

**STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT**

Annual Financial Report
For the Year Ended June 30, 2011
(With Independent Auditor's Report Thereon)

INTRODUCTORY SECTION

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
June 30, 2011

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STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
June 30, 2011

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STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
Official Roster
as of June 30, 2011

ADVISORY BOARD

<u>Name</u>		<u>Title</u>
Michelle Brown-Yazzie	Navajo Nation	Chairperson
Ki Tecumseh	Winnebago	Vice-Chair
June Lorenzo	Pueblo of Laguna	Secretary
William Hume	Member at Large	Treasurer
Leonard Anthony	Navajo Nation	Member
J. Michael Chavarria	Pueblo of Santa Clara	Member
Blane Sanchez	Pueblo of Isleta	Member
Wilson Ray	Navajo Nation	Member
Kurt Sandoval	Jicarilla Apache Nation	Member
Jackie Blaylock	Mescalero Apache Tribe	Member

ADMINISTRATIVE OFFICIALS

Arthur Allison (April 2011 through June 2011)	Cabinet Secretary
Alvin H. Warren (June 2010 through December 2010)	Cabinet Secretary
Marvis J. Aragon, Jr. (June 2010 through December 2010)	Deputy Cabinet Secretary
Lillian Brooks	ASD Director, CFO

FINANCIAL SECTION



Burt & Company CPAs, LLC

Accounting, Tax, & Financial Advisors

Ronald E. Schranz, CPA, CVA
Robert D. Austin, CPA, CVA

Dennis R. Burt, CPA, CVA
Elizabeth A. Farr, CPA
Matthew Pacheco, CPA
Robert M. Santiago, CPA
Sherry Lynn Schulz, CPA, CFFA
Cheryl D. Silcox, CPA
Panda Townsend, CPA
Carol M. Wilkens, CPA

INDEPENDENT AUDITORS' REPORT

Mr. Arthur Allison, Cabinet Secretary
State of New Mexico, Indian Affairs Department
and

Mr. Hector H. Balderas, State Auditor
New Mexico Office of the State Auditor
Santa Fe, New Mexico

We have audited the accompanying financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons for the general fund and major special revenue funds of the State of New Mexico, Indian Affairs Department (Department), as of and for the year ended June 30, 2011, which collectively comprise the agency's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the Department's nonmajor governmental funds and budgetary comparisons for all nonmajor funds presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we express no such opinion. 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 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.

Management was unable to reconcile the revenues to the related expenditures for fiscal year 2011 in SHARE fund 10100 in accordance with state accounting procedures for accounting for severance tax bonds. The Department did not have a process in place during the fiscal year ending June 30, 2011 that would enable them to record all the revenues to be accrued that were associated with the corresponding project expenditures that occurred during the year. This resulted in expenditures exceeding revenues in this fund by \$751,184.

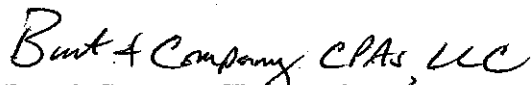
In our opinion, except for the unreconciled severance tax bond activity for the SHARE fund 10100 as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Department, as of June 30, 2011, and the respective

changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for 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 nonmajor governmental fund of the Department as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for all nonmajor funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2011 on our consideration of the *Department's* internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 8 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements, and the combining and individual fund financial statements and budgetary comparisons. The additional schedules listed as "other supplemental information" in the table of contents are presented for purposes of additional analysis 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.


Burt & Company CPAs, LLC

December 14, 2011

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
Management's Discussion and Analysis
June 30, 2011

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of four parts - management's discussion and analysis (this section), the basic financial statements, required supplementary information, and a section that presents combining statements for non-major governmental funds. The basic financial statements include two kinds of statements that present different views of the Indian Affairs Department (Department or IAD).

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Department's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Department, reporting the Department's operations in more detail than the government-wide statements.
- The governmental funds statements tell how general government services (the primary functions of the Department) were financed in the short term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. In addition to these required elements, we have included a section with combining statements that provides details about our non-major governmental funds, each of which are added together and presented in single columns in the basic financial statements.

