A large orange circle is positioned on the left side of the page, partially cut off by the edge. It contains the text for the financial statements.

**FINANCIAL
STATEMENTS AND
REPORT OF
INDEPENDENT
CERTIFIED PUBLIC
ACCOUNTANTS**

**STATE OF NEW MEXICO
OFFICE OF THE ATTORNEY GENERAL**

June 30, 2010

atkinson

PRECISE. PERSONAL. PROACTIVE.

State of New Mexico
Office of the Attorney General

OFFICIAL ROSTER

June 30, 2010

Name	Title
Gary K. King	Attorney General
Albert J. Lama	Chief Deputy Attorney General
David K. Thomson	Deputy Attorney General
Elizabeth Glenn	Civil Division Director
Earl Holmes	Investigation Division
Mary Helen Baber	Prosecutions/Government Accountability
Jocelyn Torres	Litigation Division Director
Stephen Farris	Environment, Energy and Telecommunications Division Director
Karen Meyers	Consumer Protection Division Director
Evangeline J. Tinajero	Administrative Services Division Director
Margaret McLean	Criminal Appeals Division Director
Elizabeth Staley	Medicaid Fraud Division Director
Maria Sanchez Gagne	Border Violence Director

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CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

ATKINSON & CO. LTD.
6501 AMERICAS PKWY NE
SUITE 700
ALBUQUERQUE, NM 87110

T 505 843 6492
F 505 843 6817

ATKINSONCPA.COM

PO BOX 25246
ALBUQUERQUE, NM 87125

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Honorable Gary King, Attorney General
Office of the Attorney General
and
Mr. Hector H. Balderas, State Auditor
Office of the State Auditor

We have audited the accompanying financial statements of governmental activities, each major fund, the budgetary comparisons for the General Fund and Major Special Revenue Funds and the aggregate remaining fund information of the Office of the Attorney General, State of New Mexico as of and for the year ended June 30, 2010, which collectively comprise the Office of the Attorney General's basic financial statements, as listed in the table of contents. We have also audited the financial statements of each of the Office of the Attorney General's nonmajor governmental funds and the budgetary comparison for nonmajor funds presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the Office of the Attorney General'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 with 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.

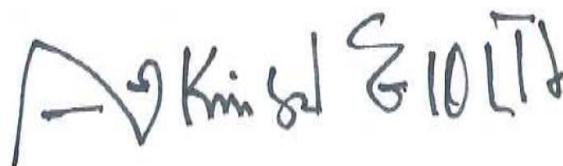
As discussed in Note B1, the financial statements of the Office of the Attorney General, State of New Mexico, are intended to present the financial position and changes in financial position, of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State of New Mexico that is attributable to the transactions of the Office of the Attorney General. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2010, and the changes in financial position, 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, each major fund, and the aggregate remaining fund information of the Office of the Attorney General, as of June 30, 2010, and the respective changes in financial position and the respective budgetary comparisons of the General fund and Major special revenue funds 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 each non-major governmental fund of the Office of the Attorney General as of June 30, 2010, and the respective changes in financial position and the respective budgetary comparison for the nonmajor funds for the year then ended in conformity with accounting principles generally accepted in the United States of America. The Office of the Attorney General adopted *Governmental Accounting Standard (GASB) No. 54* fund balance reporting and governmental fund type definitions for the year ending June 30, 2010. See Notes B and D.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2010, on our consideration of the Office of the Attorney General's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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.

Management's Discussion and Analysis on pages 3 through 9 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 primarily 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 basic financial statements, and the combining and individual fund financial statements and budgetary comparisons. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the 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 fiduciary combining schedule of changes in assets and liabilities – agency funds, schedule of cash accounts, joint powers agreements, and special appropriations listed as other supplementary information in the table of contents are presented for purposes of additional analyses and are not a required part of the 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.

A handwritten signature in blue ink, appearing to read "Atkinson & Co., Ltd.", with a stylized logo to the left consisting of a large 'A' and a checkmark-like shape.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
November 10, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
Required Supplementary Information

June 30, 2010

The Attorney General's Office (AGO or Office) discussion and analysis provides the reader of the financial statements this narrative overview and analysis of the financial activities of the AGO for the fiscal year ended June 30, 2010. The financial statements have been prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis-for State and Local Governments*, and related GASB statements, which established financial reporting requirements for state and local governments throughout the United States. The requirements were developed by GASB to make annual reports more comprehensive and easier to understand and use.

The Basic Financial Statements

In compliance with requirements of accounting principles generally accepted in the United States of America (GAAP) the AGO's basic financial statements include the:

- Government-wide financial statements;
- Fund financial statements;
- Budget comparison statements;
- Notes to the financial statements.

In accordance with 2.2.2 New Mexico Administrative Code NMAC Section 2.2.2.10A.(2)(d), the audit opinion also covers additional information consisting of:

- Combining financial statements;

The Management's Discussion and Analysis (MD&A) is included as required supplementary information (RSI).

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Office's finances, in a corporate-like manner. These statements report information about the overall government without displaying individual funds or fund types. They distinguish between governmental activities and business-type activities. The Office does not have any business-type activities.

The **Statement of Net Assets** presents information on all of the Office's assets and liabilities, with the difference between the two reported as net assets. Increases or decreases in net assets may serve as a useful indicator of the Office's financial position over time.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED
Required Supplementary Information

June 30, 2010

Government-Wide Financial Statements – Continued

The **Statement of Activities** presents information on how the Office's net assets changed during the most recent fiscal year. Changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenues and expenses are included in this statement for some items that will result in cash flows in future fiscal periods (e.g., earned but unused vacation leave and uncollected accounts receivable).

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 Office uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Office's funds are 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 available at the end of the fiscal year. 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 by governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Office'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.

The Office maintains one general fund and six special revenue funds. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balance for the general fund and for the special revenue funds.

The Office adopts an annual appropriated budget for its general fund and for certain special revenue funds. Budgetary comparison statements have been provided for the funds to demonstrate compliance with budgets.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED
Required Supplementary Information

June 30, 2010

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to gain a full understanding of the data provided in the government-wide financial statements. The notes to the financial statements can be found on pages 21 through 47 of this report.

Budgetary Comparison

The budget comparison information required by GASB No. 34 for the major governmental funds and non-major governmental funds that have legally adopted annual budgets are presented as listed in the table of contents. The budgetary comparison present both the original and final budgets for the reporting period, as well as the actual inflows, outflows, and balances, stated on a budgetary basis.

The Statements of Revenues and Expenditures – Budget and Actual are also presented as required by the Office of the State Auditor in 2.2.2. NMAC. This information is presented at the approved budget level to demonstrate compliance with legal requirements.

Government-Wide Condensed Financial Information

Attorney General's Office Net Assets

<u>NET ASSETS</u>	<u>June 30, 2009</u>	<u>June 30, 2010</u>	<u>Change</u>
ASSETS			
Current assets	\$ 12,193,982	\$ 17,437,406	\$ 5,243,424
Capital assets, net	<u>163,124</u>	<u>138,793</u>	<u>(24,331)</u>
Total assets	<u>\$ 12,357,106</u>	<u>\$ 17,576,199</u>	<u>\$ 5,219,093</u>
LIABILITIES			
Current liabilities	\$ 8,720,962	\$ 2,678,203	\$ (6,042,759)
Long-term liabilities	<u>209,288</u>	<u>191,633</u>	<u>(17,655)</u>
Total liabilities	<u>\$ 8,930,250</u>	<u>\$ 2,869,836</u>	<u>\$ (6,060,414)</u>
NET ASSETS			
Invested in capital assets, net	\$ 163,124	\$ 138,793	\$ (24,331)
Restricted	4,108,640	15,390,409	11,281,769
Unrestricted	<u>(844,908)</u>	<u>(822,839)</u>	<u>22,069</u>
Net assets	<u>\$ 3,426,856</u>	<u>\$ 14,706,363</u>	<u>\$ 11,279,507</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED
Required Supplementary Information

June 30, 2010

Discussion of Statement of Net Assets

Net assets are derived by deducting total liabilities from total assets. Net assets increased by \$11,279,507.

Current assets consist mostly of investments with the State Treasurer of \$16,303,584, and grants receivable of \$1,117,216.

The Office reports balances in three categories of net assets; (1) invested in capital assets; (2) restricted and (3) unrestricted. The invested in capital assets balance is positive but the unrestricted balance is negative due to compensated absences reported on the government-wide financial statements.

Restricted net assets increased due to increases in settlement monies received and deposited in the Office's consumer settlement fund (SHARE 54400).

Capital Asset and Debt Administration

The Office's investment in capital assets for its governmental activities as of June 30, 2010 is \$138,793 (net of accumulated depreciation). This investment in capital assets consists mainly of office data processing, equipment, and vehicles.

Major capital asset events during the current fiscal year include depreciation expense totaling \$34,920.

As noted earlier, net assets may, over time, serve as a useful indicator of a government's financial position. In the case of the Office, a net asset balance is reported at the close of the most recent fiscal year.

The Office uses capital assets to provide its services; consequently, these assets are not available for future spending.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED
Required Supplementary Information

June 30, 2010

Liabilities

\$2,869,836 consists primarily of accounts payable, \$203,835, i.e., money that the AGO is obligated to pay; accrued salaries and benefits payable \$741,695; due to the State general fund \$243,109; due to other state agencies \$89,045; and compensated absences payable \$822,839; investment pool overdraft \$278,638; deferred revenue \$5,000; and deposits held for consumers of \$485,675.

Long-Term Debt

At the end of the current fiscal year, the AGO had total long-term debt outstanding of \$191,633 comprised of accumulated balances for compensated absences for payment to employees upon termination of their employment from the AGO if not utilized.

Employees can receive compensation for a maximum of 240 hours upon severance.

Discussion of Statement of Activities

This statement shows the components that increased, in the aggregate, the Office's net assets by \$11,279,507 during the year. Program revenues increased due to increases in settlement monies received and deposited in the Office's consumer settlement fund (SHARE 54400). \$10,090,708 in settlement monies was received from a pharmaceutical company on December 15, 2009. The Office's State general fund appropriation decreased by \$1,063,300. The change from prior year was caused mainly by reduced appropriations from the State Legislature. In fiscal year, 2010 \$1,200,000 was required by Laws of 2009 HB 3 sec 1 item B to be transferred from the Office's consumer settlement fund to the State general fund for purposes of reducing the State of New Mexico's budget deficit. Expenses decreased by \$705,998 primarily because of decreased spending for water litigation Texas regarding the waters of the Rio Grande.

