

STATE OF NEW MEXICO
SECOND JUDICIAL DISTRICT ATTORNEY
Albuquerque, New Mexico

FINANCIAL STATEMENTS
June 30, 2010

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OFFICIAL ROSTER
June 30, 2010

NAME

TITLE

Kari Brandenburg	District Attorney
Gary Cade	Chief Deputy District Attorney
Deborah DePalo	Chief Deputy District Attorney
Todd Heisey	Chief Deputy District Attorney
Nivia Thames	District Office Manager
Margot Ballon	Deputy District Attorney
Mark Benford	Deputy District Attorney
Georgia Berrenberg	Deputy District Attorney
Gary Breeswine	Deputy District Attorney
Troy Davis	Deputy District Attorney
Peter Paul Decker	Deputy District Attorney
Mark Drebing	Deputy District Attorney
Judith Ann Faviell	Deputy District Attorney
Robin Hammer	Deputy District Attorney
Peg Holguin	Deputy District Attorney
Teresa Keller	Deputy District Attorney
Brett Loveless	Deputy District Attorney
Sylvia Martinez	Deputy District Attorney
Reynaldo Montano	Deputy District Attorney
Neal Speer	Deputy District Attorney
Nancy Scanlan Neary	Deputy District Attorney
Christopher Schultz	Deputy District Attorney
Warren Sigal	Deputy District Attorney
Lisa Trabaudo	Deputy District Attorney
David Waymire	Deputy District Attorney

Independent Auditors' Report

Ms. Kari Brandenburg, District Attorney
State of New Mexico
Second Judicial District Attorney
Albuquerque, New Mexico
and
Mr. Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

We have audited the accompanying financial statements of the governmental activities, each major fund and the budgetary comparisons of the general fund and major special revenue funds of the State of New Mexico Second Judicial District Attorney (the District Attorney) as of and for the year ended June 30, 2010, which collectively comprise the District Attorney's basic financial statements as listed in the table of contents. We also have audited the financial statements of the fiduciary fund as of June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the District Attorney's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 2, the financial statements of the District Attorney are intended to present the financial position and results of operations of only that portion of the governmental activities, each major fund, the respective budgetary comparisons and the information of the State of New Mexico that is attributable to the transactions of the District Attorney. They do not purport to, and do not, present fairly the financial position of the entire State of New Mexico as of June 30, 2010 and the changes in its financial position thereof and respective budgetary comparisons for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of the District Attorney as of June 30, 2010, and the respective changes in financial position thereof, and the respective budgetary comparisons for the general fund and each major special revenue fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the fiduciary fund of the District Attorney as of June 30, 2010, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2011, on our consideration of the District Attorney's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages IV through IX is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District Attorney's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The additional schedules listed as supplemental schedules in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Clifton Gunderson LLP

Albuquerque, New Mexico
March 3, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the State of New Mexico Second Judicial District Attorney (District Attorney), we offer readers of the District Attorney's financial statements this narrative overview and analysis of the financial activities of the District Attorney for the fiscal year ending June 30, 2010.

Financial Highlights

The following items are the District Attorney's financial highlights for the fiscal year ended June 30, 2010.

Net assets of the District Attorney increased by \$574,200, or 129% in FY10 compared to FY09. The increase is due to a net restatement of net assets in the amount of \$548,137, primarily as a result of improper revenue recognition.

The District Attorney received a significant grant award from the American Recovery and Reinvestment Act of 2009 (ARRA) in the amount of \$893,750. This has enabled the District Attorney's office to fund 6 full time employees and purchase 2 new vehicles for the office. The remaining balance for future expenditures as of June 30, 2010 is \$672,307.

The District Attorney's office is in receipt of the Southwest Border Prosecution Initiative (SWBPI). This has enabled the office to cover shortfalls in personnel and benefits services, contractual and other costs in the amount of \$129,804 in FY10. The remaining balance for future expenditures as of June 30, 2010 is \$903,752. These monies will prove essential in trying to fill deficits budget cuts have created.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District Attorney's basic financial statements. The District Attorney's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-Wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the District Attorney's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District Attorney's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District Attorney is improving or deteriorating.

The statement of activities presents information showing how the District Attorney's net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District Attorney, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District Attorney can be divided into one of two categories: governmental funds and fiduciary funds.

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. For this purpose, the District Attorney considers revenues to be available if they are collected within 60 days of the current fiscal period. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District Attorney's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

In addition to the General fund, the District Attorney maintains two other individual governmental funds, both of which are classified as special revenue funds. Information for the General fund, the Grant fund and the ARRA fund, all of which are considered to be major funds, is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances

The District Attorney adopts an annual appropriated budget for its General fund. A budgetary comparison statement for the General fund is presented on page 7. In addition, the District Attorney adopts an annual budget for other major funds.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District Attorney's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District Attorney's primary government, assets exceed liabilities by \$130,597.

Financial Analysis of the District Attorney as a Whole

Net Assets

Table A-1 summarizes the District Attorney's net assets for the fiscal year ending June 30, 2010.

Table A-1
The District Attorney's Net Assets

	Governmental Activities	
	FY2010	FY2009
Assets:		
Current and other assets	\$ 1,809,261	\$ 2,042,251
Capital assets	<u>75,885</u>	<u>51,442</u>
Total assets	<u>\$ 1,885,146</u>	<u>\$ 2,093,693</u>
Liabilities:		
Current liabilities	<u>\$ 1,754,549</u>	<u>\$ 2,537,296</u>
Total liabilities	<u>1,754,549</u>	<u>2,537,296</u>
Net assets:		
Invested in capital assets, net of related debt	75,885	51,442
Restricted	3,909	452,396
Unrestricted	<u>50,803</u>	<u>(947,441)</u>
Total net assets	<u>130,597</u>	<u>(443,603)</u>
Total liabilities and net assets	<u>\$ 1,885,146</u>	<u>\$ 2,093,693</u>

The significant change in net assets for fiscal year 2010 as compared to fiscal year 2009 was an increase of \$548,137 in net assets. The increase was primarily due to restatement of deferred revenues to net assets.

Changes in Net Assets

Table A-2 summarizes the District Attorney's changes in net assets for fiscal year 2010. Governmental activities during the year increased the District Attorney's net assets by \$26,063.

Table A-2
Changes in the District Attorney's Net Assets

	Governmental Activities	
	FY2010	FY2009
Revenues:		
Program revenues:		
Charges for services	\$ 105,689	\$ 66,216
Operating grants & contributions	1,126,413	1,002,965
General revenues:		
General Fund Appropriation	16,825,500	17,518,200
Transfers	<u>30,398</u>	<u>-</u>
Total revenues	<u>18,088,000</u>	<u>18,587,381</u>
Expenses:		
General government	<u>18,061,937</u>	<u>18,688,626</u>
Total expenses	<u>18,061,937</u>	<u>18,688,626</u>
Change in Net Assets	<u>26,063</u>	<u>(101,245)</u>
Beginning Net Assets	(443,603)	(342,358)
Restatements	<u>548,137</u>	<u>-</u>
Beginning Net Assets, Restated	<u>104,534</u>	<u>(342,358)</u>
Ending Net Assets	<u>\$ 130,597</u>	<u>\$ (443,603)</u>

The District Attorney's revenues decreased by \$499,381 or 3% from the previous fiscal year. The most significant changes were related to a decrease in the general fund appropriation.

Governmental Funds

The focus of the District Attorney's governmental fund is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the District Attorney's financing requirements. In particular, unreserved fund balances may serve as useful measurers of government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District Attorney's governmental funds reported combined ending fund balances of \$907,661, of which the majority is SWBPI funds.

Financial Analysis of the District Attorney's Funds

Budget - As mentioned earlier, the District Attorney uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. For the District Attorney, total revenues budgeted were \$19,797,155 and actual revenues received were \$18,088,000, which is a negative variance of \$1,709,155. The variance is a result of various multi-year grants that were awarded and budgeted, but not expended during FY2010.

The District Attorney's total budgeted expenditures were \$19,902,056 and actual expenditures were \$18,181,072, which is a variance of \$1,720,984. The variance is due to not receiving funding for the expenditures.

Capital Assets

For fiscal year 2010, there were \$55,394 in additions. The increases are due to purchasing three new vehicles out of the federal grant fund.

Debt

The Second Judicial District Attorney's Office had long-term debt at June 30, 2010, for compensated absences amounting to \$852,949, and \$947,641 at June 30, 2009. This was a decrease of \$94,692 from the prior year.

Governmental Accounting and Auditing Environment and Next Year's Budget

The District Attorney's office operates from state general fund appropriation and federal and state grants. The following highlights the challenges expected to be faced by the office in 2011, particularly budget cuts.

