	<u>122,046</u>	<u>(313,349)</u>	<u>\$ 37,435</u>
NATIONAL GUARD YOUTH CHALLENGE PROGRAM:						
	*	12.404	360000			
W912J3-13-2-4002			80,354	-	(80,354)	-
W912J3-14-2-4002			733,620	79	(733,699)	-
W912J3-15-2-4002			-	2,420,223	(1,614,664)	805,559
Subtotal CFDA # 12.404			<u>813,974</u>	<u>2,420,302</u>	<u>(2,428,717)</u>	<u>805,559</u>
TOTAL NATIONAL GUARD BUREAU			<u>4,243,927</u>	<u>14,477,703</u>	<u>(14,177,702)</u>	<u>4,543,928</u>
U.S. Department of Homeland Security - FEMA						
Passed through the NM Department of Homeland Security and Emergency Management						
Public Assistance Grant Program *	97.046		613,912	585,161	(628,866)	570,207
TOTAL US DEPARTMENT OF HOMELAND SECURITY			<u>613,912</u>	<u>585,161</u>	<u>(628,866)</u>	<u>570,207</u>
U.S. Department of Agriculture:						
Passed through the NM Public Education Department						
Child Nutrition Cluster:						
National School Lunch Program (NSL)	10.555	360100	-	153,301	(144,561)	8,740
School Breakfast Program (SBP)	10.553	360100	-	-	-	-
TOTAL NM PUBLIC EDUCATION DEPT.			<u>-</u>	<u>153,301</u>	<u>(144,561)</u>	<u>8,740</u>
TOTAL FEDERAL AWARDS			<u>4,857,839</u>	<u>15,216,165</u>	<u>(14,951,129)</u>	<u>5,122,875</u>
Federal revenue per financials			<u>\$ 4,857,839</u>	16,018,216	<u>(14,951,129)</u>	<u>5,122,875</u>
Add: "Unavailable" revenues in current year deferred to future years				2,320,502		
Less: Prior year "unavailable" revenues recognized in current year				<u>(3,122,553)</u>		
				<u>15,216,165</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, 2016

<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>
Fund 89200							
Severance Tax Bonds Outstanding*							
Laws 2011 - Chapter 5, Section 12	11-1299	07/01/2011 - 06/30/2016	\$ 1,600,000	1,600,000	-	-	-
Laws 2013 - Chapter 226, Section 6	13-1225	07/01/2013 - 06/30/2016	500,000	486,322	13,678	-	-
Laws 2014 - Chapter 66, Section 5	14-1334	07/01/2014 - 06/30/2018	500,000	244,518	41,327	-	214,155
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
Total severance tax bonds outstanding			<u>3,300,000</u>	<u>2,330,840</u>	<u>55,005</u>	<u>-</u>	<u>914,155</u>
Fund 89700							
Appropriation From the Capitol Building Repair Fund							
Laws of 2015, Chapter 3, Section 55	15-1039	07/01/2015 - 06/30/2019	\$ 1,700,000	-	750,209	-	949,791
Total Amounts			<u>\$ 3,300,000</u>	<u>2,330,840</u>	<u>55,005</u>	<u>-</u>	<u>914,155</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, 2016

Description	Agency	From Fund	To Fund	Appropriation Period		Amount
	Transferred From					Transferred In
General Fund Appropriation	DFA	34101	99200	FY16	\$	6,137,400
Special capital purchase approp	DFA	34101	89700	FY16		1,700,000
General Fund Appropriation	DFA	34101	93200	FY16		1,125,000
Executive order appropriation	DFA	34101	07000	FY16		1,000,000
					\$	<u>9,962,400</u>

Description	Agency	From Fund	To Fund	Appropriation Period		Amount
	Transferred To					Transferred Out*
General Fund Reversion	DFA	99200	34101	FY16	\$	351,973
General Fund Reversion	DFA	07000	34101	FY16		796,838
					\$	<u>1,148,811</u>