State of New Mexico
Office of the Attorney General

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED
Required Supplementary Information

June 30, 2010

Discussion of Statement of Activities – Continued

<u>ACTIVITIES FOR THE YEAR</u>	<u>June 30, 2009</u>	<u>June 30, 2010</u>	<u>Change</u>
Functional expenses:			
General government	\$ 19,121,712	\$ 18,415,714	\$ (705,998)
Program revenues:			
Operating grants and contributions	<u>3,185,973</u>	<u>15,897,267</u>	<u>12,711,294</u>
Net (expense) revenue	(15,935,739)	(2,518,447)	13,417,292
General revenues:			
Transfers:			
State general fund appropriations	16,475,300	15,412,000	(1,063,300)
Transfers (out) and reversions	<u>(502,094)</u>	<u>(1,614,046)</u>	<u>(1,111,952)</u>
Total general revenues and transfers	<u>15,973,206</u>	<u>13,797,954</u>	<u>(2,175,252)</u>
Change in net assets	37,467	11,279,507	11,242,040
Net assets, beginning of year	<u>3,389,389</u>	<u>3,426,856</u>	<u>37,467</u>
Net assets, end of year	<u>\$ 3,426,856</u>	<u>\$ 14,706,363</u>	<u>\$ 11,279,507</u>

The Office's Individual Governmental Funds

As the Office completed the year, its governmental funds reported a combined fund balance of \$15,390,409 which is significantly higher than last year's total of \$4,108,640. The primary reason for the increase in fund balance is related to increases in consumer settlement revenues. The fund balance of the general fund decreased by \$273,954; the Medicaid fraud control unit special revenue fund remained zero; and the consumer settlements fund balance increased by \$11,547,263, due to current year settlement revenues which are now available for future budget appropriation.

The general fund revenues and transfers decreased compared to the previous year due to State of New Mexico budget reductions. Revenues and other financial sources decreased by \$890,217 as a result of decreased state appropriations and grant revenues while expenses and financing uses decreased by \$765,435 due to decreased expenses related to water litigation and decreased appropriations.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED
Required Supplementary Information

June 30, 2010

The Office's Individual Governmental Funds – Continued

The Medicaid fraud control unit special revenue fund revenues, expenditures and transfers remained fairly constant compared to the previous year. Revenues and other financing sources increased by \$48,484, while expenses and other financing uses decreased by \$14,786.

The Consumer Settlements revenues, increased by \$12,221,808 compared to the previous year, due to a \$10,090,708 in settlement payment received from a pharmaceutical company on December 15, 2009. Transfers to the general fund increased by \$50,000 due to increased budget authority.

In fiscal year 2010, the Office received three new federal grants as result of the American Recovery and Reinvestment Act (ARRA). Federal grant revenues totaled \$466,642 in the ARRA fund (SHARE 89000) which equals the amount of reimbursable grant expenditures for ARRA in fiscal year 2010.

General Fund Budgetary Highlights

The Office's final budget included transfers from the consumer settlement fund. Budgeted expenditures were higher than budgeted revenues, due to prior year fund balance carry forward of \$273,954. Actual revenues were lower than budget amounts by \$540,201. Actual expenditures were a favorable variance of \$725,107 from the final approved budget, reflecting budget savings totaling \$184,906.

Currently Known Facts, Decisions or Conditions

The New Mexico Legislative Finance Committee has approved budget reductions of \$4 million for the Office's fiscal year 2011 budget. The reduction is expected to be offset through increased usage of settlement monies deposited in the Office consumer settlement fund.

Requests for Information

This financial report is designed to provide a general overview of the AGO finances for all interested parties. If you have questions about this report or need additional information, contact:

The Office of the Attorney General
Villagra Building
Santa Fe, New Mexico 87504

State of New Mexico
Office of the Attorney General

STATEMENT OF NET ASSETS

June 30, 2010

	<u>Governmental Activities</u>
ASSETS	
Cash in banks	\$ 380
Investments in the State general fund investment pool	16,303,584
Due from Federal government	1,117,216
Other assets	<u>16,226</u>
Total current assets	17,437,406
Capital assets	1,070,423
Less accumulated depreciation	<u>(931,630)</u>
Total capital assets, net of depreciation	<u>138,793</u>
Total assets	<u><u>\$ 17,576,199</u></u>
LIABILITIES	
Accounts payable	\$ 203,835
State general fund investment pool overdraft	278,638
Accrued salaries and benefits payable	741,695
Due to State general fund FY10 reversion	243,109
Due to other state agencies	89,045
Deferred revenue	5,000
Deposits held for consumers and others	485,675
Compensated absences payable: current	<u>631,206</u>
Total current liabilities	2,678,203
Compensated absences:	
Due after one year	<u>191,633</u>
Total liabilities	2,869,836
NET ASSETS	
Investment in capital assets	138,793
Restricted:	
Consumer settlements	15,107,384
Antitrust litigation	26,872
Medicaid fraud program income	256,153
Unrestricted deficit	<u>(822,839)</u>
Total net assets	<u>14,706,363</u>
Total liabilities and net assets	<u><u>\$ 17,576,199</u></u>

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Office of the Attorney General

STATEMENT OF ACTIVITIES

For the year ended June 30, 2010

	<u>Governmental Activities</u>
EXPENSES	
General government:	
Personal services and employee benefits	\$ 14,788,907
Other costs	2,551,462
Contractual services	1,040,425
Depreciation	<u>34,920</u>
Total expenses	18,415,714
PROGRAM REVENUES	
Operating grants, contributions and settlements	<u>15,897,267</u>
Total program revenues	<u>15,897,267</u>
Net (expense) revenue	(2,518,447)
GENERAL REVENUES AND TRANSFERS	
State general fund appropriations - transfers in	15,412,000
Transfers (out)	(1,375,000)
Reversion expense-fiscal year 2010	<u>(239,046)</u>
Total general revenues and transfers	<u>13,797,954</u>
Change in net assets	11,279,507
Net assets, beginning of year	<u>3,426,856</u>
Net assets, end of year	<u>\$ 14,706,363</u>

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Office of the Attorney General

BALANCE SHEET – GOVERNMENTAL FUNDS

June 30, 2010

	General Fund - 17000	Medicaid Fraud Control - 27800	Consumer Settlement - 54400	ARRA Fund 89000	Other Non- Major Funds	Total Governmental Funds
ASSETS						
Cash in banks	\$ 200	\$ -	\$ -	\$ -	\$ 180	\$ 380
Investments, State Treasurer	423,261	-	15,592,879	-	287,444	16,303,584
Due from Federal government	532,103	358,179	-	226,934	-	1,117,216
Due from other state agencies, net	-	-	-	-	-	-
Other assets	9,493	6,733	-	-	-	16,226
	<u>965,057</u>	<u>364,912</u>	<u>15,592,879</u>	<u>226,934</u>	<u>287,624</u>	<u>17,437,406</u>
Total assets	<u>\$ 965,057</u>	<u>\$ 364,912</u>	<u>\$ 15,592,879</u>	<u>\$ 226,934</u>	<u>\$ 287,624</u>	<u>\$ 17,437,406</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
State general fund investment pool overdraft	\$ -	\$ 100,075	\$ -	\$ 178,563	\$ -	\$ 278,638
Accounts payable	148,902	46,021	-	4,493	4,419	203,835
Accrued salaries and benefits payable	622,186	75,631	-	43,878	-	741,695
Deferred revenue	5,000	-	-	-	-	5,000
Due to State general fund	188,969	54,140	-	-	-	243,109
Due to other state agencies	-	89,045	-	-	-	89,045
Due to taxpayers	-	-	485,675	-	-	485,675
	<u>965,057</u>	<u>364,912</u>	<u>485,675</u>	<u>226,934</u>	<u>4,419</u>	<u>2,046,997</u>
Total liabilities	965,057	364,912	485,675	226,934	4,419	2,046,997
FUND BALANCES:						
Spendable:						
Restricted for:						
Medicaid fraud program	-	-	-	-	256,153	256,153
Reserved for antitrust litigation	-	-	-	-	26,872	26,872
Consumer settlements	-	-	15,107,204	-	180	15,107,384
Unassigned	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>15,107,204</u>	<u>-</u>	<u>283,205</u>	<u>15,390,409</u>
Total fund balances	-	-	15,107,204	-	283,205	15,390,409
Total liabilities and fund balances	<u>\$ 965,057</u>	<u>\$ 364,912</u>	<u>\$ 15,592,879</u>	<u>\$ 226,934</u>	<u>\$ 287,624</u>	<u>\$ 17,437,406</u>

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Office of the Attorney General

**RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS –
GOVERNMENTAL FUNDS**

June 30, 2010

Total fund balance, governmental funds (balance sheet)	\$ 15,390,409
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and therefore, are not reported in the funds.	138,793
Long-term liabilities, including compensated absences payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(822,839)</u>
Net Assets of Governmental Activities in the Statement of Net Assets	<u>\$ 14,706,363</u>

June 30, 2010

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Office of the Attorney General

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – GOVERNMENTAL FUNDS**

For the year ended June 30, 2010

	General Fund - 17000	Medicaid Fraud Control - 27800	Consumer Settlement - 54400	ARRA Fund - 89000	Other Non- Major Funds	Total Governmental Funds
REVENUES						
Federal operating grants	\$ 752,022	\$ 1,384,762	\$ -	\$ 466,642	\$ -	\$ 2,603,426
Medicaid program income	-	-	-	-	33,377	33,377
Retained settlement and other revenues	13,174	27	13,247,263	-	-	13,260,464
Total revenues	765,196	1,384,789	13,247,263	466,642	33,377	15,897,267
EXPENDITURES						
Current:						
Personal services and employee benefits	12,876,683	1,518,182	-	416,111	-	14,810,976
Other costs	2,158,070	320,564	-	47,911	24,917	2,551,462
Contractual services	1,030,202	7,603	-	2,620	-	1,040,425
Capital outlay	10,589	-	-	-	-	10,589
Total expenditures	16,075,544	1,846,349	-	466,642	24,917	18,413,452
(Deficiency) excess of revenues over expenditures	(15,310,348)	(461,560)	13,247,263	-	8,460	(2,516,185)
OTHER FINANCING SOURCES (USES)						
State general fund appropriations	14,896,300	515,700	-	-	-	15,412,000
Other financing sources-internal transfers	500,000	-	(500,000)	-	-	-
Other financing (uses)-transfers out	(175,000)	-	(1,200,000)	-	-	(1,375,000)
Reversions-fiscal year 2010	(184,906)	(54,140)	-	-	-	(239,046)
Total other financing sources (uses)	15,036,394	461,560	(1,700,000)	-	-	13,797,954
Net change in fund balances	(273,954)	-	11,547,263	-	8,460	11,281,769
FUND BALANCES - beginning of year	273,954	-	3,559,941	-	274,745	4,108,640
FUND BALANCES - end of year	\$ -	\$ -	\$ 15,107,204	\$ -	\$ 283,205	\$ 15,390,409

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Office of the Attorney General

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES – GOVERNMENTAL FUNDS**

For the year ended June 30, 2010

Net change in fund balances - governmental funds \$ 11,281,769
(Statements of Revenues, Expenditures and Changes in Fund Balance)

Amounts reported for Governmental Activities in the Statement of Activities
are different because:

Capital outlays are reported as expenditures in governmental funds.
However, in the Statements of Activities, the cost of capital assets is
allocated over their estimated useful lives as depreciation expense.
In the current period, these amounts are:

Capital outlay	\$ 10,589
Depreciation	<u>(34,920)</u>

Excess (deficiency) of capital outlay over depreciation expense (24,331)

Some items 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.