- The District Attorney's Office screened over 29,300 criminal cases referred from law enforcement.
- Almost 95% of the budget of the office is directly allocated to staff salaries and benefits.
- The office's staff of 297 is larger than any of the law firms in the state.
- The office's staff is diverse and active in the community, promoting anti-violence initiatives in our schools and supporting dozens of community non-profits through volunteer work.
- The office is the only District Attorney's Office to staff divisions devoted exclusively to addressing Gang Crimes, Methamphetamine Crimes, Organized Crime & Public Corruption.
- Innovative bad check restitution programs recovered over \$100,000 for Bernalillo County business.

- The office filed over 3,100 motions to revoke probation or parole against offenders who had violated probation or parole.
- Over 860 continuing legal education credits were provided in house, saving the public \$40,000 in tuition costs while providing the latest legal updates to attorneys.

The State's 2011 Budget Projections continue to include additional cuts to agency budgets across the state. Having eliminated all non-essential operating costs in FY09, additional cuts imposed in 2010 were realized by reducing personnel cost, meaning freezing new hiring and eliminating any increases in employee pay and benefits. These measures have resulted in higher attorney caseloads and the departure of many more experienced attorneys leaving their jobs for better paying positions elsewhere.

Requests for Information

This financial report is designed to provide a general overview of the District Attorney's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Chief Financial Officer
Second Judicial District Attorney's Office
520 Lomas Boulevard, Northwest
Albuquerque, New Mexico 87102

BASIC FINANCIAL STATEMENTS

STATE OF NEW MEXICO SECOND JUDICIAL DISTRICT ATTORNEY
STATEMENT OF NET ASSETS
As of June 30, 2010

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Investment in state general fund investment pool	\$ 1,181,316
Petty cash	200
Due from federal government	402,160
Due from other state agencies	122,746
Due from local governments	102,743
Other receivables	96
Total current assets	<u>1,809,261</u>
Non-current assets	
Capital assets	1,313,274
Less accumulated depreciation	<u>(1,237,389)</u>
Total capital assets, net of accumulated depreciation	<u>75,885</u>
Total assets	<u>1,885,146</u>
LIABILITIES	
Current liabilities	
Accounts payable	77,082
Accrued payroll	824,130
Due to other state agencies	388
Compensated absences payable - expected to be paid within one year	<u>852,949</u>
Total current liabilities	<u>1,754,549</u>
NET ASSETS	
Invested in capital assets	75,885
Restricted	3,909
Unrestricted	<u>50,803</u>
Total net assets	<u>\$ 130,597</u>

The accompanying notes are an integral part of the financial statements.

**STATE OF NEW MEXICO SECOND JUDICIAL DISTRICT ATTORNEY
STATEMENT OF ACTIVITIES
Year Ended June 30, 2010**

	<u>Governmental Activities</u>
EXPENSES	
General government	\$ 18,061,937
Total expenses	<u>18,061,937</u>
 REVENUES	
Program revenues	
Operating grants	1,126,413
Charges for services	<u>105,689</u>
Total program revenues	<u>1,232,102</u>
Net program (expense) revenue	<u>(16,829,835)</u>
 General revenues	
General fund appropriation	16,825,500
Inter-governmental transfer in	<u>30,398</u>
Total general revenues	<u>16,855,898</u>
Change in net assets	<u>26,063</u>
Net assets, beginning of year	(443,603)
Restatements	<u>548,137</u>
Net assets, beginning of year, restated	<u>104,534</u>
Net assets, end of year	<u>\$ 130,597</u>

The accompanying notes are an integral part of the financial statements.

**STATE OF NEW MEXICO SECOND JUDICIAL DISTRICT ATTORNEY
BALANCE SHEET
GOVERNMENTAL FUNDS
As of June 30, 2010**

	15600 General Fund	26000 Grants Fund	89000 ARRA Fund	Total Governmental Funds
ASSETS				
Investment in state general fund investment pool	\$ 1,082,206	\$ 99,110	\$ -	\$ 1,181,316
Petty cash	200	-	-	200
Due from other funds	637,949	-	-	637,949
Due from federal government	-	180,717	221,443	402,160
Due from other state agencies	5,987	116,759	-	122,746
Due from local governments	12,500	90,243	-	102,743
Other receivables	96	-	-	96
Total assets	<u>\$ 1,738,938</u>	<u>\$ 486,829</u>	<u>\$ 221,443</u>	<u>\$ 2,447,210</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 75,164	\$ 1,750	\$ 168	\$ 77,082
Accrued payroll	759,634	45,509	18,987	824,130
Due to other funds	-	435,661	202,288	637,949
Due to other state agencies	388	-	-	388
Total liabilities	<u>835,186</u>	<u>482,920</u>	<u>221,443</u>	<u>1,539,549</u>
Fund Balances				
Unreserved, designated	903,752	-	-	903,752
Reserved	-	3,909	-	3,909
Total fund balances	<u>903,752</u>	<u>3,909</u>	<u>-</u>	<u>907,661</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,738,938</u>	<u>\$ 486,829</u>	<u>\$ 221,443</u>	<u>\$ 2,447,210</u>

The accompanying notes are an integral part of the financial statements.

**STATE OF NEW MEXICO SECOND JUDICIAL DISTRICT ATTORNEY
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
As of June 30, 2010**

Total fund balances - Governmental Funds (Balance Sheet - Governmental Funds)	\$	907,661
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Amounts reported for governmental activities in the Statement of Net Assets are different at June 30, 2010 because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund financial statements. These assets consist of:

Capital assets		1,313,274
Less accumulated depreciation		<u>(1,237,389)</u>
Total capital assets, net of accumulated depreciation		<u>75,885</u>

Some liabilities are not due and payable in the current period and therefore are not reported in the governmental funds:

Compensated absences payable		<u>(852,949)</u>
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Net assets of governmental activities (Statement of Net Assets)	\$	<u><u>130,597</u></u>
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The accompanying notes are an integral part of the financial statements.

**STATE OF NEW MEXICO SECOND JUDICIAL DISTRICT ATTORNEY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended June 30, 2010**

	15600 General Fund	26000 Grant Fund	89000 ARRA Fund	Total Governmental Funds
REVENUES				
Federal grant revenue	\$ -	\$ 499,894	\$ 221,443	\$ 721,337
Local intergovernmental operating grants	163,652	241,424	-	405,076
Charges for services	105,689	-	-	105,689
Total revenues	<u>269,341</u>	<u>741,318</u>	<u>221,443</u>	<u>1,232,102</u>
EXPENDITURES				
Current				
General government				-
Personal services/employee benefits	16,315,126	719,429	169,174	17,203,729
Contractual services	146,765	208	572	147,545
Other costs	756,420	3,216	14,768	774,404
Capital outlay	-	18,465	36,929	55,394
Total expenditures	<u>17,218,311</u>	<u>741,318</u>	<u>221,443</u>	<u>18,181,072</u>
Excess of revenues over (under) expenditures	<u>(16,948,970)</u>	<u>-</u>	<u>-</u>	<u>(16,948,970)</u>
OTHER FINANCING SOURCES (USES)				
State general fund appropriation	16,825,500	-	-	16,825,500
Inter-governmental transfer in	30,398	-	-	30,398
Total other financing sources (uses)	<u>16,855,898</u>	<u>-</u>	<u>-</u>	<u>16,855,898</u>
NET CHANGE IN FUND BALANCES	<u>(93,072)</u>	<u>-</u>	<u>-</u>	<u>(93,072)</u>
FUND BALANCES - BEGINNING	13,026	439,570	-	452,596
RESTATEMENTS	<u>983,798</u>	<u>(435,661)</u>	<u>-</u>	<u>548,137</u>
FUND BALANCES - BEGINNING, RESTATED	<u>996,824</u>	<u>3,909</u>	<u>-</u>	<u>1,000,733</u>
FUND BALANCES - ENDING	<u>\$ 903,752</u>	<u>\$ 3,909</u>	<u>\$ -</u>	<u>\$ 907,661</u>

The accompanying notes are an integral part of the financial statements.

**STATE OF NEW MEXICO SECOND JUDICIAL DISTRICT ATTORNEY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2010**

A reconciliation reflecting the differences between the governmental funds net change in fund balances and change in net assets reported for governmental activities in the statement of activities is as follows:

Net change in fund balances - Total governmental funds	\$	(93,072)
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Capital outlay		55,394
Depreciation		<u>(30,951)</u>
		<u>24,443</u>
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
Compensated absences		<u>94,692</u>
Change in net assets - Governmental activities	\$	<u>26,063</u>

The accompanying notes are an integral part of the financial statements.