*Transfers will be completed after FY 16

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, 2016

<u>Participants</u>	<u>Responsible Party for Operations</u>	<u>Description</u>	<u>Beginning & Ending Dates</u>	<u>Total Estimated Amount of Project</u>	<u>Agency Contributions in FY 2016</u>	<u>Revenues & Expenditures Reported On By:</u>	<u>Audit Responsibility</u>	<u>Fiscal Agent</u>
Integrity Accounting & Consulting 16-01, PO 10738	DMA	FY- 15 Financial Audit	9/7/2015 5/27/2016	26,022.00	26,022.00	DMA	DMA	N/A
Sutin, Thayer Browne 16-05, PO 11340	DMA	Legal Services Griggs-Walnut Superfund	11/16/2015 12/1/2016	10,831.25	8,171.39	DMA	DMA	N/A
ENMUR -Curriculum 16-03, PO 10836	DMA	NMYCA Curriculum	7/1/2015 6/30/2016	230,000.00	230,000.00	DMA	DMA	N/A
ENMUR-Food Services 16-04, PO 10837	DMA	NMYCA Food Service	7/1/2016 6/30/2017	418,995.94	418,995.94	DMA	DMA	N/A
PNM 16-02, PO 10739	DMA	Consult & Design Services for new 480 volt Las Vegas Armory	6/19/2015 10/12/2016	49,950.00	49,950.00	DMA	DMA	N/A
Glorieta Geoscience, Inc. 16-06, PO 11625	DMA	Storm Water Pollution Prevention Plann AASF	3/3/2016 2/15/2017	13,499.99	11,974.88	DMA	DMA	N/A
Haller & Associates, Inc. 16-07, PO 11665	DMA	Groundwater Monitoring Old Belen Armory	2/8/2016 2/15/2017	9,242.16	3,332.52	DMA	DMA	N/A
Haller & Associates, Inc. 16-08, PO 11642	DMA	Discharge Monitoring Taos, Las Cruces, Rio Rancho, Belen	3/8/2016 3/1/2017	28,942.51	15,214.99	DMA	DMA	N/A
HDR EOC, Inc. 16-09, PO 11699	DMA	Hazardous Waste Analysis Plan Revisions	3/23/2016 3/10/2017	39,999.60	27,975.33	DMA	DMA	N/A
Haller & Associates, Inc. 16-10, PO 11860	DMA	Waste Water Monitoring Portales Armory	3/30/2016 4/1/2017	17,936.06	5,570.69	DMA	DMA	N/A
UNM 16-17, PO 11669	DMA	Fauna Planning Survey Statewide	7/5/2016 3/31/2017	43,200.00	-	DMA	DMA	N/A
UNM 16-18, PO 11668	DMA	Flora Planning Survey Roswell Wets	7/5/2016 3/31/2017	42,001.00	-	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, 2016

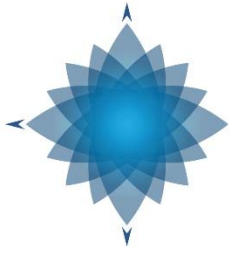
<u>Participants</u>	<u>Responsible Party for Operations</u>	<u>Description</u>	<u>Beginning & Ending Dates</u>	<u>Total Estimated Amount of Project</u>	<u>Agency Contributions in FY 2016</u>	<u>Revenues & Expenditures Reported On By:</u>	<u>Audit Responsibility</u>	<u>Fiscal Agent</u>
UNM 16-19, PO 11785	DMA	National Historic Preservation Act Roswell Wets	5/11/2016 4/30/2017	39,808.00	-	DMA	DMA	N/A
UNM 16-20, PO 11786	DMA	National Historic Preservation Act Black Mountain	5/11/2016 4/30/2017	49,057.00	-	DMA	DMA	N/A
UNM 16-21, PO 11762	DMA	National Historic Preservation Act Inventory Camel Tracks	5/11/2016 4/30/2017	49,897.00	-	DMA	DMA	N/A
UNM 16-22, PO 11787	DMA	NHPA Data Recovery Las Cruces	5/11/2016 4/30/2017	19,516.00	-	DMA	DMA	N/A
UNM 16-23, PO 11789	DMA	Updated Plan National Historic Preservation Act Statewide	5/11/2016 4/30/2017	19,211.00	-	DMA	DMA	N/A
Gryphon Environmental 16-27, PO 11932	DMA	Hazardous Waste Management Plan Statewide	4/11/2016 4/4/2017	12,331.53	3,473.26	DMA	DMA	N/A
Lopez Engineering 16-28, PO 12007	DMA	Water Management Plan Statewide	5/25/2016 4/30/2017	45,176.52	-	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, 2016