Increase in compensated absences	<u>22,069</u>
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Change in net assets of governmental activities (Statement of Activities) \$ 11,279,507

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Office of the Attorney General

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS –
BUDGET AND ACTUAL – MAJOR GOVERNMENTAL FUNDS –
GENERAL FUND (FUND 17000)**

For the year ended June 30, 2010

General Fund	Budget Original	Budget Final	Actual Amount Budgetary Basis	Variance Favorable (Unfavorable)
Revenue:				
Federal operating grants	\$ 1,305,397	\$ 1,305,397	\$ 752,022	\$ (553,375)
General fund appropriation, Laws of 2009	15,214,600	15,396,300	15,396,300	-
Miscellaneous revenue	-	-	13,174	13,174
Total revenue and other financing sources (budget basis)	<u>\$ 16,519,997</u>	<u>\$ 16,701,697</u>	<u>\$ 16,161,496</u>	<u>\$ (540,201)</u>
Prior year fund balance carryforward	<u>\$ 273,954</u>	<u>\$ 273,954</u>	<u>\$ 273,954</u>	<u>\$ -</u>
General Fund	Budget Original	Budget Final	Actual Amounts Expended	Variance Favorable (Unfavorable)
Expenditures:				
Personal service/employee benefits	\$ 12,699,200	\$ 12,905,000	\$ 12,850,045	\$ 54,955
Contractual services	576,500	551,500	537,881	13,619
Other	1,938,900	1,939,800	1,917,928	21,872
Violence against women act	361,847	361,847	197,754	164,093
Internet crimes against children	443,550	443,550	405,558	37,992
Methamphetamine initiative grant	500,000	500,000	148,710	351,290
Water litigation	62,855	62,855	17,668	45,187
Santa Rosa prison riots	36,099	36,099	-	36,099
Other financing uses:				
Water litigation	175,000	175,000	175,000	-
Total expenditures and other financing uses (budget basis)	<u>\$ 16,793,951</u>	<u>\$ 16,975,651</u>	<u>\$ 16,250,544</u>	<u>\$ 725,107</u>
Excess of revenues and other financing sources over expenditures and other financing uses (budget basis)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 184,906</u>	<u>\$ 184,906</u>
Request to pay prior year bills out of 2011 budget			-	
Reversion expense-FY10			(184,906)	
Prior year fund balance not considered revenue			<u>(273,954)</u>	
Change in fund balance per statement of revenues, expenditures and changes in fund balance-general fund (GAAP Basis)			<u>\$ (273,954)</u>	

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Office of the Attorney General

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS –
BUDGET AND ACTUAL – MAJOR GOVERNMENTAL FUNDS –
MEDICAID FRAUD CONTROL FUND (FUND 27800)**

For the year ended June 30, 2010

Medicaid Fraud	Budget Original	Budget Final	Actual Amount Budgetary Basis	Variance Favorable (Unfavorable)
Revenue:				
General appropriations	\$ 528,100	\$ 515,700	\$ 515,700	\$ -
Federal grants	1,700,200	1,547,100	1,384,762	(162,338)
Miscellaneous and other	-	-	27	27
Total revenue (budget basis)	<u>\$ 2,228,300</u>	<u>\$ 2,062,800</u>	<u>\$ 1,900,489</u>	<u>\$ (162,311)</u>
Medicaid Fraud	Budget Original	Budget Final	Actual Amounts Expended	Variance Favorable (Unfavorable)
Expenditures:				
Personal service/employee benefits	\$ 1,686,725	\$ 1,661,600	\$ 1,518,182	\$ 143,418
Contractual services	28,809	26,300	7,603	18,697
Other	512,766	374,900	320,564	54,336
Total expenditures (budget basis)	<u>\$ 2,228,300</u>	<u>\$ 2,062,800</u>	<u>\$ 1,846,349</u>	<u>\$ 216,451</u>
Excess of revenues and other financing sources over expenditures and other financing uses (budget basis)			\$ 54,140	
Request to pay prior year bills out of 2011 budget			-	
Reversion expense			<u>(54,140)</u>	
Change in fund balance per statement of revenues, expenditures and changes in fund balance-general fund (GAAP Basis)			<u>\$ -</u>	

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Office of the Attorney General

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS –
BUDGET AND ACTUAL – MAJOR GOVERNMENTAL FUNDS –
CONSUMER SETTLEMENTS FUND (FUND 54400)**

For the year ended June 30, 2010

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual- Budget Basis</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Revenues and contributions	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,247,263</u>	<u>\$ 13,247,263</u>
Total revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,247,263</u>	<u>\$ 13,247,263</u>
Prior-year fund balance budgeted	<u>\$ -</u>	<u>\$ 1,700,000</u>	<u>\$ 3,559,941</u>	<u>\$ 1,859,941</u>
Expenditures:				
General government:				
Other financing uses	<u>\$ -</u>	<u>\$ 1,700,000</u>	<u>\$ 1,700,000</u>	<u>\$ -</u>
Total expenditures	<u>\$ -</u>	<u>\$ 1,700,000</u>	<u>\$ 1,700,000</u>	<u>\$ -</u>

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Office of the Attorney General

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS –
BUDGET AND ACTUAL – MAJOR GOVERNMENTAL FUNDS –
AMERICAN RECOVER AND REINVESTMENT ACT (ARRA) FUND (FUND 89000)**

For the year ended June 30, 2010

ARRA	Budget Original	BAR	Budget Final	Actual Amount Budgetary Basis	Variance Favorable (Unfavorable)
Revenue:					
Federal funds	\$ -	\$ 1,096,024	\$ 1,096,024	\$ 466,642	\$ (629,382)
	-	-	-	-	-
Total revenue	\$ -	\$ 1,096,024	\$ 1,096,024	\$ 466,642	\$ (629,382)
Prior year fund balance	\$ -	\$ -	\$ -	\$ -	\$ -
Expenditures:					
Personnel	\$ -	\$ 740,218	\$ 740,218	\$ 416,111	\$ 324,107
Contractual	-	165,017	165,017	2,620	162,397
Other	-	190,789	190,789	47,911	142,878
Total expenditures (single year)	\$ -	\$ 1,096,024	\$ 1,096,024	\$ 466,642	\$ 629,382

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Office of the Attorney General

**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES –
AGENCY FUNDS**

June 30, 2010

	<u>#081 Dram Matter Cost Share</u>	<u>#695 Victims Restitution</u>	<u>#701 Special Trust</u>	<u>#702 Cummins Settlement</u>	<u>#950 Mylan Multistate Anti-trust</u>	<u>#127 Buspar Multistate Anti- trust</u>	<u>Total Agency Funds</u>
ASSETS							
Cash on deposit with State Treasurer	\$ 5,892	\$ 1,300	\$ 11,260	\$ 6,569	\$ 315,454	\$ 6,936	\$ 347,411
Interest receivable	-	-	-	-	47	-	47
Total assets	<u>\$ 5,892</u>	<u>\$ 1,300</u>	<u>\$ 11,260</u>	<u>\$ 6,569</u>	<u>\$ 315,501</u>	<u>\$ 6,936</u>	<u>\$ 347,458</u>
LIABILITIES							
Deposits held for consumers and others	<u>\$ 5,892</u>	<u>\$ 1,300</u>	<u>\$ 11,260</u>	<u>\$ 6,569</u>	<u>\$ 315,501</u>	<u>\$ 6,936</u>	<u>\$ 347,458</u>
Total liabilities	<u>\$ 5,892</u>	<u>\$ 1,300</u>	<u>\$ 11,260</u>	<u>\$ 6,569</u>	<u>\$ 315,501</u>	<u>\$ 6,936</u>	<u>\$ 347,458</u>

The accompanying notes are an integral part of this financial statement.

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE A – HISTORY AND FUNCTIONS

The Office of the Attorney General (Office), Department of Justice, was created by Article V, Section 1 of the New Mexico Constitution, and the Attorney General is designated by law as the head of the Department of Justice (Section 8-5-1 through Section 8-5-16, NMSA, 1978 Compilation). The functions of the Office are to serve as the legal representative of the State in lawsuits, to represent State agencies, departments, board and commissions, as well as all State employees or officials involved in lawsuits relating to their official duties (providing the suit was not initiated by the State against that person), and to represent the Public Regulation Commission as specifically stated in the Constitution; to give opinions on legal questions asked by the Legislature, individual Legislators, State officials, and District Attorneys on matters related to their official duties; to act in any criminal or civil cases in which a county or the State is a party or has an interest, if the district attorney fails or refuses to act, and if the Attorney General determines that action is advisable; to investigate local matters in which the State has an interest, if directed to do so by the Governor, to maintain a register of charitable organizations; to assign lawyers or investigators to assure that elections are properly conducted; to enforce the Indian Arts and Crafts Sales Act, the Land Subdivision Act, the Unfair Practices Act, and the Open Meetings Act; to serve as a member of the Mortgage Finance Authority, the Risk Management Advisory Board, the State Commission of Public Records, the Judicial Council, the Compilation Commission and the Law Enforcement Academy Board.

Section 8-5-16, NMSA 1978 provides for an office of guardianship services within the Office to consolidate guardianship services currently existing in various state agencies and to negotiate and administer contracts for guardianship services with community service providers.

The Office also operates the Medicaid fraud control unit with the power to investigate or prosecute fraud and abuse in the Medicaid program.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Office of the Attorney General (Office) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Office applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncement and Accounting Principles Board (APD) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. There are no significant disclosures reported under FASB requirements not covered by GASB pronouncements. The more significant of the Office's accounting policies are described below:

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2010

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

1. Reporting Entity and Component Units

The Attorney General is an elected official elected for a four-year term and can serve two terms in office. The Office is a component unit of the executive branch and these financial statements include all funds, programs and activities over which the Attorney General has oversight responsibility.

As a component unit of the State of New Mexico, a phase one government, the Office implemented GASB Statement 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* in fiscal year 2002.

The Office is not included in any other governmental “reporting entity” as defined in Section 2100, *Codification of Governmental Accounting and Financial Reporting Standards*, but would be included in a state-wide Comprehensive Annual Financial Report (CAFR).