**STATE OF NEW MEXICO SECOND JUDICIAL DISTRICT ATTORNEY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND (15600)
Year Ended June 30, 2010**

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts - Budgetary Basis	Variance with Final Budget - Positive (Negative)
REVENUES				
General Fund	\$ 16,825,500	\$ 16,825,500	\$ 16,825,500	\$ -
Other State funds	70,000	70,000	269,341	199,341
Inter-agency transfers	491,600	641,600	30,398	(611,202)
Budgeted fund balance	-	104,901	-	(104,901)
Total revenues	17,387,100	17,642,001	17,125,239	(516,762)
 EXPENDITURES				
Current				
General government				
Personal services/employee benefits	16,492,000	16,724,504	16,315,126	409,378
Contractual services	137,400	149,804	146,765	3,039
Other costs	757,700	767,693	756,420	11,273
Total expenditures	\$ 17,387,100	\$ 17,642,001	17,218,311	\$ 423,690
Excess of revenues over (under) expenditures			(93,072)	
NET CHANGE IN FUND BALANCE			\$ (93,072)	

The accompanying notes are an integral part of the financial statements.

**STATE OF NEW MEXICO SECOND JUDICIAL DISTRICT ATTORNEY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
GRANT FUND (26000)
Year Ended June 30, 2010**

	<u>Original Budgeted Amounts</u>	<u>Final Budgeted Amounts</u>	<u>Actual Amounts - Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
REVENUES				
Federal funds	\$ 180,000	\$ 268,854	\$ 499,894	\$ 231,040
Inter-agency transfers	485,500	1,097,451	241,424	(856,027)
Total revenues	<u>665,500</u>	<u>1,366,305</u>	<u>741,318</u>	<u>(624,987)</u>
EXPENDITURES				
Current				
General government				
Personal services/employee benefits	665,500	1,331,092	719,429	611,663
Contractual services	-	1,248	208	1,040
Other costs	-	33,965	21,681	12,284
Total expenditures	<u>\$ 665,500</u>	<u>\$ 1,366,305</u>	<u>741,318</u>	<u>\$ 624,987</u>
Excess of revenues over (under) expenditures			<u>-</u>	
NET CHANGE IN FUND BALANCE			<u>\$ -</u>	

The accompanying notes are an integral part of the financial statements.

**STATE OF NEW MEXICO SECOND JUDICIAL DISTRICT ATTORNEY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
ARRA FUND (89000)
Year Ended June 30, 2010**

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts - Budgetary Basis	Variance with Final Budget - Positive (Negative)
REVENUES				
Federal funds	\$ -	\$ 893,750	\$ 221,443	\$ (672,307)
Total revenues	-	893,750	221,443	(672,307)
EXPENDITURES				
Current				
General government				
Personal services/employee benefits	-	811,414	169,174	642,240
Contractual services	-	1,248	572	676
Other costs	-	81,088	51,697	29,391
Total expenditures	\$ -	\$ 893,750	221,443	\$ 672,307
Excess of revenues over (under) expenditures			-	
NET CHANGE IN FUND BALANCE			\$ -	

The accompanying notes are an integral part of the financial statements.

**STATE OF NEW MEXICO SECOND JUDICIAL DISTRICT ATTORNEY
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES -
AGENCY FUND - PRE-PROSECUTION PROGRAM
As of June 30, 2010**

	<u>Agency Funds</u>
ASSETS	
Cash in authorized bank account	\$ 525
Total assets	<u>\$ 525</u>
LIABILITIES	
Deposits held for others	\$ 525
Total liabilities	<u>\$ 525</u>

The accompanying notes are an integral part of the financial statements.

STATE OF NEW MEXICO SECOND JUDICIAL DISTRICT ATTORNEY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 1 – DEFINITION OF REPORTING ENTITY

The State of New Mexico Second Judicial District Attorney (District Attorney) is an elective office established by the Constitution of the State of New Mexico, Article VI, Section 24. The District Attorney is elected to a four-year term. Functions of the District Attorney are defined in Section 36-1-1 through 36-1-26 NMSA 1978 as amended. The Second Judicial District Attorney serves Bernalillo County.

It is the duty of the District Attorney to prosecute and defend the state, in all courts of record, in all cases criminal and civil, in which the state or any county in the district may be a party. The District Attorney must represent any county in the district, at the request of the Board of County Commissioners. The District Attorney may also appear before the Board, without being requested to do so, when the Board is sitting as a Board of Equalization. The District Attorney must advise all county and state officers, whenever requested. The District Attorney is required to represent any county in the district before the Supreme Court or the Court of Appeals in all civil cases in which the county may be concerned, but not in suits brought in the name of the state.

Section 36-1A-1 through Section 16-1A-1 5, cited as the “District Attorney Personnel and Compensation Act,” established for all district attorneys a uniform, equitable and binding system of personnel administration.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements for the District Attorney have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below.

In June 1999, the GASB unanimously approved GASB No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*. This statement provides for the most significant change in financial reporting in over 20 years and consisted of a phased implementation based on size of government.

The District Attorney implemented the provisions of GASB No. 34 effective July 1, 2001. As a part of this statement, there is a reporting requirement regarding the government’s infrastructure (roads, bridges, etc.). The District Attorney does not own any infrastructure assets and therefore is unaffected by this requirement. The District Attorney also implemented the provisions of the later related GASB statements #37 and #38, which affect GASB #34 and its implementation.

STATE OF NEW MEXICO SECOND JUDICIAL DISTRICT ATTORNEY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Pronouncements

Effective for fiscal years beginning after June 15, 2010, GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, will provide modifications to, and additional types of, fund balance classifications. This statement will enhance the usefulness of fund balance information to provide more consistency among the classifications and will establish reporting standards for all governments that report governmental funds. Although early implementation is encouraged, the State of New Mexico has decided to implement this new pronouncement for fiscal year ending June 30, 2011. The impact on the District Attorney's financial statements has not yet been determined.

Effective for fiscal years beginning after June 15, 2010, GASB 59, *Financial Instruments Omnibus*, will update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. This statement provides for the following amendments:

- National Council on Governmental Accounting Statement 4, *Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences*, is updated to be consistent with the amendments to GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, regarding certain financial guarantees.
- Statements No. 25, *Financial Reporting for Defined Benefit Pensions Plans and Note Disclosures for Defined Contribution Plans*, and No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, are amended to remove the fair value exemption for unallocated insurance contracts. The effect of this amendment is that investments in unallocated insurance contracts should be reported as interest-earning investment contracts according to the provisions of paragraph 8 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.
- Statement 31 is clarified to indicate that a 2a7-like pool, as described in Statement 31, is an external investment pool that operates in conformity with the Securities and Exchange Commission's (SEC) Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended.
- Statement No. 40, *Deposit and Investment Risk Disclosures*, is amended to indicate that interest rate risk information should be disclosed only for debt investment pools – such as bond mutual funds and external bond investment pools – that do not meet the requirements to be reported as a 2a7-like pool.

Statement 53 is amended to:

- Clarify that the net settlement characteristic of Statement 53 that defines a derivative instrument is not met by a contract provision for a penalty payment for nonperformance.

STATE OF NEW MEXICO SECOND JUDICIAL DISTRICT ATTORNEY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Provide that financial guarantee contracts included in the scope of Statement 53 are limited to financial guarantee contracts that are considered to be investment derivative instruments entered into primarily for the purpose of obtaining income or profit.
- Clarify that certain contracts based on specific volumes of sales or service revenues are excluded from the scope of Statement 53.
- Provide that one of the "leveraged yield" criteria of Statement 53 is met if the initial rate of return on the companion instrument has the potential for at least a doubled yield.

Although early implementation is encouraged, the State of New Mexico has decided to implement this new pronouncement for fiscal year ending June 30, 2011. The impact on the Department's financial statements has not yet been determined.

Financial Reporting Entity

Governmental Accounting Standards Board Statement (GASBS) 14, *The Financial Reporting Entity*, and GASBS 39 (amends 14), *Determining Whether Certain Organizations are Component Units*, effective for periods beginning after December 15, 1992, establishes standards for defining and reporting on the financial reporting entity. GASBS 14 supersedes previous standards issued by the National Council on Governmental Accounting. The requirements of GASBS 14 apply at all levels to all state and local governments.

GASB 14 defines the financial reporting entity as consisting of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. This definition of the reporting entity is based primarily on the notion of financial accountability as the "cornerstone of all financial reporting in government."