REPORTING ON THE DEPARTMENT AS A WHOLE

Government-Wide Statements

The government-wide statements report information about the Department as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the Department's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the Department's net assets and how they have changed. Net assets — the difference between the Department's assets and liabilities — is one way to measure the Department's financial health or position.

- Over time, increases or decreases in the Department's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Department, additional non-financial factors such as changes in the Department's funding or the addition of new programs should be considered.

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
Management's Discussion and Analysis (continued)
June 30, 2011

Reporting on the Department's Most Significant Funds

Fund Financial Statements

The fund financial statements provide more detailed information about the Department's most significant funds. Funds are accounting devices that the Department uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law. The State Legislature also establishes other funds to control and manage money for particular purposes or to show that it is properly using certain grants or appropriations. The Department's funds are all governmental funds. The Balance Sheets and the Statements of Revenue, Expenditures and Changes in Fund Balances provide this information.

Governmental Funds — All of the Department's basic services are accounted for in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Department's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent pages that explain the relationships (or differences) between them.

The Department maintains its fund structure in the State of New Mexico's Statewide Human Resources, Accounting and Management Reporting (SHARE) System. The Department maintains the General Fund (Fund No. 04800) and eight (8) special revenue funds as follows:

- Special Capital Outlay Fund (Fund No. 09900)
- Special Capital Outlay Fund (Fund No. 10000)
- Special Capital Outlay Fund (Fund No. 10100)
- Special Tribal Infrastructure Capital Projects Fund (Fund No. 42900)
- Special Capital Outlay Fund (Fund No. 53100)
- Special IAD Grant Fund (Fund No. 66700)
- STB Reauthorization Fund (Fund No. 89200)
- GF Reauthorization Fund (Fund No. 93100)

Financial Analysis of the Department as a Whole

Statement of Net Assets

A sharp decrease in the amount of active capital appropriations statewide resulted in less funding for the department, while expenditures/disbursements to existing projects decreased proportionately.

The statement of net assets summarizes the Department's net assets for the fiscal year ending June 30, 2011. The following compares the current year with the prior year.

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
Management's Discussion and Analysis (continued)
June 30, 2011

		Net Assets		
		<u>Governmental Activities</u>		
		FY2011	FY2010	Increase (Decrease)
	<u>Assets</u>			
Current assets		\$ 8,932,712	15,363,329	(6,430,617)
Capital assets, net		<u>50,020</u>	<u>74,936</u>	<u>(24,916)</u>
Total assets		<u>8,982,732</u>	<u>15,438,265</u>	<u>(6,455,533)</u>
	<u>Liabilities</u>			
Current liabilities		8,699,164	10,191,830	(1,492,666)
Long-term liabilities		-	-	-
Total liabilities		<u>8,699,164</u>	<u>10,191,830</u>	<u>(1,492,666)</u>
	<u>Net Assets</u>			
Investment in capital assets		50,020	74,936	(24,916)
Restricted		226,391	5,171,499	(4,945,108)
Unrestricted (deficit)		<u>7,157</u>	<u>-</u>	<u>7,157</u>
Total net assets		<u>\$ 283,568</u>	<u>5,246,435</u>	<u>(4,962,867)</u>

Analysis of Financial Position (Statement of Net Assets)

Current assets decreased by \$6,430,617, or 42% from a year ago. This is mainly attributable to the decrease in cash received from the Board of Finance due to a decrease in reauthorized projects and the depletion of cash through project expenditures in fund 10000.

Current liabilities decreased by \$1,492,666 or 15% from a year ago. This is mainly attributable to the decrease in accounts payable of \$580,364, payment on accrued reversion from prior years and the decrease bank overdrafts in all funds. Current liabilities of \$8,699,164 consist primarily of accounts payable \$4,982,164, due to the State General Fund \$1,064,156, and a bank overdraft of \$2,485,259.