<i>RFB#/ RFP#</i>	<i>Type of Procurement</i>	<i>Awarded Vendor</i>	<i>\$ Amount of Awarded Contract</i>	<i>\$ Amount of Amended Contract</i>	<i>Name and Physical Address per the procurement documentation, of ALL Vendor(s) that responded</i>	<i>In-State/ Out-of- State Vendor (Y or N) (Based on Statutory Definition)</i>	<i>Was the vendor in-state and chose Veteran's preference (Y or N) For federal funds answer N/A</i>	<i>Brief Description of the Scope of Work</i>
RFP # 60-705-16-00241	Architectual Engineering Services Las Cruces Readiness Center	Coover-Clark & Associates, INC	\$1,129,000.00	\$1,129,000.00	ASA Architects + D2C Architects 201 N. Alameda, Las Cruces NM 88005	In State	N/A	Architecture & Engineering services for a new Readiness Center with Limited Aviation Support
					Huitt-Zollars, INC. 6501 Americas Parkway NE, Suite 550, Albuquerque, NM 87110	In-State	N/A	
					WDG Architects/RMKM Architecture,PC 1014 South Main Street, Las Cruces, NM 88005	In-State	N/A	
					Dekker/Perich/Sabatini 7601 Jefferson NE, Suite 100 Albuquerque, NM 87109	In-State	N/A	
ITB # 60-705-16-00246	Military Construction Alamogordo Readiness Center Addition/Alteration	White Sands Construction INC 1700 10th Street, Alamogordo, NM 88310	\$3,992,760.00	\$3,992,760.00	Classic Industries, INC PO Box 434, Dona Ana, NM 88032	In-State	N/A	Remodel of exiting building and addition to building (construction)
					Flintco, LLC 6020 Indian School Rd NE Albuquerque NM 87110	In-State	N/A	
					National Construction, INC PO Box 1479 Alamogordo, NM 88311	In-State	N/A	

See independent auditors' report.



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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, 2016, 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 20, 2016.

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

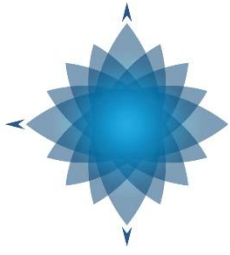
The Department's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Department's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion 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 28, 2016



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM
GUIDANCE**

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 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, 2016. 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2016.

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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Integrity Accounting + Consulting, LLC

Integrity Accounting & Consulting, LLC
Albuquerque, NM
November 28, 2016

**STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

SECTION I SUMMARY OF AUDIT RESULTS

Financial Statements:

- | | |
|--|------------|
| 1. Type of auditors' report issued | Unmodified |
| 2. 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 Uniform Guidance? | No |
| 4. Identification of major programs: | |
| CFDA
<u>Number</u>
12.401 | <u>Federal Program</u>
National Guard Military Operations
and Maintenance Projects |
| 5. Dollar threshold used to distinguish between type A and type B programs: | \$750,000 |
| 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, 2016**

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>
Prior Year Findings			
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
2015-001 - Cash Management	Repeated/ Modified	Yes	No
Current Year Findings			
None			

PRIOR YEAR FINDINGS

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

Statement of Condition

As of June 30, 2016, the Department had a liability of \$3,682,124 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.