In evaluating how to define the Office for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic—but not the only—criterion for including a potential component unit within the reporting entity is the governing body’s ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Office is able to exercise oversight responsibilities. Based upon the application of these criteria, the Office of the Attorney General does not have any component units.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2010

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2. Basis Financial Statements – Government-Wide Statements

The Office's basic financial statements include both government-wide (based on the Office as a whole) and fund financial statements and report information on all non-fiduciary activities. Both the government-wide and fund financial statements (within the basic statement) categorize primary activities as either governmental or business type. The Office is a single purpose government entity and has no business-type activities. In the government-wide Statement of Net Assets, the governmental activities are presented on a consolidated basis and are reflected on a full accrual, economic resource measurement focus, which incorporates long-term assets and receivables, as well as long-term debt and obligations. The Office's net assets are reported in three parts – invested in capital assets; restricted net assets; and unrestricted net assets. When applicable, the effect of interfund activity is removed from the Statement of Net Assets in order to avoid a grossing-up effect on assets and liabilities within the statements.

The government-wide Statement of Activities reflects both the gross and net costs per functional category (general government) which are otherwise supported by general government revenues. The Statement of Activities reduces gross expense (including depreciation expense on capital assets) by related program revenues, operating and capital grants. Program revenue must be directly associated with the function (general government). Program revenues include 1) charges to applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment, 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment, and 3) consumer settlements awarded to the Office that are restricted to meeting the operational or capital requirements of a particular function or segment. The appropriation from the State General Fund is not included among program revenues, but instead is reported as general revenue.

The net cost by function is normally covered by general revenue. Since the Office only has one program, it does not employ indirect cost allocation.

The government-wide focus is more on the sustainability of the Office as an entity and the change in the Office's net assets resulting from the current year's activities.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2010

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3. Basic Financial Statements – Fund Financial Statements

The fund financial statements, the balance sheet and statement of revenues, expenditures and changes in fund balances, are presented to report additional and detailed information about the Office. Emphasis is on the major funds of the governmental category. Non-major funds are summarized into a single column. The Office's major funds are the general fund, Medicaid fraud control unit fund, the consumer settlements fund, and the American recovery and reinvestment act fund.

The governmental funds in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is deemed more appropriate to demonstrate legal and covenant compliance, to demonstrate the source and use of liquid resources and to demonstrate how the Office's actual experience conforms with the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements governmental column, a reconciliation is presented on the page following each statement, which briefly explains the adjustment necessary to transform the fund based financial statements into the governmental column of the government-wide presentation.

The Office's fiduciary funds are presented with the basic financial statements and the fund financial statements by type. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated in the government-wide statements.

The focus is on the Office as a whole and the fund financial statements, including the major individual funds of the governmental category, as well as the fiduciary fund by category.

The financial transactions of the Office are recorded in individual funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, expenditures or expenses and other financing sources or uses. Government resources are allocated to, and accounted for, in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

The reporting model under GASB 34 sets forth the minimum criteria (percentage of the assets, liabilities, revenues or expenditures of either fund category or the governmental and enterprise combines) for the determination of major funds. The non-major funds are combined in a column in the fund financial statements and detailed in the combining sections.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2010

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3. Basic Financial Statements – Fund Financial Statements – Continued

The following fund types are used by the Office:

GOVERNMENTAL FUND TYPES

All governmental fund types are accounted for on a spending or current resources measurement focus. Only current assets and current liabilities that are “available” are generally included on their balance sheets. Availability for purposes of revenue and liability recognition purposes is generally 60 days. Their reported fund balance (net current assets) is considered a measure of available spendable resources. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of available spendable resources during a period. Due to their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as government fund type expenditures of fund liabilities.

General Fund – The general fund is the general operating fund of the Office. It is used to account for all financial resources except those required to be accounted for in another fund. The general fund is a major fund. The general fund is made up of the following central accounting system (SHARE) funds.

17000 General operating- The operating account for the Office. This is a reverting fund.

Special Revenue Funds – The special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes. The Office’s special revenue funds are as follows:

08500 Antitrust litigation fund – The fund receives five percent of the proceeds awarded by courts in order to assist in defraying the cost incurred in initiating and litigating suits. The fund was authorized by the Laws of 1986, Chapter 19, Section 4, and is non-reverting. The antitrust litigation fund is a non-major fund. There was no activity in FY 2010.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2010

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3. Basic Financial Statements – Fund Financial Statements – Continued

- 27800 Medicaid fraud control fund – To account for the activity of the Medicaid fraud control unit. Monies are derived from awards of the Federal Department of Health and Human Services and State general fund appropriations. The authority for this fund and the Medicaid program income fund is 42 USC 1396b(a)(6) and 1396b(b)(3). Legal restrictions on expenditures and the authority for the creation of the fund are a result of the agreements between the Office of the Attorney General and the Department of Health and Human Services and the annual appropriation laws. The Medicaid fraud control fund is a major fund and is reverting.
- 27500 Medicaid program income fund – To account for program income derived Medicaid fraud program. Program income is received from Medicaid based on cost incurred in connection with Medicaid fraud cases. Legal restrictions on expenditures and the authority for the creation of the fund are a result of the agreements between the Office of the Attorney General and the Department of Health and Human Services. The fund is a nonmajor fund and is nonreverting.
- 54400 Consumer settlements fund – To account for settlements received by the Office of the Attorney General from various court orders. The fund is authorized under Section 8-5-2 and 36-1-22, NMSA 1978, as amended. Funds are transferred to the Office's general fund for expenditure in consumer protection and training. The consumer settlements fund is a major fund and is nonreverting.
- 64900 Grant fund – To account for the activity of the Native American Arts and Crafts Investigation and Prosecution Project to enforce the Indian Arts and Crafts Sales Act; private grants and charitable organization registration fees. Legal restrictions on expenditures and the authority for the creation of the grant fund are a result of Laws of 1998, Chapter 116, grant agreements and the Charitable Solicitation Act (Section 57-22-1 et. seq., NMSA 1978). (Reverting and non-reverting). General fund appropriations are reverting). The grant fund is a non-major fund. There was no activity in FY 2010.
- 89000 American recovery and reinvestment act fund (ARRA) - On February 13, 2009 the U. S. Congress passed the American Recovery and Reinvestment Act of 2009 in response to the economic crisis. Due to the separate reporting requirement for ARRA expenditures, as specified by the Office of Management and Budget (OMB), the Office records all ARRA activity in this special revenue fund. The ARRA fund is major fund and is nonreverting.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2010

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3. Basic Financial Statements – Fund Financial Statements – Continued

FIDUCIARY FUND TYPES

Fiduciary fund types include trust and agency funds, which are used to account for assets held by the Office in the capacity of trustee or agent.

Agency Funds. Agency funds are used to account for assets held as an agent for other governmental units, individuals and other funds. The agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Agency funds of the Office are used to account for the proceeds of settlement and court decisions until the proceeds may be distributed to the proper recipients. The Office's agency funds are as follows:

08100	Dram matter cost share fund
69500	Victim restitution fund
70100	Special trust fund
70200	Cummins settlement fund
95000	Mylan multi-state antitrust fund
12700	Buspar multi-state antitrust fund

4. Measurement Focus, Basis of Accounting and Financial Reporting Presentation

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

The government-wide financial statements and the fiduciary financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. The governmental funds in the fund financial statements are presented on a modified accrual basis. Under the accrual method of accounting revenues, expenses, gains, losses, assets and liabilities resulting from exchange and non-exchange transactions are recognized in accordance with full accrual accounting and with the requirements of GASB Statement 33, Accounting and Financial Reporting for Non-exchange Transactions.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2010

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

4. Measurement Focus, Basis of Accounting and Financial Reporting Presentation – Continued

All governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues and other governmental fund financial resources increments are recognized in the accounting period in which they become susceptible to accrual – that is, when they become both measurable and available to finance expenditures of the current fiscal period; available meaning collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues are available if collected within sixty days of the end of the fiscal year.

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

Expenditures are recorded as liabilities when incurred. An exception to this general rule is that accumulated unpaid annual, compensatory and certain sick leave are not accrued as current liabilities but as non-current liabilities. However, in the government-wide financial statements, both current and long-term are accrued. Expenditures charged to federal programs are recorded utilizing the cost principles described by the various funding sources. If both restricted and nonrestricted resources are available, the Office first applies restricted resources when expenditures are incurred.

In applying the “susceptible to accrual” concept to intergovernmental revenues pursuant to GASB Statement No. 33, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenues when the applicable eligibility requirements including time requirements, are met. Resources transmitted before the eligibility requirement are met, under most circumstances, should be reported as advances by the provider and deferred revenue by the recipient.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2010

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

5. Budgets and Budgetary Accounting

The State Legislature makes annual appropriations to the Office which lapse at fiscal year-end. Legal compliance is monitored through the establishment of a budget and financial control system which permits a budget-to-actual expenditure comparison. Expenditures may not legally exceed appropriations for each budget at the appropriation unit level. Budgeted appropriation unit amounts may be amended upon approval from the Budget Division of the State of New Mexico Department of Finance and Administration within the limitations as specified in the General Appropriations Act, Laws of 2007, Chapter 109, Section 3, Subsections N. The budget amounts shown in the financial statements are the final authorized amounts as legally revised during the year.

These procedures are followed in establishing the budgetary data reflected in the financial statements:

- a. No later than September 1, the Office submits to the Legislative Finance Committee (LFC) and the Budget Division of the Department of Finance and Administration (DFA) an appropriation request for the fiscal year commencing the following July 1. The appropriation request includes proposed expenditures and the means of financing them.
- b. Budget hearings are scheduled before the New Mexico House Appropriations and Senate Finance Committees. The final outcome of those hearings is incorporated into the State's General Appropriations Act.
- c. The Act is signed into Law by the Governor of the State of New Mexico within the legally prescribed time limit, as which time the approved budget becomes a legally binding document.
- d. No later than May 1, the Office submits to DFA an annual operating budget by appropriation unit and object code based upon the appropriation made by the Legislature. The DFA Budget Division reviews and approves the operating budget which becomes effective on July 1.
All subsequent budgetary adjustments must be approved by the Director of the DFA Budget Division and by LFC.
- e. Budgetary control is exercised by the Office at the appropriation unit level. Budget Adjustment Requests (BARs) are approved by the DFA Budget Division.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2010

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

5. Budgets and Budgetary Accounting – Continued

- f. The budget for the general fund and special revenue funds are adopted on modified accrual basis per the General Appropriation Act, Laws of 2007, Chapter 109, Section 3, Subsections N. Budgetary comparisons presented in this report for the general fund and special revenue funds are on the budgetary basis which is modified accrual. However, there is a statutory exception. The budget is adopted on the modified accrual basis of accounting except for accounts payable accrued at the end of the fiscal year that do not get paid by the statutory deadline per Section 6-10-4 NMSA 1978. Those accounts payable that do not get paid timely must be paid out of the next year's budget. (There were no budgets for the antitrust litigation fund, grant fund, or consumer settlements fund for FY 2009-2010 due to inactivity). The Office did not pay any FY 2010 payables out of the FY 2011 budget.
- g. The original budget differs from the final budgets presented in the budget comparison statements by any amendments made during the fiscal year.
- h. Appropriations lapse at the end of the fiscal year except for those amounts related to goods and services received by June 30th.