Net assets decreased significantly by \$4,962,867 from \$5,246,435 to \$283,568. This is a result of a high volume of cash expenditures for capital projects in fund 10000.

Changes in Net Assets

The statement of activities summarizes the Department's changes in net assets for the fiscal year ending June 30, 2011 and June 30, 2010.

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
Management's Discussion and Analysis (continued)
June 30, 2011

	FY2011	FY2010	Increase (Decrease)
Program revenues:			
Federal grants	\$ -	-	-
Private gifts and grants	55,636	109,821	(54,185)
Total program and revenues	55,636	109,821	(54,185)
General revenues and transfers:			
Transfers:			
State general fund appropriations (net of reversions)	2,970,700	3,421,000	(450,300)
Severance tax bond appropriations (net of reversions)	10,309,165	3,636,520	6,672,645
Other appropriations	-	505,000	(505,000)
Other	253,699	368,400	(114,701)
Total general revenues and transfers	13,533,564	7,930,920	5,602,644
Total program, general revenue and transfers	13,589,200	8,040,741	5,548,459
Expenses:			
General government	18,535,017	32,798,636	(14,263,619)
Changes in net assets	(4,945,817)	(24,757,895)	19,812,078
Beginning net assets, (as reported)	5,246,435	30,004,330	(24,757,895)
Restatement of net assets	(17,050)	-	(17,050)
Beginning net assets, as restated	5,229,385	30,004,330	(24,774,945)
Ending net assets	\$ 283,568	5,246,435	(4,962,867)

The Department's governmental activities program revenue was significantly changed from a year ago and decreased by \$54,185 from \$100,821 to \$55,636.

The Department's general revenue and transfers increased by \$5,602,644 or 71%. This is a result of activity in fund 10100 and the closing of various capital outlay projects. The cost of governmental activities this year was \$18,535,017 compared to \$32,798,636 last year resulting in a significant decrease of \$14,263,619. The reason for the decrease is attributed to the lack of capital project appropriations and bond sales and a substantial decrease of the general operating budget.

In summary, net assets decreased significantly by \$4,962,867 as a result of the aforementioned items.

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
Management's Discussion and Analysis (continued)
June 30, 2011

THE DEPARTMENT'S FUNDS

Governmental Funds

The focus of the Department's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. As mentioned previously, funds are used by the Department to keep track of specific sources of funding and spending for a particular purpose.

For the current year, the Department had eight governmental funds. Seven of the Department's governmental funds are used to account for capital outlay projects of other entities funded either by State General Fund appropriations or by bond funds sold by the State Board of Finance. One of the Department's governmental funds is used to account for specific grants. The final governmental fund of the Department is its general fund.

As the Department completed the year, its governmental funds (as presented in the balance sheet on page 12) reported a combined fund balance of \$246,172 which is significantly lower than last year's combined fund balance of \$5,208,528. The primary reason for the decrease in fund balance of \$4,962,356 is attributable to the activity in the seven capital outlay special revenue funds, specifically fund 10000.

The General Fund of the Department reflects no change in fund balance from the prior year. Since the General Fund is a "reverting" fund, only balances appropriated into future fiscal years may be retained by the Department. The Department reverted \$633,782 to the State General Fund from unused State General Fund appropriations, compared to \$855,249 in the prior year. Both revenues and expenditures decreased due to less funding availability compared to the prior year.

General Fund Budgetary Highlights

The State Legislature makes annual appropriations to the Department. Adjustments to the budget require approval by the Budget Division of the Department of Finance and Administration. Over the course of the year, the Department revised its budget. These budget adjustments fall into two categories:

1. Within the department budget transfers of appropriations to prevent budget overruns.
2. Budget decreases.

Analysis of Significant Budget Variations

The original General Fund budget was \$3,458,200. There were no budget increases and budget adjustments were not necessary. The final operating budget for the general funding remained at \$3,458,200.