A primary government is any state government or general-purpose local government, consisting of all the organizations that make up its legal entity. All funds, organizations, institutions, agencies, departments, and offices that are not legally separate are, for financial reporting purposes, part of the primary government. The District Attorney, therefore, is part of the primary government of the State of New Mexico, and its financial data should be included with the financial data of the State. However, New Mexico does not at present issue an audited Comprehensive Annual Financial Report inclusive of all agencies of the primary government.

The Audit Act, Sections 12-6-1 through 12-6-14, NMSA 1978, requires the financial affairs of every agency to be thoroughly examined and audited each year, and a complete written report to be made. Moreover, the New Mexico State Auditor requires that each agency shall prepare financial statements in accordance with accounting principles generally accepted in the United States of America. As a result, the District Attorney has prepared and issued its own audited, agency Annual Financial Report.

Included within the District Attorney for this purpose are the following: all of the programs that are administered and/or controlled by the District Attorney have been included.

STATE OF NEW MEXICO SECOND JUDICIAL DISTRICT ATTORNEY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

No entities were noted that should be considered component units of the District Attorney. No entities were specifically excluded from the District Attorney because no entities were noted as meeting any of the criteria for potential inclusion.

Basic Financial Statements

The basic financial statements include both government-wide (based on the District Attorney as a whole) and fund financial statements. The new reporting model focus is on either the District Attorney as a whole or major individual funds (within the fund financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type activities. In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are presented on a consolidated basis by column, and are reflected on a full accrual, economic resources basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. The District Attorney did not have any business-type activities during the year ended June 30, 2010, and the District Attorney has decided not to apply any FASB pronouncements issued after November 30, 1989.

The government-wide Statement of Activities reflects both the gross and net cost per functional category, which are otherwise being supported by general government revenues. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function or a business-type activity. Charges for services in the General Fund relate to charges for copies. The District Attorney includes only one function (general government).

The net cost (by function or business-type activity) is normally covered by general revenues (intergovernmental revenues or other revenue, etc.). Historically, the previous model did not summarize or present net cost by function or activity. The District Attorney does not currently employ indirect cost allocation systems. The District Attorney's policy is to utilize restricted assets first when both unrestricted and restricted assets are available for expenditures.

This government-wide focus is more on the sustainability of the District Attorney as an entity and the change in aggregate financial position resulting from the activities of the current fiscal period.

The fund financial statements are similar to the financial statements presented in the previous accounting model. Emphasis here is on the major funds in either the governmental or business-type categories. Non-major funds (by category) or fund type are summarized into a single column. The General Fund is required to be a major program, and the Grant and ARRA Special Revenue Funds have been determined to be major funds. The District Attorney has one fiduciary fund, not included in the government-wide financial statements. Fiduciary funds and component units that are similar to fiduciary funds are not included in the government-wide financial statements. Fiduciary funds are presented using the economic resources measurement focus and the accrual basis of accounting.

STATE OF NEW MEXICO SECOND JUDICIAL DISTRICT ATTORNEY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The governmental fund statements are presented on a current financial resources and modified accrual basis of accounting. This presentation is deemed appropriate to (a) demonstrate legal compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the District Attorney's actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental activities column, a reconciliation is presented on the page following each statement, which briefly explains the adjustments necessary to transform the fund based financial statements into the governmental activities column on the government-wide presentation.

Inter-fund accounts have been eliminated in the government-wide financial statements.

Basis of Presentation

The financial transactions of the District Attorney are maintained 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, liabilities, fund balance, revenues, expenditures or expenses and other financing sources or uses. Government resources are allocated to, and accounted for, in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The various funds are summarized by type in the accompanying financial statements. The various funds are reported by generic classification within the financial statements.

GASB Statement 34 sets forth minimum criteria for the determination of major funds based on a percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or governmental and enterprise combined. Due to the fund structure of the District Attorney, the General Fund and the Grant and ARRA Special Revenue Funds have been classified as major funds after considering the relevant criteria. Only individual governmental or individual enterprise funds can be considered for major fund status. In prior financial statements, the District Attorney has presented the various grants of the District Attorney instead of the individual funds within the Statewide Human Resources Accounting and Financial Management REporting System (SHARE). For June 30, 2010, the District Attorney has presented funds at the individual SHARE fund level as required by the New Mexico State Auditor.

Governmental Fund Types - The focus of Governmental Fund measurement (in the Fund Financial Statements) is based upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the Governmental Funds of the District Attorney.

The District Attorney reports the following major governmental funds:

General Fund (15600) - The General Fund is the general operating fund of the District Attorney and is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is funded primarily by an appropriation from the State General Fund, and any unused funds from the appropriations at the end of

STATE OF NEW MEXICO SECOND JUDICIAL DISTRICT ATTORNEY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

the fiscal year revert back to the State General Fund. The General Fund is also used to account for the activities of various programs of the District Attorney. The funds related to these programs are non-reverting.

Special Revenue Funds:

Grant Fund (SHARE Fund 26000) – The Grant Fund is used to account for the activities of the various federal and local grants of the District Attorney. These funds are non-reverting.

ARRA Fund (SHARE Fund 89000) – The ARRA Fund was administratively created by the New Mexico Department of Finance and Administration. The fund is used to account for the activity related to the funding provided by the federal government under the American Recovery and Reinvestment Act. This fund was created by New Mexico Department of Finance and Administration and New Mexico Office of Recovery and Reinvestment in FY09. These funds are non-reverting.

The District also has one fiduciary fund (trust and agency fund), which accounts for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. Trust and agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The following is the one fiduciary fund at June 30, 2010.

Pre-Prosecution Program (SHARE Fund 10370) - Fees charged to individuals in the pre-prosecution program, in accordance with agreements between the program participant and the District Attorney. Fees are remitted to the State Treasurer for the account of the Administrative Office of the District Attorneys.

Non-Current Governmental Assets/Liabilities

GASB Statement #34 eliminated the presentation of Account Groups, but provides for these records to be maintained and incorporates the information into the Governmental Activities column in the government-wide Statement of Net Assets.

Basis of Accounting

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

The Government-wide Financial Statements are presented on an accrual basis of accounting. The Governmental Funds in the Fund Financial Statements are presented on a modified accrual basis.

Modified Accrual - All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period,

STATE OF NEW MEXICO SECOND JUDICIAL DISTRICT ATTORNEY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

which is considered within sixty days of year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general long-term debt, if any, is recognized when due.

In applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to GASB Statement #33, which was also adopted as of July 1, 2001 by the District Attorney, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenues when the applicable eligibility requirements including time requirements, are met. Resources transmitted before the eligibility requirements are met, under most circumstances, should be reported as advances by the provider and deferred revenue by the recipient.

Budgetary Accounting

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

1. No later than September 1st, the District Attorney prepares a budget appropriation request by category to be presented to the next Legislature.
2. The appropriation request is submitted to the New Mexico Department of Finance and Administration's Budget Division (DFA) and to the Legislative Finance Committee (LFC).
3. DFA makes recommendations and adjustments to the appropriation request which then becomes the Governor's proposal to the Legislature.
4. The LFC holds hearings on the appropriation request, also submitting recommendations and adjustments before presentation to the Legislature.
5. Both the DFA's and LFC's recommended appropriation proposals are presented to the Legislature for approval of the final budget plan.
6. Budget hearings are scheduled before the New Mexico House Appropriations and Senate Finance Committees. The final outcome of these hearings is incorporated into the General Appropriations Act.
7. The Act is signed into law by the Governor of the State of New Mexico within the legally prescribed time limit.
8. The District Attorney submits, no later than May 1, to DFA an annual operating budget by category and line item based upon the appropriations made by the Legislature. The DFA - Budget Division reviews and approves the operating budget which becomes effective on July 1.
9. All subsequent budget adjustments must be approved by the District Attorney and the Director of the DFA - Budget Division. The budget for the current year was properly amended.

STATE OF NEW MEXICO SECOND JUDICIAL DISTRICT ATTORNEY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

10. Legal budget control for expenditures and encumbrances is by category of line item.
11. Formal budgetary integration is employed as a management control device during the fiscal year for the General Fund and the Special Revenue Funds.
12. The budget is adopted on a modified accrual basis of accounting that is consistent with accounting principles generally accepted in the United States of America. This change was implemented with the laws of 2004, Chapter 114, Section 3, paragraph N and paragraph 0. It is effective for fiscal years beginning July 1, 2004. However, there is a statutory exception per the General Appropriation Act, Laws of 2006, Chapter 109, Section 3, Subsections N and 0. 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 6-1 0-4 NMSA 1978. Those accounts payable must be paid out of the next year's budget.
13. 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 the 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
14. Appropriations lapse at the end of the fiscal year except for those amounts recorded as vouchers payable and salaries payable. The District Attorney's General Fund is a reverting fund for its state appropriations. The Special Revenue Funds are not reverting because they are funds received from grantor agencies.