In accordance with the requirements of Section 2.2.2 10.A (2) (b) of 2.2.2. NMAC *Requirements for Contracting and Conducting Audits of Agencies* and the requirements established by GASB 34, footnote 53, the budgetary comparison statement for the general fund has been included as part of the basic financial statements.

6. Accrued Compensated Absences

Annual leave and other compensated absences with similar characteristics are accrued as a liability as benefits are earned by employees if: the employees' right to receive compensation is attributable to services already rendered; and it is probable that the employer will compensate employees for benefits through paid time off or some other means, such as cash payments at termination or retirement.

When applicable, the compensated absence liability is presented in two parts in the government-wide financial statements, a current portion and a long-term portion. The current portion is in the amount expected to be expended during fiscal year 2011. It is an estimate management determined by applying a percentage to the June 30, 2010 liability. The percentage used was determined by comparing the amount actually paid out during fiscal year 2010 compared to the liability balance at June 30, 2009.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2010

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

6. Accrued Compensated Absences – Continued

Employees accumulate annual leave at a rate based on appointment date and length of continuous service. A maximum of 240 hours of annual leave may be carried forward after the pay period beginning in December and ending in January. When employees terminate, they are compensated at their current hourly rate for accumulated annual leave as of the date of termination, up to a maximum of 240 hours.

Employees accumulate sick leave at a rate of 3.69 hours per pay period. There is no limit to the amount of sick leave that an employee may accumulate. State agencies are allowed to pay fifty percent of each employee's hourly rate for accumulated sick leave over 600 hours, up to 120 hours. Payment may be made only once per fiscal year at a specified pay period in either January or July. Additionally, upon retirement, those employees with over 600 hours accumulated sick leave have the option to convert 400 hours of such leave to cash at one-half of their hourly rate.

Fair Labor Standards Act (FLSA) nonexempt employees accumulate compensation time at the rate of 1.5 times the number of hours worked, in excess of forty hours per week, based on their regular hourly rate. Exempt and classified employees who are FLSA exempt accumulate compensation time at the same rate as the number of hours worked. Exempt employees were precluded from carrying forward any unused compensation time into the next calendar year after December 31, 2003. Overtime must be pre-approved by management. Payment of this liability can be made by compensated leave time or cash payment.

In accordance with GASB 16, accrued compensated absences consist of accumulated annual leave, sick leave between 600 and 720 hours, and compensatory leave for employees, including the related employers' matching FICA and Medicare payroll taxes. Office General Fund resources have been used to liquidate accrued compensated absences.

7. Reversions

The General Appropriation Act of 2007, Chapter 28 Section 3, Subsection N, states that "For the purpose of administering the General Appropriation Act of 2007, the State of New Mexico shall follow the modified accrual basis of accounting for governmental funds in accordance with the manual of model accounting practices issued by the Department of Finance and Administration." In accordance with the Department of Finance and Administration's "*Basis of Accounting-Modified Accrual and the Budgetary Basis*," the Office has accrued as payables amounts owed for goods and services received by June 30, 2010. Any State general fund appropriations remaining in general fund (SHARE Fund 17000) and Medicaid fraud control, special revenue fund (SHARE Fund 27800) fund balance not reserved for, litigation, or consumer settlements is reverted to the State general fund.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2010

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

8. Net Assets/Fund Balance

In the government-wide financial statements net assets consist of three components: invested in capital assets, net of related debt; restricted; and unrestricted. The Office has no debt related to capital assets; therefore, net assets invested in capital assets equal the capital assets, net of accumulated depreciation. Capital assets are defined as those tangible or intangible assets used in operations and having a useful life greater than a single reporting period.

The Office financial statements show net assets restricted of \$256,153 for Medicaid fraud program income, \$15,107,384, restricted for consumer settlements, and \$26,872 for antitrust litigation.

Net assets are reported as restricted when constraints are placed on net asset use are externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Enabling legislation includes a legal enforceable requirement that resources be used only for the specific purposes stipulated in the legislation.

Legal enforceability means that a government can be compelled by an external party – such as citizens, public interest groups or the judiciary – to use resources only for the purposes specified by the legislation.

The amount of net assets restricted by enabling legislation is \$15,390,409 at June 30, 2010 which represents all restricted net assets reported on page 10.

These resources remaining in net assets were received or earned with the explicit understanding between the Office and the resource provider (grantor, contributor, other government or enabling legislation) that the funds would be used for a specific purpose. Generally, the Office would first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. All remaining net assets that are not related to capital assets are shown as unrestricted.

For governmental funds, the Office implemented GASB 54 for the year ended June 30, 2010 as it related to its fund balance classifications. The following information reflects the new accounting standard. See Note P.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2010

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

8. Net Assets/Fund Balance – Continued

In the governmental fund financial statements the Office classifies fund balances into spendable and nonspendable classifications. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact until expended for its restricted purpose.

Restricted Fund Balances

In the governmental fund financial statements *restrictions* of fund balance are reported when constraints placed on the use of resources are either: (1) Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation. Specific restrictions of the fund balance account are summarized below:

Restricted for antitrust litigation – This restricted fund balance for antitrust litigation was authorized by the Laws of 1986, Chapter 19, Section 4, in order to assist in defraying the costs incurred in initiating and litigating suits.

Restricted for consumer settlements – The restricted fund balance for consumer settlement is monies received by the Office in settlement of consumer and other legal proceedings and is restricted to reimbursement of the Office's expenditures, and thus, is segregated to retain its identity as other State funds until such time as the legislature appropriates it for such use.

Restricted for Medicaid fraud program – This restricted fund balance for the Medicaid Fraud Program is monies earned for the investigative cost and fees related to Medicaid Fraud Cases that must be expended for Medicaid Fraud Program cases in accordance with federal grantor requirements.

The spendable classifications are detailed below:

Committed Fund Balances

In the governmental fund financial statements *committed* fund balances are reported when amounts can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority (New Mexico Attorney General through policy action consistent with the powers of the Attorney General). The Office has no *committed* fund balances as of June 30, 2010.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2010

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

8. Net Assets/Fund Balance – Continued

Assigned Fund Balances

In the governmental fund financial statements *assigned* fund balances are reported when amounts are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. Intent can be expressed by (a) the governing body itself or (b) a body (a budget or finance committee, for example) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes. In fiscal year 2010, the Office established a policy authorizing the New Mexico Attorney General to assign amounts for a specific purpose. The Office has no *assigned* fund balances as of June 30, 2010.

Unassigned Fund Balances

In the governmental fund financial statements *unassigned* fund balances are reported to reflect residual fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The Office has no *unassigned* fund balances as of June 30, 2010.

Generally, the Office would first apply committed resources when an expense is incurred for purposes for which both committed, assigned, or unassigned fund balances are available.

9. Federal Grants Receivable (Deferred Revenue)

Various reimbursement procedures are used for federal awards received by the Office. Consequently, timing differences between expenditures and program reimbursements can exist at any time during the fiscal year. Receivable balances at fiscal year-end represent an excess of modified accrual basis expenditures over cash reimbursements received to date. Conversely, deferred revenue balances represent an overdraw of cash (advances) in excess of modified accrual basis expenditures. Generally, receivable or deferred revenue balances caused by differences in the timing of cash reimbursements and expenditures will be reversed or returned to the grantor in the remaining grant period.

Determining the amount of expenditures reimbursable by the federal government, in some cases, requires management to estimate allowable costs to be charged to the federal government. As a result of this and other issues, management provides an allowance for potential contractual allowances for federal revenue. Any changes in these estimates are recorded in the period that the estimate is changed. There are no allowances against federal receivables for fiscal year 2010.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2010

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

10. 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.

11. Capital Assets

Capital assets of the Office include data processing equipment, furniture and fixtures, equipment and automobiles. The Office does not have any infrastructure. Capital assets are defined in Section 12-6-10 NMSA 1978. Section 12-6-10 NMSA 1978, was amended effective June 19, 2005, changing the capitalization threshold of movable chattels and equipment from items costing more than \$1,000 to items costing more than \$5,000. The Office has adopted this change. Old inventory items that do not meet the new capitalization threshold will remain on the inventory list and continue to be depreciated. Any items received after July 1, 2005, have been added to the inventory only if they meet the new capitalization policy. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. Computer software which is purchased with data processing computer equipment is included as part of the capitalized computer equipment.

The cost of maintenance and repairs that do not add to the asset value or materially extend assets lives are not capitalized. The Office does not undertake major capital projects involving interest costs during the construction phase. There is no debt related to the capital assets. Capital assets of the Office are depreciated using zero salvage value and the straight-line method over the following estimated useful lives:

Depreciation is provided over the assets estimated useful lives using the straight-line method of depreciation. Depreciable assets are equipment items with useful lives ranging from four (4) to ten (10) years.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2010

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

11. Capital Assets – Continued

	<u>Years</u>
Furniture/fixtures	10
Equipment and machinery	7-10
Automobiles	10
Data processing equipment	4-10
Library	10

There is no outstanding debt related to capital assets.

The Office utilizes facilities and buildings that are owned by the Property Control Division of the State of New Mexico General Services Department. These assets and the related depreciation expense are not included in the accompanying financial statements. GASB 34 requires the recording and depreciation of infrastructure assets, such as road, bridges, etc. The Office does not own any infrastructure assets.

NOTE C – CASH AND COLLATERAL

1. Cash in Banks

Cash on deposit with area banks amounting to \$380 represents amounts which are held for use by the agents of the Office. These deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000.