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
Management's Discussion and Analysis (continued)
June 30, 2011

Capital Assets and Debt Administration

Capital Assets

The Department's investments in capital assets for its governmental activities as June 30, 2011, amounted to \$50,020 (net of accumulated depreciation). This investment in capital assets consists mainly of furniture, fixtures, data processing equipment and automobiles. There were no additions or deletions of capital assets during the fiscal year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Regarding the FY 2012 budget request, the IAD Administrative Services Director (ASD) worked with the Cabinet Secretary and the various unit and division directors to compile the FY 2012 General Fund operating budget and other related budgets and appropriation requests. The proposed budget and appropriations request was submitted to DFA on September 1, 2010. The IAD provided testimony on the FY 2012 budget request on November 16, 2010 to the Legislative Finance Committee.

The Executive Budget proposal request was equivalent to the FY 2011 operating budget. The Tobacco Settlement Program Fund for tobacco cessation and prevention programs for Native American communities will remain the same as the prior year.

In accordance with the Procurement Code and 2.2.2 NMAC "Requirements for Contracting and Conducting Audits of Agencies" The IAD engaged Burt & Company, CPAs to perform the annual financial audit. The financial report is designed to provide citizens and taxpayers of New Mexico with a general overview of the Department's finances and to demonstrate the Department's accountability for the money it receives. The process involved the preparation of documentation such as the A611-balance sheet, the trial balance and personnel liability reports. The ASD and Capital Outlay Unit staff assisted the CPA with providing random selection testing information and preparation of financial documents. The IAD received an unqualified audit for FY 2010. It is the IAD's goal to turn the current fiscal year audit in to the State Auditor's office by the December 15, 2011 deadline. Last year, this was accomplished with the assistance of the IPA and IAD ASD staff.

Contacting the Department's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the Department's finances and to demonstrate the Department's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Department.

Indian Affairs Department
Wendell Chino Building
1220 South St. Francis Drive
Santa Fe, NM 87505

BASIC FINANCIAL STATEMENTS

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
Statement of Net Assets
June 30, 2011

	<u>Governmental Activities</u>
Assets:	
Current assets:	
Investment in the State Treasurer General Fund Investment Pool	\$ 6,073,249
Due from other agencies	<u>2,859,463</u>
Total current assets	<u>8,932,712</u>
Non-current assets:	
Capital assets (net of accumulated depreciation)	<u>50,020</u>
Total assets	<u>\$ 8,982,732</u>
 Liabilities:	
Current liabilities:	
Accounts payable	\$ 4,982,165
Bank overdraft	2,485,259
Accrued salaries payable	16,971
Payroll taxes payable	2,109
Payroll benefits payable	2,753
Due to State General Fund	1,064,156
Due to other state agencies	88,489
Other liabilities	9,858
Deferred revenue	34,780
Compensated absences - current	<u>12,624</u>
Total current liabilities	<u>8,699,164</u>
 Net Assets:	
Invested in capital assets	50,020
Restricted for subsequent year's expenditure by enabling legislation	226,391
Unrestricted	<u>7,157</u>
Total net assets	<u>\$ 283,568</u>

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

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
Statement of Activities
For the Year Ended June 30, 2011

	<u>Governmental Activities</u>
Expenses:	
Governmental activities:	
General government	\$ 18,510,101
Depreciation	<u>24,916</u>
Total expenses	<u>18,535,017</u>
Program revenues:	
Private gifts and grants	<u>55,636</u>
Total program revenues	<u>55,636</u>
Net program (expenses) revenues	<u>(18,479,381)</u>
General revenues and transfers:	
Transfers:	
State General Fund appropriation	2,970,700
Severance tax bond appropriation	11,298,664
Other appropriations - tobacco settlement funds	253,699
Reversions to State General Fund - FY 2009	<u>(989,499)</u>
Total general revenues and transfers	<u>13,533,564</u>
Change in net assets	(4,945,817)
Net assets, beginning as previously stated	<u>5,246,435</u>
Prior period adjustment (Note 17)	<u>(17,050)</u>
Net assets, beginning as restated	<u>5,229,385</u>
Net assets, ending	\$ <u>283,568</u>