Capital Assets

Property, plant and equipment, including software, purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at the fair market values as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The State's capitalization policy, i.e., the dollar value above which asset acquisitions including software are added to the capital accounts, is \$5,000 due to a change in capitalization policy beginning July 1, 2005. However, all capital outlay purchases may not necessarily be capitalized. The District Attorney does not capitalize any interest in regards to its capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives with no salvage value. The District Attorney utilizes Internal Revenue Service guidelines to estimate the useful lives on fixed assets as follows:

STATE OF NEW MEXICO SECOND JUDICIAL DISTRICT ATTORNEY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Furniture and equipment	7 years
Vehicles	5 years
Data processing equipment, including software	3 years

GASB Statement #34 requires the recording and depreciation of infrastructure assets. Infrastructure assets include roads, bridges, traffic signals, etc. The District Attorney does not own any infrastructure assets.

Encumbrances Accounting

Encumbrances accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded during the fiscal year in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary control in the General Fund and the Special Revenue Funds. All encumbrances not utilized lapse at year end. Therefore, there is no difference between the modified accrual basis of accounting and the budgetary basis.

Compensated Absences Payable

Vacation and sick leave earned and not taken is cumulative; however, upon termination of employment, sick pay for such leave hours accumulated up to 600 hours is forfeited, and vacation pay is limited to payment for 240 hours. Vacation leave up to the maximum of 240 hours is payable upon separation from service at the employee's current hourly rate. Sick leave is payable semiannually to qualified employees for hours accumulated above 600 hours at a rate equal to 50 percent of their hourly rate, not to exceed 120 hours each semiannual period. Upon retirement, payment for sick leave is limited to 400 hours accumulated in excess of 600 hours at the 50 percent hourly rate. The compensated absences payable is included in the government-wide financial statements.

Employees are entitled to accumulate annual leave at a rate based on appointment date and length of continuous service. A maximum of 240 hours may be carried forward after the pay period beginning in December and ending in January. Employees are entitled to accrue sick leave at the rate of 3.69 hours per pay period. There is no limit to the amount of sick leave which an employee may accumulate.

Due to State General Fund (Reversions)

Reversions to the State General Fund by the District Attorney are based on the definitions of reverting funds.

Reverting Funds - All funds that are not specifically identified by law are reverting if they are funded by General Fund appropriations. The District Attorney's only reverting fund would be the General Fund. The District Attorney had no reversions due to the State General Fund as of June 30, 2010.

STATE OF NEW MEXICO SECOND JUDICIAL DISTRICT ATTORNEY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reservations of Fund Balances

Reservations of fund balances on the Governmental funds are created to either (1) satisfy legal covenants that require that a portion of the fund balance be segregated or (2) identify the portion of the fund balance that is not appropriable for future expenditures. Specific reservations of fund balance accounts are summarized below:

Reserved – This reserve was created to represent funds held in non-reverting Special Revenue Funds.

Unreserved, designated – This designated fund balance represents funds that are designated to be used for specific programs but are considered unrestricted in their use by the grantor and are not subject to reversion to the state General Fund.

Revenues, Expenditures and Expenses

Substantially all governmental fund revenues are accrued. Grant revenue is recognized when the related eligibility requirements are met. No allowance for doubtful accounts was necessary because all accounts receivable were considered collectable at June 30, 2010. Expenditures are recognized when the related fund liability is incurred.

Net Assets (Deficit)

The government-wide financial statements utilize a net asset presentation. Net assets are categorized as invested in capital assets, restricted and unrestricted.

Invested in Capital Assets is intended to reflect the portion of net assets which are associated with non-liquid, capital assets less outstanding capital asset related debt. The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost. The District Attorney did not have any related debt at June 30, 2010.

Restricted represents the unexpended portion of grants from various local, state and federal grantors which are restricted as to use.

Unrestricted Net Assets represents the amounts of the District Attorney at June 30, 2010 that are not restricted for specific purposes. The amount consists of the District Attorney's available fund balances after deducting compensated absences payables.

Use of 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

STATE OF NEW MEXICO SECOND JUDICIAL DISTRICT ATTORNEY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 3 - CASH AND INVESTMENT ACCOUNTS WITH STATE TREASURER AND INVESTMENT POLICY

Cash Accounts

The District Attorney has the following cash accounts at June 30, 2010:

	Financial Statement Balances at June 30, 2010
Petty cash	<u>\$ 200</u>
Agency Fund – Wells Fargo, Albuquerque checking account	<u>\$ 525</u>

Investment Accounts with State Treasurer

The following is a summary of the District Attorney’s investment account with the New Mexico State Treasurer at June 30, 2010, which represents the District Attorney’s interest in the State General Fund Investment Pool held by the New Mexico State Treasurer as reported by the New Mexico Department of Finance and Administration (DFA):

	SHARE Agency Number	Balances at June 30, 2010 as Reported by DFA
State Treasurer Accounts:		
General Fund	15600	\$ 1,082,206
Special Revenue Fund	26000	<u>99,110</u>
Subtotal		1,181,316
District Attorney’s reconciling items		<u>-</u>
Total reconciled balance		<u>\$ 1,181,316</u>

The New Mexico State Treasurer monitors the collateral for investments held by it for other state entities, which would include the investment accounts of the District Attorney. The Office of the State Treasurer has its own separate annual independent audit in which the collateral pledged to secure these investments is disclosed. That report may be obtained by writing to the State of New Mexico State Treasurer’s Office, P.O. Box 608, Santa Fe, New Mexico 87504-0608. The District Attorney is not permitted to have any investments, and the District Attorney did not have any investments during the year ended June 30, 2010. There is no custodial risk in relation to the accounts at the District Attorney’s level. The custodial risk would belong to the New Mexico State Treasurer.

STATE OF NEW MEXICO SECOND JUDICIAL DISTRICT ATTORNEY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 3 - CASH AND INVESTMENT ACCOUNTS WITH STATE TREASURER AND INVESTMENT POLICY (CONTINUED)

The balance of the Wells Fargo account did not exceed \$250,000 at any time during the year ended June 30, 2010, so it was fully insured by the Federal Deposit Insurance Corporation and no pledged collateral was required. There was no custodial credit risk for the District Attorney on this account.

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2010 is as follows:

	<u>Balance at June 30, 2009</u>	<u>Adjustments/ Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2010</u>
Capital assets:				
Furniture and equipment	\$ 722,265	\$ -	\$ -	\$ 722,265
Data processing equipment	216,777	-	-	216,777
Vehicles	<u>318,838</u>	<u>55,394</u>	-	<u>374,232</u>
Total capital assets	1,257,880	55,394	-	1,313,274
Less accumulated depreciation for:				
Furniture and equipment	(722,265)	-	-	(722,265)
Data processing equipment	(216,777)	-	-	(216,777)
Vehicles	<u>(267,396)</u>	<u>(30,951)</u>	-	<u>(298,347)</u>
Total accumulated depreciation	<u>(1,206,438)</u>	<u>(30,951)</u>	-	<u>(1,237,389)</u>
Capital assets, net	<u>\$ 51,442</u>	<u>\$ 24,443</u>	<u>\$ -</u>	<u>\$ 75,885</u>

The District Attorney is a single function entity, and all depreciation has been allocated to its only activity, general government, in the amount of \$30,951. All capital assets owned are depreciable.

NOTE 5 - COMPENSATED ABSENCES PAYABLE

A summary of changes in the compensated absences payable for the year ended June 30, 2010 is as follows:

	<u>Balance June 30, 2009</u>	<u>Increase</u>	<u>(Decrease)</u>	<u>Balance June 30, 2010</u>	<u>Amounts Due Within One Year</u>
Compensated absences payable	<u>\$ 947,641</u>	<u>\$ 709,666</u>	<u>\$ (804,358)</u>	<u>\$ 852,949</u>	<u>\$ 852,949</u>

Of the \$852,949, all has been classified as a current liability in the Statement of Net Assets. In prior years, the General Fund has been used to liquidate compensated absences, and it is expected to continue to do so in the future.