2. Investments, State Treasurer

Investments of the Office consist of its interest in the State general fund pool, which is managed by the New Mexico State Treasurer. The fair value of the investments maintained at the New Mexico State Treasurer's Office at June 30, 2010 is as follows:

State of New Mexico
Office of the Attorney General

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2010

NOTE C – CASH AND COLLATERAL – CONTINUED

2. Investments, State Treasurer – Continued

Funds	SHARE Fund No.	Investment at State Treasurer's Office	Reconciling Items	Fair Value June 30, 2010
Major funds				
General fund	17000	\$ 423,261	\$ -	\$ 423,261
Consumer settlement fund	54400	15,592,879	-	15,592,879
Total		16,016,140	-	16,016,140
Non major funds				
Medicaid program income fund	27500	260,572	-	260,572
Antitrust litigations fund	08500	26,872	-	26,872
Total		287,444	-	287,444
Agency funds				
Victims restitution	69500	1,300	-	1,300
Special trust	70100	11,260	-	11,260
Cummins settlement	70200	6,569	-	6,569
Mylan multistate anti-trust	95000	315,454	-	315,454
Buspar multistate anti-trust	12700	6,936	-	6,936
Dram matter cost share	08100	5,892	-	5,892
Total		347,411	-	347,411
		<u>\$ 16,650,995</u>	<u>\$ -</u>	<u>\$ 16,650,995</u>

The Office did not have and was not authorized to hold any other investments during the year ended June 30, 2010. For additional GASB 40 disclosure information related to the above investment pool and the associated risks, the reader should refer to the separate audit report of the New Mexico State Treasurer for the fiscal year ended June 30, 2010.

State of New Mexico
Office of the Attorney General

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2010

NOTE D – DUE TO OTHER STATE AGENCIES

The following are short-term amounts owed between other state agencies and are classified as due to other state agencies:

Due to other state agencies

Medicaid fraud – (SHARE 27800)

Human Services Department (SHARE 65500) \$ 89,045

Net amount due to other state agencies \$ 89,045

Amounts due to the Human Services Department include amounts owed for the Office's participation in Medicaid fraud cases. The amounts are expected to be repaid in fiscal year 2011.

NOTE E – DUE FROM FEDERAL GOVERNMENT

Due from federal government represents the excess of expenditures over reimbursements received on Federal awards programs and is fully collectible based on subsequent cash collections after year-end.

State of New Mexico
Office of the Attorney General

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2010

NOTE F – CAPITAL ASSETS

The capital assets activity for the year ended June 30, 2010, is as follows:

	Balance June 30, 2009	Additions in FY 10	Deletions in FY 10	Balance June 30, 2010
Capital assets				
Data processing	\$ 759,061	\$ 10,589	\$ -	\$ 769,650
Equipment	127,905	-	-	127,905
Library	1,632	-	-	1,632
Furniture and fixtures	127,034	-	-	127,034
Vehicles	44,202	-	-	44,202
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total capital assets	<u>\$ 1,059,834</u>	<u>\$ 10,589</u>	<u>\$ -</u>	<u>\$ 1,070,423</u>
Accumulated depreciation				
Data processing	\$ 622,819	\$ 27,696	\$ -	\$ 650,515
Equipment	116,465	4,417	-	120,882
Library	1,632	-	-	1,632
Furniture and fixtures	111,592	2,807	-	114,399
Vehicles	44,202	-	-	44,202
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total accumulated depreciation	<u>\$ 896,710</u>	<u>\$ 34,920</u>	<u>\$ -</u>	<u>\$ 931,630</u>
Net capital assets				
Data processing	\$ 136,242	\$ (17,107)	\$ -	\$ 119,135
Equipment	11,440	(4,417)	-	7,023
Library	-	-	-	-
Furniture and fixtures	15,442	(2,807)	-	12,635
Vehicles	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net capital assets	<u>\$ 163,124</u>	<u>\$ (24,331)</u>	<u>\$ -</u>	<u>\$ 138,793</u>

The Office does not have any debt related to capital assets. Depreciation expense for the current year was \$34,920. There are no assets that are nondepreciable.

State of New Mexico
Office of the Attorney General

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2010

NOTE G – COMPENSATED ABSENCES PAYABLE

Employees are entitled to accumulate annual leave at a graduated rate based on years of service. A maximum of 240 hours can be carried forward at calendar year-end. The Office has recognized a liability of \$822,839 in the Statement of Net Assets for annual leave based on current pay rates and hours accumulated at June 30, 2010. The general fund is used to liquidate compensated absences when paid out.

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

	Balance June 30, 2009	Increase	(Decrease)	Balance June 30, 2010
Current compensated absences payable	\$ 635,620	\$ 162,466	\$ (166,880)	\$ 631,206
Long-term compensated absences payable	<u>209,288</u>	<u>649,865</u>	<u>(667,520)</u>	<u>191,633</u>
Total compensated absences payable	<u>\$ 844,908</u>	<u>\$ 812,331</u>	<u>\$ (834,400)</u>	<u>\$ 822,839</u>

NOTE H – REVERSIONS AND AMOUNTS – DUE TO STATE GENERAL FUND

The following is a summary of the amount due to the State general fund at June 30, 2010:

	General Fund	Medicaid Fraud Control Fund	Consumer Settlement Fund	Total All funds
Balance, June 30, 2009	\$ 2,512,088	\$ 104,905	\$ 3,785,911	\$ 6,402,904
Additions:				
Reversion expense-FY 2010	184,906	54,140	-	239,046
Stale dated warrants	4,063	-	-	4,063
Deletions:				
Payments to State general fund - FY 2009	<u>(2,512,088)</u>	<u>(104,905)</u>	<u>(3,785,911)</u>	<u>(6,402,904)</u>
Balance, June 30, 2010	<u>\$ 188,969</u>	<u>\$ 54,140</u>	<u>\$ -</u>	<u>\$ 243,109</u>

State of New Mexico
Office of the Attorney General

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2010

NOTE H – REVERSIONS AMOUNTS – DUE TO STATE GENERAL FUND – CONTINUED

General fund SHARE (17000) reversion expense by source

Source	Description	Unexpended amount
Laws of 2009, Chapter 124 section 4	FY 10 general fund appropriation	\$ 90,446
Laws of 2008, Sec 5, item 14	Water litigation	45,187
Laws of 2008 Sec 5, Ch 15	Santa Rosa prison riots	36,099
General fund (SHARE 17000)	FY 10 miscellaneous revenue	13,174
	Total	<u>\$ 184,906</u>

Medicaid Fraud Fund SHARE (278000) reversion expense by source

Source	Description	Unexpended amount
Laws of 2009, Chapter 124 section 4	FY 10 general fund appropriation	\$ 54,113
Medicaid fraud fund (SHARE 27800)	FY 10 miscellaneous revenue	27
	Total	<u>\$ 54,140</u>

NOTE I – ACCRUED SALARIES

A portion of payroll expenditures pertaining to the year ended June 30, 2010, was paid on July 9, 2010. Since the disbursements did not occur until subsequent to June 30, 2010, accrued salaries and employee benefits payable totaling \$741,695 has been reflected in the statement of net assets.

NOTE J – PERA PENSION PLAN

Plan Description – Substantially all of the Office’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, 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. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, New Mexico 87504-2123. That report is also available on PERA’s website at www.pera.state.nm.us.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2010

NOTE J – PERA PENSION PLAN – CONTINUED

Funding Policy – Plan members are required to contribute 8.92% of their gross salary. The Office is required to contribute 15.09% of the gross covered salary. The contribution requirements of the plan members and the Office are established under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Office's employer contributions to PERA for the years ending June 30, 2010, 2009 and 2008 were \$1,713,053, \$1,818,298 and \$1,636,150, respectively, equal to the amount of the required contributions for each year.

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

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

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf, unless that person retires before the employer's RHCA effective date, in which event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by the Retiree Health Care Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

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

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2010

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

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. The statute requires each participating employer to contribute 1.3% of each participating employee's annual salary; each participating employee is 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 (AGO), the contribution rates will be:

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

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

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 Office's contributions to the RHCA for the year ended June 30, 2010, 2009, and 2008 were \$140,562, \$127,710, and \$117,360, respectively, which equal the required contributions for each year.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2010

NOTE L – COMMITMENTS AND CONTINGENCIES

Operating Lease Obligations – Commitment

The Office of the Attorney General is committed under several leases for office space, grounds and various equipment. These leases are considered for accounting purposes to be operating leases. Lease expenditures for the year ended June 30, 2010, amounted to \$641,850.

The following is a schedule by years of future minimum lease rental payments required under operating leases that have initial or remaining non-cancellable lease terms in excess of one year as of June 30, 2010:

2011	\$	559,662
2012		390,123
2013		31,981
2014		-
2015		-
Thereafter		-
		<hr/>
	\$	<u>981,766</u>

Federal Grants – Contingency

The Office of the Attorney General receives federal grants which may be refundable in the event that all terms of the grants are not complied with.

NOTE M – RISK MANAGEMENT

The Office obtains coverage through Risk Management Division of the State of New Mexico General Services Department. This coverage includes liability and civil rights, property, vehicle, employer bond, workers' compensation, group insurance and State unemployment. These coverages are designed to satisfy the requirements of the State Tort Claims Act. All employees of the Office are covered by a blanket fidelity bond up to \$5,000,000 with a \$1,000 deductible per occurrence for the period July 1, 2009 through June 30, 2010. There have been no reductions in coverage by risk category for the year ending June 30, 2010. There have been no settlements in excess of insurance coverage in the last three years.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2010

NOTE N – OTHER DISCLOSURE

As indicated in Note A, under Section 8-5-2 (NMSA 1978, as amended) the Attorney General is directed to prosecute and defend in all actions and proceedings where the State may be a party or have an interest. The Office is also authorized to compromise and settle civil actions under the management and control of the Attorney General pursuant to Section 36-1-22 (NMSA 1978, as amended).

Revenues received are the result of investigation and settlement of enforcement actions brought pursuant to the New Mexico Unfair Practices Act, Section 57-12-1, et. eq., (NMSA 1978, as amended). Cases have been brought against a number of corporations and business organizations that were alleged to be in violation of the State's laws and regulations on deceptive and misleading trade practices.

Pursuant to Orders issued by the Judicial Courts of New Mexico and formal Assurances of Discontinuance, the companies agreed to change their business practices and to make contributions to consumer education/protection efforts managed by the Office of the Attorney General. The Court orders and assurances are binding and based on the statutory provisions cited above, as well as Section 57-12-8 and 57-12-9 of the Unfair Practices Act. These Court orders and assurances mandate that the Office of the Attorney General receive the payments from the settling parties, manage the funds, and use the monies only for consumer protection and education purposes.

The Office is currently involved in a water rights litigation with the State of Texas. They have entered into Joint Powers Agreements with the NM Environment Department and the Interstate Stream Commission to collectively prepare for any possible lawsuit that Texas could bring forth. There is no contingent loss to the Office associated with this matter.

The Office has been successful through the Consumer Protection Division in obtaining court ordered settlements from various nationally known vendors.

State of New Mexico
Office of the Attorney General

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2010

NOTE O – TRANSFERS

The following amounts were transferred between funds within the Office’s fund structure; to other agencies or received by the Office from other agencies:

Transfers between funds

<u>From Fund</u>	<u>To Fund</u>	<u>From (To) Transfer Amount</u>	<u>Purpose of the Transfer</u>
54400	17000	<u>\$ 500,000</u>	Transfers were made to fully utilize available consumer alert and education programs.