This is a repeat finding from prior audits. During the year ended June 30, 2016, the Department did not revert any funds to the State General fund for prior year funds due. The Department was not able to revert any current year funds by the September 30, 2016 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.

Effect

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

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

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 is calculating the annual general fund reversions in accordance with Department of Finance and Administration's direction. This agency will revert the funds as they become available.

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. Reversions to this fund occur due to statewide emergencies (i.e. fires, flooding etc.) which generally occur at the end of a given fiscal year. If any federal revenues are generated by such events those revenues cannot be recorded in the fiscal year in which the costs were incurred and therefore end up being reversions. These reimbursements can take as long as 2 years. This requested was not approved.

The Federal government is spending funds through the State to execute their budget. The Agency pays all expenditures for the Federal programs and seeks reimbursements from the Federal programs. The Federal reimbursement takes a minimum of 30 to 75 days after the expenditures. The result is a negative cash flow until the reimbursements are received from the Federal government. The agency cannot process the reversion with a negative cash flow.

The State Program Director and Chief Financial Officer will oversight the process for remitting reversions. The Department expects to begin paying down its reversion balances during the year ended June 30, 2017.

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED 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 \$ 1,148,811

This is a repeat finding from prior audits. 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.

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.

**STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

Management Response

Concur. The Agency did make vast improvements in this area due to the hiring of new personnel in the agency. The number of adjustments dropped from 12 to 3 in FY-2015 and from 3 to 1 in FY-2016. The Department will make the adjustments in a timely manner. We did receive training from the Department of Finance and Administration and the CAFR unit. 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. The Department's Chief Financial Officer will oversight the fiscal close process for FY17 to minimize the adjustments necessary.

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 in certain funds. As of June 30, 2016, the Department showed the following overdrawn balances:

	SHARE		Balance Per
Fund	Agency-Acct	Location	Financials
State Armory Board	70500-99200	STO	\$ (2,727,093)
STB Capital Outlay	70500-89200	STO	(2,510)
			<u>\$ (2,729,603)</u>

This is a repeat finding from prior years. During the year ended June 30, 2016, the Department reported negative cash totaling \$2,609,775 in three funds, however the overall entity balances were (\$13,477). The Department's overall cash balances as of June 30, 2016 totaled \$2,020,891 which is an improvement of \$2,034,368 over the prior year ending cash balances.

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.

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

Management Response

Concur. The agency is tied to a document called the Master Cooperative Agreement (MCA), which requires the agency to pay up-front and to seek reimbursement through the Federal government. If the cash balance is not sufficient, the project cannot be delayed due to the MCA. As stated above, the Federal government is spending funds through the State to execute their budget. The Agency pays all expenditures for the Federal programs and seeks reimbursements from the Federal programs. The Federal reimbursement takes a minimum of 30 to 75 days after the expenditures. The result is a negative cash flow until the reimbursements are received from the Federal government. The agency cannot process the reversion with a negative cash flow. The agency will monitor the cash balances for each fund on a weekly basis.

The Department's Chief Financial Officer will oversight the cash management process with an expected reduction in the overall cash deficiency by June 30, 2017.

CURRENT YEAR FINDINGS

None

STATE OF NEW MEXICO
DEPARTMENT OF MILITARY AFFAIRS AND STATE ARMORY BOARD
OTHER DISCLOSURES
FOR THE YEAR ENDED JUNE 30, 2016

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 29, 2016. The following individuals were in attendance.

Department of Military Affairs/State Armory Board:

Brigadier General Andrew Salas	Adjutant General
Brigadier General Kenneth Nava	Deputy Adjutant General
Theresa Martinez	Director State Programs
Lawrence Montano	Deputy Director State Programs
Kathy Romero	Chief Financial Officer
Sandra Gonzales-Bazan	Chief Procurement Officer
Jeffery Waddell	Legal Counsel-State Programs

Integrity Accounting & Consulting:

Erick Robinson, CPA, CFE	Partner
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