**STATE OF NEW MEXICO SECOND JUDICIAL DISTRICT ATTORNEY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

NOTE 6 - DUE FROM AND DUE TO OTHER STATE AGENCIES

Transactions that occur among state agencies under legislative mandate, exchange transactions and other situations are accounted for in the financial statements as due from and due to other state agencies. The due from and due to other state agencies balances at June 30, 2010 consist of the following:

Due From Other State Agencies

<u>2nd DA Fund No.</u>	<u>Agency</u>	<u>Other Agency's Fund No.</u>	<u>Amount</u>
15600	Second District Court	39401	\$ 5,987
26000	Administrative Office of the District Attorneys	16800	13,959
26000	Department of Public Safety	12800	<u>102,800</u>
	Total all funds		<u>\$ 122,746</u>

Due to Other State Agencies

<u>2nd DA Fund No.</u>	<u>Agency</u>	<u>Other Agency's Fund No.</u>	<u>Amount</u>
15600	Department of Finance and Administration	62000	<u>\$ 388</u>
	Total all funds		<u>\$ 388</u>

NOTE 7 - INTERFUND RECEIVABLES AND PAYABLES

The amount due from fund 26000 to 15600 is a result of a restatement in the amount of \$435,661 to reclassify fund balance from fund 26000 to 15600. The amount due from fund 89000 to 15600 is due to a cash overdraft in fund 89000 as a result of expenditures incurred for cost reimbursement grants not yet drawn. The District Attorney has the following interfund receivables and payables between its funds at June 30, 2010.

<u>Due to Other Funds</u>		<u>Due From Other Funds</u>
<u>SHARE Fund Name</u>	<u>SHARE Fund No.</u>	<u>General Fund 15600</u>
Grants	26000	\$ 435,661
ARRA	89000	<u>202,288</u>
Total		<u>\$ 637,949</u>

STATE OF NEW MEXICO SECOND JUDICIAL DISTRICT ATTORNEY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 8 – PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

Plan Description

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

Funding Policy

Plan members are required to contribute 8.92% of their gross salary. The District Attorney is required to contribute 15.09% of the gross covered salary. The contribution requirements of plan members and the District Attorney are established in State statute under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The District Attorney's contributions to PERA for the years ended June 30, 2010, 2009 and 2008 were \$1,875,251, \$2,092,385 and \$1,991,611, respectively, equal to the amount of the required contributions for each fiscal year.

NOTE 9 - POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN

Plan Description

The District Attorney contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit post-employment 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.

**STATE OF NEW MEXICO SECOND JUDICIAL DISTRICT ATTORNEY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

**NOTE 9 - POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN
(CONTINUED)**

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

Funding Policy

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

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. During the fiscal year ended June 30, 2010, the statute required each participating employer to contribute 1.3% of each participating employee's annual salary; each participating employee was required to contribute .65% of their salary. In the fiscal years ending June 30, 2011 through June 30, 2013, the contribution rates for employees and employers will rise as follows:

For employees who are not members of an enhanced retirement plan, the contribution rates will be:

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
FY11	1.666%	.833%
FY12	1.834%	.917%
FY13	2.000%	1.000%

For employees who are members of an enhanced retirement plan (state police and adult correctional officer coverage plan 1; municipal police member coverage plans 3, 4 and 5; municipal fire member coverage plan 3,4 and 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act [10-12B-1 NMSA 1978]), the contribution rates will be:

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
FY11	2.084%	1.042%
FY12	2.292%	1.146%
FY13	2.500%	1.250%

Also, employers joining the program after January 1, 1998 are required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

STATE OF NEW MEXICO SECOND JUDICIAL DISTRICT ATTORNEY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 9 - POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN
(CONTINUED)

The RHCA plan is financed on a pay-as-you-go basis. The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the contributions can be changed by the New Mexico State Legislature.

The District Attorney's contributions to the RHCA for the years ended June 30, 2010, 2009 and 2008 were \$158,271, \$157,694 and \$151,196, respectively, which equal the required contributions for each year.

NOTE 10 - CONTINGENCIES

The District Attorney is a party to various claims and other legal matters which arise in the normal course of business. The District Attorney does not believe that the results of all claims and other legal matters individually or in the aggregate will have a material adverse effect on its operations or financial position.

Risk of Loss

The District Attorney is exposed to various risks of losses related to torts; theft of or damage to, or destruction of assets, errors and omissions; injuries to employees or others; or acts of God. The Second Judicial District Attorney maintains commercial insurance through the Risk Management Division for coverage for workers' compensation, auto liability, general liability, civil rights, property and contents, and fidelity bonds. Management believes that any potential loss would be adequately covered by insurance and would not result in any material adverse effect on the financial condition of the District Attorney.

Security Bond

The District Attorney and its employees are covered under a blanket bond held with Hartford Fire Insurance Company. The policy, purchased by the Risk Management Division of the General Services Department, covers loss through employee dishonesty and expires annually. There are no pending or known threatened legal proceedings involving material matters to which the District Attorney is party.

NOTE 11 - COMMITMENTS – OPERATING LEASES

The District Attorney leased certain equipment under operating leases with various terms. Total rental expenditures for the year ended June 30, 2010 for this lease were \$98,167. Future minimum payments as of June 30, 2010 under these operating leases with a term greater than one year were as follows:

2011	\$	91,556
2012		91,556
2013		91,556
2014		91,556
Total	\$	<u>366,224</u>

STATE OF NEW MEXICO SECOND JUDICIAL DISTRICT ATTORNEY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 12 - OPERATING TRANSFERS

The following are the transfers in from other governmental entities to the District Attorney's SHARE fund 15600 during the year ended June 30, 2010:

Fund Title	Transfer	
	In	Out
Second District Court	\$ 5,675	\$ -
Metro Court	11,542	-
Drug Court	13,181	-
Total	\$ 30,398	\$ -

NOTE 13 – FUND BALANCE AND NET ASSET RESTATEMENTS

The 2009 financial statements were issued with the fund balance in the General Fund (15600) understated by \$983,798 due to \$560,637 in deferred revenue incorrectly deferred as of June 30, 2009 and \$423,161 in fund balance incorrectly restated during the June 30, 2005 audit. As a result of these errors, beginning fund balance was restated as follows:

Fund balance as originally reported, June 30, 2009	\$ 13,026
Restatement	983,798
Fund balance, July 1, 2009, restated	<u>\$ 996,824</u>

The 2009 financial statements were issued with the fund balance in the Grant Fund (26000) overstated by \$435,661 due to \$435,661 in fund balance incorrectly restated during the June 30, 2005 audit. As a result of this error, beginning fund balance was restated as follows:

Fund balance as originally reported, June 30, 2009	\$ 439,570
Restatement	(435,661)
Fund balance, July 1, 2009, restated	<u>\$ 3,909</u>

As a result of these errors, beginning net assets were restated as follows:

Net assets as originally reported, June 30, 2009	\$ (443,603)
Restatement, due to errors	548,137
Net assets, July 1, 2009, restated	<u>\$ 104,534</u>

The FY 2009 financial statements presented the various grants of the District Attorney as individual funds. The presentation of the FY 2010 financial statements presents the funds at the individual SHARE fund level as required by the New Mexico State Auditor. The following illustrates how the fund balances of the various funds as presented in FY 2009 are consolidated into the individual SHARE funds as presented in the FY 2010 financial statements.

**STATE OF NEW MEXICO SECOND JUDICIAL DISTRICT ATTORNEY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

NOTE 13 – FUND BALANCE AND NET ASSET RESTATEMENTS (CONTINUED)

<u>FY 2009 Fund Number</u>	<u>June 30, 2009 Fund Balance</u>	<u>FY 2010 SHARE Fund Number</u>
0100	\$ 200	15600
1000	827	15600
2000	(501)	15600
1200	<u>12,500</u>	15600
	<u>\$ 13,026</u>	
0900	\$ 218,480	26000
0800	118,182	26000
0575	3,909	26000
0525	-	26000
0200	4,966	26000
0400	17,122	26000
0550 *	-	26000
0576	-	26000
0600	20,614	26000
0650	7,829	26000
0700	-	26000
0750	32,697	26000
0850	4,724	26000
0950	11,047	26000
1500	<u>-</u>	26000
	<u>\$ 439,570</u>	

* Prior year financial statements included a \$1 rounding error

This information is an integral part of the accompanying financial statements.