Transfers to other agencies

<u>From Fund</u>	<u>Agency</u>	<u>To Fund</u>	<u>Transfer Amount</u>	<u>Purpose of the Transfer</u>
54400	DFA	84200	\$ 1,200,000	Required by Laws of 2009 HB 3 sec 1 item B Water litigation
17000	NMED	75800	<u>175,000</u>	
			<u>\$ 1,375,000</u>	

Transfers from other agencies

<u>To Fund</u>	<u>From Fund</u>	<u>Transfer Amount</u>	<u>Purpose of the Transfer</u>
17000	85300	\$ 14,896,300	General fund appropriations-Legal services
27800	85300	<u>515,700</u>	General fund appropriations-Medicaid fraud program
Total		<u>\$ 15,412,000</u>	

No transfers were inconsistent with the purposes of the funds involved.

State of New Mexico
Office of the Attorney General

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2010

NOTE P – NEW ACCOUNTING STANDARDS

In February of 2009 the Government Accounting Standards Board (GASB) issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* effective for periods beginning after June 15, 2010. This standard was issued to provide increased clarity for fund balance type definitions and for classification rules for fund balances. The Office early adopted this standard in fiscal year 2010. GASB Statement No. 54, paragraph 36 requires retroactive restatement of fund balances for all prior periods presented. The beginning fund balance for governmental funds was restated as follows:

	General Fund - 17000	Consumer Settlement - 54400	Medicaid Program Income - 27500	Antitrust Litigation - 08500	Grant - 64900	Total
Beginning reserved fund balances, as previously reported	\$ 273,954	\$ 3,559,941	\$ 247,693	\$ 26,872	\$ 180	\$ 4,108,640
Reclassification adjustment	<u>(273,954)</u>	<u>(3,559,941)</u>	<u>(247,693)</u>	<u>(26,872)</u>	<u>(180)</u>	<u>(4,108,640)</u>
Beginning reserved fund balances, as restated	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
	General Fund - 17000	Consumer Settlement - 54400	Medicaid Program Income - 27500	Antitrust Litigation - 08500	Grant - 64900	Total
Beginning restricted fund balances, as previously reported	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Reclassification adjustment	<u>273,954</u>	<u>3,559,941</u>	<u>247,693</u>	<u>26,872</u>	<u>180</u>	<u>4,108,640</u>
Beginning restricted fund balances, as restated	<u>\$ 273,954</u>	<u>\$ 3,559,941</u>	<u>\$ 247,693</u>	<u>\$ 26,872</u>	<u>\$ 180</u>	<u>\$ 4,108,640</u>

NOTE Q – SUBSEQUENT EVENTS

Events subsequent to June 30, 2010 have been evaluated by management through November 10, 2010, the date of the auditor's report. In the opinion of management, no events occurring after June 30, 2010 required disclosure or adjustment to the financial statements.

SUPPLEMENTARY INFORMATION

State of New Mexico
Office of the Attorney General

COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS

June 30, 2010

	Medicaid Program Income - 27500	Antitrust Litigation - 08500	Grant - 64900	Total Non- Major Funds
ASSETS				
Investments, State Treasurer	\$ 260,572	\$ 26,872	\$ -	\$ 287,444
Cash in banks	-	-	180	180
Total assets	\$ 260,572	\$ 26,872	\$ 180	\$ 287,624
LIABILITIES AND FUND BALANCES				
Accounts payable	\$ 4,419	\$ -	\$ -	\$ 4,419
FUND BALANCES:				
Spendable:				
Restricted for Medicaid fraud program	256,153	-	-	256,153
Restricted for antitrust litigation	-	26,872	-	26,872
Restricted for consumer settlements	-	-	180	180
Total liabilities and fund balances	\$ 260,572	\$ 26,872	\$ 180	\$ 287,624

State of New Mexico
Office of the Attorney General

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES –
NONMAJOR GOVERNMENTAL FUNDS**

For the year ended June 30, 2010

	Medicaid Program Income - <u>27500</u>	Antitrust Litigation - <u>08500</u>	<u>Grant - 64900</u>	<u>Total Non- Major Funds</u>
REVENUES				
Other revenues	\$ 33,377	\$ -	\$ -	\$ 33,377
Total revenues	33,377	-	-	33,377
EXPENDITURES				
General government				
Current	-	-	-	-
Other services	<u>24,917</u>	<u>-</u>	<u>-</u>	<u>24,917</u>
Total expenditures	<u>24,917</u>	<u>-</u>	<u>-</u>	<u>24,917</u>
Excess (deficiency) of revenues over expenditures	8,460	-	-	8,460
Fund balance, beginning of year	<u>247,693</u>	<u>26,872</u>	<u>180</u>	<u>274,745</u>
Fund balances, end of year	<u><u>\$ 256,153</u></u>	<u><u>\$ 26,872</u></u>	<u><u>\$ 180</u></u>	<u><u>\$ 283,205</u></u>

State of New Mexico
Office of the Attorney General

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS –
BUDGET AND ACTUAL – NONMAJOR GOVERNMENTAL FUNDS –
MEDICAID FRAUD PROGRAM INCOME FUND (FUND 27500)**

For the year ended June 30, 2010

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual- Budget Basis</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Program income	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33,377</u>	<u>\$ 33,377</u>
Total revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33,377</u>	<u>\$ 33,377</u>
Prior year fund balance	<u>\$ -</u>	<u>\$ 200,000</u>	<u>\$ -</u>	<u>\$ -</u>
Expenditures:				
General government:				
Other	<u>\$ -</u>	<u>\$ 200,000</u>	<u>\$ 24,917</u>	<u>\$ 175,083</u>
Total expenditures	<u>\$ -</u>	<u>\$ 200,000</u>	<u>\$ 24,917</u>	<u>\$ 175,083</u>

OTHER SUPPLEMENTARY INFORMATION

State of New Mexico
Office of the Attorney General

FIDUCIARY FUNDS

For the year ended June 30, 2010

Agency funds

The agency funds of the Office of the Attorney General are used to account for the proceeds of settlements and court decisions until the proceeds may be distributed to the proper recipients.

Dram matter cost share fund (SHARE Fund #08100)
Victim restitution fund (SHARE Fund #69500)
Special trust fund (SHARE Fund #70100)
Cummins settlement fund (SHARE Fund #70200)
Mylan multi-state antitrust fund (SHARE Fund #95000)
Buspar multi-state antitrust fund (SHARE Fund #12700)

State of New Mexico
Office of the Attorney General

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES –
ALL AGENCY FUNDS**

June 30, 2010

	Balance June 30, 2009	Additions	(Deletions)	Balance June 30, 2010
<u>Victims restitution fund (SHARE #69500)</u>				
ASSETS				
Investments, state treasurer	\$ 1,300	\$ -	\$ -	\$ 1,300
Interest receivable	-	-	-	-
Total assets	\$ 1,300	\$ -	\$ -	\$ 1,300
LIABILITIES				
Deposits held for consumers and others	\$ 1,300	\$ -	\$ -	\$ 1,300
Total liabilities	\$ 1,300	\$ -	\$ -	\$ 1,300
 <u>Special trust fund (SHARE #70100)</u>				
ASSETS				
Investments, state treasurer	\$ 11,260	\$ -	\$ -	\$ 11,260
Interest receivable	-	-	-	-
Total assets	\$ 11,260	\$ -	\$ -	\$ 11,260
LIABILITIES				
Deposits held for consumers and others	\$ 11,260	\$ -	\$ -	\$ 11,260
Total liabilities	\$ 11,260	\$ -	\$ -	\$ 11,260
 <u>Cummins settlement fund (SHARE #70200)</u>				
ASSETS				
Investments, state treasurer	\$ 6,474	\$ 95	\$ -	\$ 6,569
Interest receivable	86	-	86	-
Total assets	\$ 6,560	\$ 95	\$ 86	\$ 6,569
LIABILITIES				
Deposits held for consumers and others	\$ 6,560	\$ 9	\$ -	\$ 6,569
Total liabilities	\$ 6,560	\$ 9	\$ -	\$ 6,569

State of New Mexico
Office of the Attorney General

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES –
ALL AGENCY FUNDS – CONTINUED**

June 30, 2010

	<u>Balance</u> <u>June 30, 2009</u>	<u>Additions</u>	<u>(Deletions)</u>	<u>Balance</u> <u>June 30, 2010</u>
<u>Mylan multistate antitrust fund (SHARE #95000)</u>				
ASSETS				
Investments, state treasurer	\$ 303,374	\$ 12,080	\$ -	\$ 315,454
Interest receivable	11,574	-	11,527	47
Total assets	<u>\$ 314,948</u>	<u>\$ 12,080</u>	<u>\$ 11,527</u>	<u>\$ 315,501</u>
LIABILITIES				
Deposits held for consumers and others	\$ 314,948	\$ 553	\$ -	\$ 315,501
Total liabilities	<u>\$ 314,948</u>	<u>\$ 553</u>	<u>\$ -</u>	<u>\$ 315,501</u>
 <u>Buspar multistate antitrust fund (SHARE #12700)</u>				
ASSETS				
Investments, state treasurer	\$ 6,671	\$ 265	\$ -	\$ 6,936
Interest receivable	256	-	256	-
Total assets	<u>\$ 6,927</u>	<u>\$ 265</u>	<u>\$ 256</u>	<u>\$ 6,936</u>
LIABILITIES				
Deposits held for consumers and others	\$ 6,927	\$ 9	\$ -	\$ 6,936
Total liabilities	<u>\$ 6,927</u>	<u>\$ 9</u>	<u>\$ -</u>	<u>\$ 6,936</u>
 <u>Dram matter cost share (SHARE #08100)</u>				
ASSETS				
Investments, state treasurer	\$ 643	\$ 5,249		\$ 5,892
Interest receivable	-	-		-
Total assets	<u>\$ 643</u>	<u>\$ 5,249</u>	<u>\$ -</u>	<u>\$ 5,892</u>
LIABILITIES				
Deposits held for consumers and others	643	5,249		5,892
Total liabilities	<u>\$ 643</u>	<u>\$ 5,249</u>	<u>\$ -</u>	<u>\$ 5,892</u>

State of New Mexico
Office of the Attorney General

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES –
ALL AGENCY FUNDS – CONTINUED**