SUPPLEMENTAL SCHEDULES

**STATE OF NEW MEXICO SECOND JUDICIAL DISTRICT ATTORNEY
MEMORANDA OF UNDERSTANDING
June 30, 2010**

The following is a list of Memoranda of Understanding the District Attorney has entered into:

<u>Participants/ Description</u>	<u>Responsible Party</u>	<u>Dates of Agreement</u>		<u>Project Amount</u>	<u>District Attorney Portion</u>	<u>Current Year Contributions</u>	<u>Audit Responsibility</u>
		<u>Beginning</u>	<u>Ending</u>				
Second Judicial District Attorney/ Pueblos of Isleta & Laguna	Second Judicial District Attorney	07/01/03	Ongoing	N/A	\$ -	\$ -	Second Judicial District Attorney

**STATE OF NEW MEXICO SECOND JUDICIAL DISTRICT ATTORNEY
SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -
AGENCY FUND - PRE-PROSECUTION PROGRAM
June 30, 2010**

	Balance at June 30, 2009	Additions	Deletions	Balance at June 30, 2010
ASSETS				
Cash in authorized bank account	\$ 2,663	\$ -	\$ (2,138)	\$ 525
LIABILITIES				
Total liabilities	\$ 2,663	\$ -	\$ (2,138)	\$ 525

SINGLE AUDIT

**STATE OF NEW MEXICO SECOND JUDICIAL DISTRICT ATTORNEY
SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2010**

<u>Federal Agency/ Pass-Through Agency</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Participating Expenditures</u>
Executive Office of the President High Intensity Drug Trafficking Areas Program HIDTA Operation Up the Ladder Initiative	95.001		\$ <u>164,042</u>
U.S. Department of Justice Public Safety Partnership and Community Policing Grants COPS - Methamphetamine Initiative - Direct Program	16.710		88,854
Support of the Methamphetamine Initiative - Passed through the City of Albuquerque	16.710	2007CKWX0235	50,231
NRPV - Combating Criminal Narcotics Activity along the Southern Border - Direct Program - ARRA	16.809		221,443
Passed Through the State of New Mexico Crime Victim Assistance	16.575	2008-VA-GX-0029	75,649
Edward Byrne Memorial Justice Assistance Grant Program Edward Byrne Memorial Justice Assistance	16.738	DPSJAG09	93,390
Edward Byrne Memorial Justice Assistance Supplemental	16.738	DPSJAG09-08SUPP	13,768
Edward Byrne Memorial Justice Assistance Grant Program - CMS	16.738	2009DJ-BX-0148	<u>13,960</u>
Total U.S. Department of Justice			<u>557,295</u>
Total			<u>\$ 721,337</u>

Note: The Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting. There were no federal awards expended in the form of non-cash assistance during the year. There were no loans or loan guarantees during the year. None of the funds expended were passed through to subrecipients.

**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**

Ms. Kari Brandenburg, District Attorney
State of New Mexico
Second Judicial District Attorney
Albuquerque, New Mexico
and
Mr. Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

We have audited the financial statements of the governmental activities, each major fund, the aggregate remaining fund information and the budgetary comparisons of the general fund and each major special revenue fund of the State of New Mexico Second Judicial District Attorney (the District Attorney) as of and for the year ended June 30, 2010, and have issued our report thereon dated March 3, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District Attorney's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District Attorney's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District Attorney's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph, and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A **deficiency in internal control** exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A **material weakness** is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District Attorney'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 as items 10-01 and 10-02 to be material weaknesses.

A **significant deficiency** is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 10-03 and 10-04 to be significant deficiencies.

Compliance and Other Matters

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

We noted certain other matters that are required to be reported pursuant to *Government Auditing Standards*, paragraphs 5.14 and 5.16, and pursuant to Section 12-6-5 NMSA 1978, which are described in the accompanying schedule of findings and questioned costs as items 10-05, 10-06, and 10-07.

The District Attorney's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District Attorney's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the management of the District Attorney, the New Mexico Office of the State Auditor, the New Mexico Legislature, the New Mexico Department of Finance and Administration, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Gunderson LLP

Albuquerque, New Mexico
March 3, 2011

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND
MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

Ms. Kari Brandenburg, District Attorney
State of New Mexico
Second Judicial District Attorney
Albuquerque, New Mexico
and
Mr. Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

Compliance

We have audited the compliance of the State of New Mexico Second Judicial District Attorney (the District Attorney) with the types of compliance requirements described in the US Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District Attorney's major federal programs for the year ended June 30, 2010. The District Attorney's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District Attorney's management. Our responsibility is to express an opinion on the District Attorney's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District Attorney's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District Attorney's compliance with those requirements.

In our opinion, the District Attorney complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with *OMB Circular A-133* and which is described in the accompanying schedule of findings and questioned costs as item 10-04.

Internal Control over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as item 10-04. 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.

The District Attorney's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District Attorney's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, District Attorney Commissioners, the Office of the State Auditor, the New Mexico Legislature, the New Mexico Department of Finance and Administration, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Gunderson LLP

Albuquerque, New Mexico
March 3, 2011

**STATE OF NEW MEXICO SECOND JUDICIAL DISTRICT ATTORNEY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2010**

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the basic financial statements of the State of New Mexico Second Judicial District Attorney (the District Attorney).
2. Four significant deficiencies relating to the audit of financial statements were reported in the 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*, of which two are considered to be material weaknesses.
3. No instances of non-compliance material to the financial statements of the District Attorney were disclosed during the audit.
4. One significant deficiency was disclosed during the audit of the major federal award programs as reported in the Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with *OMB Circular A-133*. This deficiency was not considered to be a material weakness.
5. The auditors' report on compliance for the major federal award programs for the District Attorney expresses an unqualified opinion.
6. There was one audit finding that the auditor is required to report under 510(a) of *OMB Circular A-133*.
7. The program tested as major programs included:

Program	CFDA#
Executive Office of the President:	
HIDTA Operation Up the Ladder Initiative	95.001
U.S. Department of Justice:	
NRVP – Combating Criminal Narcotics Activity along the Southern Border – ARRA	16.809

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The District Attorney was not determined to be a low-risk auditee.

**STATE OF NEW MEXICO SECOND JUDICIAL DISTRICT ATTORNEY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2010**

B. FINDINGS - FINANCIAL STATEMENT AUDIT

10-01 - SAS-115 - INTERNAL CONTROL OVER FINANCIAL REPORTING (MATERIAL WEAKNESS)

Condition: During the June 30, 2010 audit, prior period restatements in the amount of approximately \$548,000 were required. The restatement consisted of revenue inappropriately being deferred and inappropriate adjustments posted during the June 30, 2005 audit determined to be in appropriate. The District Attorney does not have an adequate internal control system over financial reporting to ensure the financial statements are materially correct.

Criteria: The financial reporting of the District Attorney should be reported in accordance with generally accepted accounting principles.

Cause: The District Attorney lacked effective internal controls over financial reporting. In addition, the District Attorney relied on guidance from previous auditors related to the treatment of the balances that were restated.

Effect: Misstatement of the financial statements of the District Attorney.

Auditors' Recommendation: We recommend the District Attorney establish effective internal controls over financial reporting that include a qualified person capable of applying generally accepted accounting principles reviewing the financial information to identify misstatements.

Management's Response: The District Attorney's Office has engaged a qualified individual as its Chief Financial Officer to review financial information and ensure GAAP is properly applied.

10-02 - REVENUE RECOGNITION (MATERIAL WEAKNESS)

Condition: During the audit, it was noted that the District Attorney was inappropriately deferring revenue. As a result, a restatement of deferred revenue of approximately \$560,000 was required.

Criteria: In accordance with Chapter 6-5-2, NMSA 1978, all agencies under its jurisdiction shall accurately classify and record cash receipts to correctly recognize the economic event that has taken place. Furthermore, generally accepted accounting principles states that revenues should be recognized when realized and earned.

Cause: Lack of adequate understanding of the appropriate accounting treatment of the funds. In addition, the District Attorney relied on guidance from previous auditors related to the treatment of the deferred revenue that had to be restated.

**STATE OF NEW MEXICO SECOND JUDICIAL DISTRICT ATTORNEY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2010**

10-02 - REVENUE RECOGNITION (MATERIAL WEAKNESS) (CONTINUED)

Effect: Misstatement of the financial statements of the District Attorney

Auditor's Recommendation: We recommend the District Attorney ensure they have a qualified person with an adequate accounting background to review financial information of the District Attorney.

Management's Response: The District Attorney's Office has engaged a qualified individual with an adequate accounting background as its Chief Financial Officer to review financial information and ensure grant revenue is properly recognized.

10-03 - ACCOUNTING SYSTEM RECONCILIATIONS (Significant Deficiency)

Condition: In addition to SHARE, the District Attorney utilizes Quickbook to track and monitor the financial transactions of the District Attorney. When we compared the balances of the accounts in each system discrepancies were identified. The primary differences were from the SHARE implementation for FY07. However, significant adjustments were posted against the balances in SHARE so that the two systems agreed with one another.

Criteria: According to MAPs (FIN 13.1 External Systems), authorized by Chapter 6-5-2.1, NMSA requires the complete, accurate and timely recording of accounting transactions originating from a subsidiary system into SHARE, the central reporting system. According to MAPs (FIN 16.2 Verifying SHARE reports), authorized by Chapter 6-5-2, NMSA requires monthly verification that all transactions are posted in SHARE and to prepare any reclassification or adjusting entries as soon as they are known.

Cause: Lack of effective controls surrounding the reconciliation process of the two systems and not utilizing the state's official book of record, SHARE, as the central reporting system.

Effect: Utilizing two systems for record keeping is not efficient or practical. The District Attorney may be susceptible to recording and reconciliation errors.

Auditor's Recommendation: We recommend the District Attorney utilize SHARE as its primary reporting system. If subsidiary systems are required the District Attorney should establish effective internal controls surrounding the reconciliation process.

Management's Response: SHARE will be the District Attorney's Office primary reporting system. The Office will establish effective internal controls to ensure reconciliation to the book of record – SHARE. Any other system will be utilized for internal monitoring only of the agency's budget.

**STATE OF NEW MEXICO SECOND JUDICIAL DISTRICT ATTORNEY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2010**

10-04 - CAPITAL ASSETS INVENTORY (Significant Deficiency)

Condition: While performing our audit test work on fixed assets, we noted that the District Attorney failed to perform an annual inventory, the last inventory was performed June 30, 2007. This is applicable to the following federal program tested as major CFDA#16.809 – Combating Criminal Narcotics Activity along the Southern Border – ARRA.

Criteria: Per Chapter 6-5-2 and Chapter 12-6-10 of NMSA 1978, a state agency shall perform a physical inventory of capital assets at least annually. A-102 Common Rule and OMB Circular A-110 (2 CFR part 215) require that non-Federal entities receiving Federal Awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Cause: Lack or failure of internal controls over capital assets management.

Effect: The District Attorney is not in compliance with the statutory requirement. Possible misstatement of the financial statements.

Auditor's Recommendation: We recommend that the District Attorney establish effective internal controls over the management of capital assets and perform an annual inventory of capital assets.

Management's Response: The Office will immediately established effective internal controls over the management of capital assets. Purchasing staff will be expected to do a physical inventory of all fixed assets each year as required by statute.

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS
AUDIT**

10-04 - CAPITAL ASSETS INVENTORY (Significant Deficiency)

Condition: While performing our audit test work on fixed assets, we noted that the District Attorney failed to perform an annual inventory, the last inventory was performed June 30, 2007. This is applicable to the following federal program tested as major CFDA#16.809 – Combating Criminal Narcotics Activity along the Southern Border – ARRA.

Criteria: Per Chapter 6-5-2 and Chapter 12-6-10 of NMSA 1978, a state agency shall perform a physical inventory of capital assets at least annually. A-102 Common Rule and OMB Circular A-110 (2 CFR part 215) require that non-Federal entities receiving Federal Awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

**STATE OF NEW MEXICO SECOND JUDICIAL DISTRICT ATTORNEY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2010**

10-04 - CAPITAL ASSETS INVENTORY (Significant Deficiency) (CONTINUED)

Cause: Lack or failure of internal controls over capital assets management.

Effect: The District Attorney is not in compliance with the statutory requirement. Possible misstatement of the financial statements.

Auditor's Recommendation: We recommend that the District Attorney establish effective internal controls over the management of capital assets and perform an annual inventory of capital assets.

Management's Response: The Office will immediately established effective internal controls over the management of capital assets. Purchasing staff will be expected to do a physical inventory of all fixed assets each year as required by statute.

D. OTHER FINDINGS

10-05 - SYSTEM ACCESS FOR TERMINATED EMPLOYEES

Condition: During our assessment of the information technology control environment, it was determined that user IDs to access SHARE system were not disabled or deleted when an employee was terminated.

Criteria: NM Department of Information Technology (DOIT) standard S-STD-004, *Account Management*, authorized by NMAC requires the District Attorney to remove access privileges whenever an authorized user changes jobs or terminates employment.

Cause: Lack of effective controls associated with information system, including no formal procedures in place to deactivate and remove terminated user IDs.

Effect: Invalid transactions could be recorded, resulting in misstatement of financial data. Additionally, confidential information on the District Attorney's information system could be lost or corrupted.

Auditor's Recommendation: We recommend that management establish and implement formal procedures to ensure that all user IDs are deactivated immediately upon termination of employees.

**STATE OF NEW MEXICO SECOND JUDICIAL DISTRICT ATTORNEY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2010**

10-05 - SYSTEM ACCESS FOR TERMINATED EMPLOYEES (CONTINUED)

Management's Response: The State agency that handles SHARE access has been notified and employees no longer working for the District Attorney have had access to SHARE terminated. A process has been set in place to notify the State entity regarding terminations. The State entity will be notified on the last day of employment for all individuals so their access can be immediately terminated.

10-06 - LACK OF FORMAL DISASTER RECOVERY PLAN

Condition: During our assessment of the information technology control environment, it was determined that the District Attorney does not have a finalized Disaster Recovery Plan.

Criteria: NM Department of Information Technology (DOIT) standard S-STD-003, *Risk Management*, authorized by NMAC, requires the District Attorney to perform risk assessments and submit an annual IT security assessment to include a Disaster Recovery Plan.

Cause: Management oversight

Effect: Possible loss of financial information, as well as fiduciary break and risk of corruption.

Recommendation: We recommend that management place high priority in completing and formalizing a Disaster Recovery Plan. This includes off-site storage of the Disaster Recovery Plan and testing the Plan to ensure its completeness and reliability.

Management's Response: The Office does not have a formal plan in place but one will be formulated immediately. We do have the following contingencies in place to safeguard electronic information: 1) Case information – all electronic information related to criminal cases is currently backed up off-site at the Administrative Office of the District Attorneys (AODA); 2) Payroll/Financial Information – all electronic payroll and financial information is currently contained in the state wide system (SHARE). That system is internet based so the electronic information is stored and backed off-site; and, 3) Agency of Record – The Office is not the “agency of record.” To that end, we are not required to keep permanent electronic records, police reports, supplemental police reports, grand jury reports, court orders, post sentencing, or appeals, etc.

10-07 - LATE FILING OF AUDIT REPORT

Condition: The audit report for the year ended June 30, 2010 was not submitted by the deadline of December 15, 2010 to the New Mexico State Auditor's Office. The report was submitted on March 9, 2011.

Criteria: SAO 2.2.2.9(A)(f) requires that District Attorney's file their annual financial audit with the State Auditor's Office by December 15 each year.

**STATE OF NEW MEXICO SECOND JUDICIAL DISTRICT ATTORNEY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2010**

10-07 - LATE FILING OF AUDIT REPORT (CONTINUED)

Cause: The Independent Public Auditor (IPA) engaged to complete the audit of the District Attorney passed and was unable to complete the audit.

Effect: Non-compliance with the State Audit Rule.

Auditors' Recommendation: When selecting an IPA to complete the audit ensure they have adequate resources to complete the audit. .

Management's Response: The audit was 80% done on 12/1/10 and would have met the 12/15 deadline if owner of the audit firm engaged to perform the audit had not become ill and passed. From 12/1 forward, agency staff made every effort to request audit be finished due to how close they were to completion but audit staff were unable to do so. In the interim, agency contacted the State Auditor's Office explaining situation and to request direction about how to proceed. Audit firm had completed the agency's audit in the past and did not have any significant problems meeting the 12/15 deadline. Agency requested three quotes and another firm was hired to do the audit.

Circumstances beyond the agency's control created this finding. Agency will make an effort to hire a firm with a larger staff providing costs are within or not much higher than the appropriated amount.

**STATE OF NEW MEXICO SECOND JUDICIAL DISTRICT ATTORNEY
STATUS OF PRIOR YEAR AUDIT FINDINGS
June 30, 2010**

2008-01 Approval of Leave Taken - Resolved

**STATE OF NEW MEXICO SECOND JUDICIAL DISTRICT ATTORNEY
EXIT CONFERENCE
June 30, 2010**

An exit conference was held with the District Attorney on February 7, 2011. In attendance were:

STATE OF NEW MEXICO SECOND JUDICIAL DISTRICT ATTORNEY

Ms. Kari Brandenburg, District Attorney
Ms. Nivia Thames, Office Manager
Ms. Carmen Roybal, Chief Financial Officer
Mr. Jeff Peters, Human Resources Administrator
Mr. Rick Houston, Fiscal Accountant

CLIFTON GUNDERSON LLP

Janet Pacheco-Morton, CPA, CGFM, Partner
Matt Bone, CPA, Manager
Tasha Bochkova, CPA, Senior Associate

PREPARATION OF FINANCIAL STATEMENTS

The financial statements presented in this report have been prepared by the independent auditor, and reviewed and approved by the management of State of New Mexico Second Judicial District Attorney. The responsibility of the financial statements is the management's, as addressed in the Independent Auditors' Report.