June 30, 2010

	<u>Balance</u> <u>June 30, 2009</u>	<u>Additions</u>	<u>(Deletions)</u>	<u>Balance</u> <u>June 30, 2010</u>
<u>Total - All Agency Funds</u>				
ASSETS				
Investments, state treasurer	\$ 329,722	\$ 17,689	\$ -	\$ 347,411
Interest receivable	11,916	-	11,869	47
	<u>341,638</u>	<u>17,689</u>	<u>11,869</u>	<u>347,458</u>
Total assets	<u>\$ 341,638</u>	<u>\$ 17,689</u>	<u>\$ 11,869</u>	<u>\$ 347,458</u>
LIABILITIES				
Deposits held for consumers and others	\$ 341,638	\$ 5,820	\$ -	\$ 347,458
	<u>341,638</u>	<u>5,820</u>	<u>-</u>	<u>347,458</u>
Total liabilities	<u>\$ 341,638</u>	<u>\$ 5,820</u>	<u>\$ -</u>	<u>\$ 347,458</u>

State of New Mexico
Office of the Attorney General

SCHEDULE OF CASH ACCOUNTS

June 30, 2010

Account Name	SHARE Fund No. Account Number	Balance per Depository	Reconciling Items		Reconciled Balance at June 30, 2010
			Outstanding Warrants	Other	
Governmental fund types					
Wells Fargo Bank:					
General fund-petty cash fund	17000	\$ 200	\$ -	\$ -	\$ 200
Grant fund-checking	64900	180	-	-	180
		<u>\$ 380</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 380</u>
Total governmental fund types		<u>\$ 380</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 380</u>
Total - all cash		<u>\$ 380</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 380</u>

State of New Mexico
Office of the Attorney General

SCHEDULE OF JOINT POWERS AGREEMENT

For the year ended June 30, 2010

1. Participant: New Mexico Environment Department

Party responsible: Office of the Attorney General

Purpose: Technical work in preparation for water litigation

Dates of agreement: July 1, 2009 – June 30, 2010

Total estimated amount of project: \$757,280

Amount agency contributed during this fiscal year: \$175,000

Audit responsibility: Office of the Attorney General

Fiscal agent: Office of the Attorney General

Agency where revenues/expenditures are reported: Office of the Attorney General

State of New Mexico
Office of the Attorney General

SCHEDULE OF SPECIAL APPROPRIATIONS

June 30, 2010

<u>Description</u>	<u>Authority</u>	<u>Appropriation Period</u>	<u>SHARE Fund</u>	<u>Total Appropriations</u>	<u>Prior Year Expenditures</u>
Texas water litigation	Laws 2008, Sec 5, Item 14, water litigation	2008-2010	17000	\$ 2,400,000	\$ 2,162,145
Santa Rosa prison riots	Laws of 2008, Sec 5, Ch 15	2008-2010	17000	100,000	63,901

<u>Current Year Expenditures</u>	<u>Prior Year Reversion Amount</u>	<u>Current Year Reversion Amount</u>	<u>Outstanding Encumbrances</u>	<u>Unencumbered Balance</u>
\$ 192,668	\$ -	\$ 45,187	\$ -	\$ -
-	-	36,099	-	-

State of New Mexico
Office of the Attorney General

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2010

Federal Agency/ Grantor/Program or Cluster Title	Federal CFDA Number	Grant Amount	Federal Expenditures
U.S. Department of Health and Human Services:			
Direct Programs:			
Medicaid Fraud Control Unit:			
01-07-01-NM-5050	93.775	\$ 1,492,000	<u>\$ 1,384,762</u>
Total U.S. Department of Health and Human Services			1,384,762
U.S. Department of Justice:			
Direct Programs:			
Office of Juvenile Justice and Delinquency Prevention:			
Investigative satellite initiative -			
Internet Crimes Against Children (ICAC)	16.543	658,550	405,558
Violence Against Women Act (VAWA)			
Child victimization	16.589	1,494,792	197,754
Meth Initiative Public Safety Partnership and community policing			
	16.710	500,000	148,710
American Recovery and Reinvestment Act spending:			
Border Violence Recovery Act Rural Law Enforcement Assistance			
	16.810	678,880	190,925
Stop Violence Against Women Act (VAWA)			
	16.588	188,594	73,472
Internet Crimes Against Children Task Force program grants			
	16.800	488,527	<u>202,245</u>
Total American Recovery and Reinvestment Act spending			466,642
Total U.S. Department of Justice			<u>1,218,664</u>
Total expenditures of federal awards			<u><u>\$ 2,603,426</u></u>

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – CONTINUED

For the year ended June 30, 2010

Notes to Schedule of Expenditures of Federal Awards

A. Basis of Presentation

The Schedule of Expenditures of Federal Awards was prepared using the modified accrual basis of accounting.

B. Noncash Assistance

The Department did not receive any federal awards in the form of noncash assistance or loan assistance during the year.

Reconciliation of Federal Expenditures
to expenditures per the Statement of Revenues, Expenditures,
and Changes in Fund Balance

State expenditures	\$ 15,810,026
Federal expenditures	<u>2,603,426</u>
Total expenditures per statement of revenues expenditures and changes in fund balance	<u>\$ 18,413,452</u>



CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

ATKINSON & CO. LTD.
6501 AMERICAS PKWY NE
SUITE 700
ALBUQUERQUE, NM 87110

T 505 843 6492
F 505 843 6817

ATKINSONCPA.COM

PO BOX 25246
ALBUQUERQUE, NM 87125

**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**

Honorable Gary King, Attorney General
Office of the Attorney General
and
Mr. Hector H. Balderas, State Auditor
Office of the State Auditor

We have audited the accompanying financial statements of governmental activities, each major fund, the budgetary comparison for the General Fund and Major Special Revenue Funds and the aggregate remaining fund information of the Office of the Attorney General (the Office), as of and for the year ended June 30, 2010, which collectively comprise the Office of the Attorney General's basic financial statements, as listed in the table of contents. We have also audited the financial statements of each of the Office of the Attorney General's nonmajor governmental funds and respective budgetary comparison presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2010, as listed in the table of contents, and have issued our report thereon dated November 10, 2010. 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 State of New Mexico, Office of the Attorney General'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 Office's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Office's internal control over financial reporting.

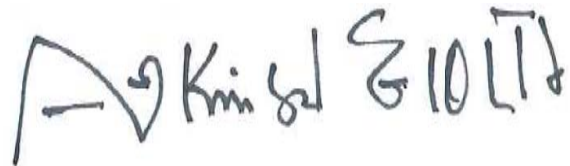
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination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

Our consideration of the internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses, as defined above. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as described above.

Compliance and Other Matters

As a part of obtaining reasonable assurance about whether the Office'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*.

This report is intended solely for the information and use of management, others within the Office, the Office of the State Auditor, the New Mexico Legislature, Department of Finance and Administration and applicable Federal grantors, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in blue ink, appearing to read "King & Co., Ltd.", with a stylized logo to the left consisting of a large 'A' with a checkmark-like shape inside.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
November 10, 2010



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ATKINSON & CO. LTD.
6501 AMERICAS PKWY NE
SUITE 700
ALBUQUERQUE, NM 87110

T 505 843 6492
F 505 843 6817

ATKINSONCPA.COM

PO BOX 25246
ALBUQUERQUE, NM 87125

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Gary King, Attorney General
Office of the Attorney General
and
Mr. Hector H. Balderas, State Auditor
Office of the State Auditor

Compliance

We have audited the compliance of the Office of the Attorney General (Office) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2010. The Office of the Attorney General'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 Office of the Attorney General's management. Our responsibility is to express an opinion on the Office of the Attorney General'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 State of New Mexico, Office of the Attorney General'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 on the State of New Mexico, Office of the Attorney General's compliance with those requirements.

In our opinion the Office of the Attorney General complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2010

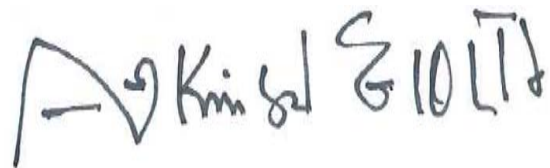
Internal Control Over Compliance

The management of the Office of the Attorney General is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Office of the Attorney General's internal control over compliance with requirements that could have a direct and material effect on its major federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 Office of the Attorney General's internal control over compliance.

A deficiency in internal control over compliance exist when the design or operation of 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 would not necessarily identify all deficiencies in internal control that might be 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.

This report is intended solely for the information and use of management, others within the Office, the Office of the State Auditor, the New Mexico Legislature, Department of Finance and Administration and applicable Federal grantors, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in dark ink, appearing to read "Atkinson & Co., Ltd.", with a stylized initial "A" on the left.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
November 10, 2010

State of New Mexico
Office of the Attorney General

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2010

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes none reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? Yes No

State of New Mexico
Office of the Attorney General

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

For the year ended June 30, 2010

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>	<u>Questioned Cost</u>
16.543	Office of Juvenile Justice and Delinquency Prevention: Investigative satellite initiative - Internet Crimes Against Children (ICAC)	None
16.810	Border Violence Recovery Act Rural Law enforcement assistance	None
16.800	Internet Crimes Against Children Task Force program grants	None

Dollar threshold used to distinguish between
type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

X Yes No

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

For the year ended June 30, 2010

II. Findings – Findings and Questioned Costs – Major Federal Award Programs Audit

<u>CFDA Number</u>	<u>Name of Federal Program</u>	<u>Questioned Cost</u>
16.543	Office of Juvenile Justice and Delinquency Prevention: Investigative satellite initiative - Internet Crimes Against Children (ICAC)	None
16.810	Border Violence Recovery Act Rural Law enforcement assistance	None
16.800	Internet Crimes Against Children Task Force program grants	None

III. Status of Prior Audit Findings

09-01 Contract lapse-Resolved
09-02 Procurement violation-Resolved

IV. Current Audit Findings

Financial Statement Findings Required by *Government Auditing Standards*

None

Findings in Accordance with OMB Circular A-133

None

Findings in Accordance with 2.2.2. NMAC

None

State of New Mexico
Office of the Attorney General

FINANCIAL STATEMENT PREPARATION

June 30, 2010

The financial statements were prepared by the independent certified public accounting firm performing the audit with the assistance of the Office's Finance Manager. Management is responsible for ensuring that the books and records adequately support the preparation of financial statements in accordance with generally accepted accounting principles and that records are current and in balance. Management has reviewed and approved the financial statements.

EXIT CONFERENCE

An exit conference was held on November 10, 2010, to discuss the audit. The following individuals were in attendance:

State of New Mexico – Office of the Attorney General

Gary King, Attorney General
Albert J. Lama, Deputy Attorney General
Evangeline Tinajero, Administrative Services Division Director
Tammy Herrera, Finance Manager

Independent Auditor – Atkinson & Co., Ltd.

Martin Mathisen, CPA, CGFM, Audit Director
Morgan Browning, CPA, CGFM, Audit Manager

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CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

ALBUQUERQUE, NM
T 505 843 6492
F 505 843 6817

RIO RANCHO, NM
T 505 891 8111
F 505 891 9169

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