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

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
Balance Sheet
Governmental Funds
June 30, 2011

	Major Funds				Non-Major Funds	Total Govern- mental Funds
	General Fund 04800	Special Capital Outlay Fund 10000	Special Capital Outlay Fund 10100	Tribal Infra- structure Capital Fund 42900	Other Govern- mental Funds	
Assets						
Investment in the State Treasurer						
General Fund investment pool	\$ 2,903,980	1,428,671	-	783,808	956,790	6,073,249
Due from other funds	37,875	-	50,586	46,095	-	134,556
Due from other state agencies	-	87,828	1,156,129	985,726	629,780	2,859,463
Total assets	<u>\$ 2,941,855</u>	<u>1,516,499</u>	<u>1,206,715</u>	<u>1,815,629</u>	<u>1,586,570</u>	<u>9,067,268</u>
Liabilities						
Accounts payable	\$ 759,571	881,100	1,042,683	1,643,052	655,759	4,982,165
Bank overdraft	1,516,811	-	801,727	-	166,721	2,485,259
Accrued salaries payable	16,971	-	-	-	-	16,971
Payroll taxes payable	2,109	-	-	-	-	2,109
Payroll benefits payable	2,753	-	-	-	-	2,753
Deferred revenue	-	-	-	-	34,780	34,780
Other liabilities	9,858	-	-	-	-	9,858
Due to other funds	-	96,681	25,000	-	12,875	134,556
Due to State General Fund	633,782	429,164	-	-	1,210	1,064,156
Due to other state agencies	-	-	88,489	-	-	88,489
Total liabilities	<u>2,941,855</u>	<u>1,406,945</u>	<u>1,957,899</u>	<u>1,643,052</u>	<u>871,345</u>	<u>8,821,096</u>
Fund Balances						
Restricted	-	109,554	(751,184)	172,577	708,068	239,015
Unassigned	-	-	-	-	7,157	7,157
Total fund balances	<u>-</u>	<u>109,554</u>	<u>(751,184)</u>	<u>172,577</u>	<u>715,225</u>	<u>246,172</u>
Total liabilities and fund balances	<u>\$ 2,941,855</u>	<u>1,516,499</u>	<u>1,206,715</u>	<u>1,815,629</u>	<u>1,586,570</u>	<u>9,067,268</u>

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

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
Reconciliation of the Governmental Funds Balance Sheet to the
Government-Wide Statement of Net Assets
June 30, 2011

Total fund balance for the governmental funds (balance sheet) \$ 246,172

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

Capital assets and related accumulated depreciation used in governmental activities are not current financial resources and, therefore, are not reported in funds.

These assets consist of:

Furniture and fixtures	\$	67,111	
Equipment and machinery		28,300	
Data processing equipment		19,279	
Automobiles		85,561	
Accumulated depreciation		<u>(150,231)</u>	50,020

Compensated absences are not due and payable in the current period, and therefore, are not reported in the funds. (12,624)

Net assets of governmental activities (statement of net assets) \$ 283,568

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

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2011

	Major Funds				Non-Major	Total Governmental Funds
	General Fund 04800	Special Capital Outlay Fund 10000	Special Capital Outlay Fund 10100	Tribal Infrastructure Capital Fund 42900	Other Govern- mental Funds	
Revenues:						
Intergovernmental:						
Private gifts and grants	\$ 237	-	-	-	55,399	55,636
	237	-	-	-	55,399	55,636
Expenditures:						
General government:						
Current:						
Personal services	795,290	-	-	-	-	795,290
Contractual services	518,412	-	-	-	29,096	547,508
Other costs	1,277,152	3,654,544	6,177,876	5,299,128	783,010	17,191,710
Capital outlay	-	-	-	-	-	-
Total expenditures	2,590,854	3,654,544	6,177,876	5,299,128	812,106	18,534,508
Excess (deficiency) of revenues over expenditures	(2,590,617)	(3,654,544)	(6,177,876)	(5,299,128)	(756,707)	(18,478,872)
Other financing sources (uses):						
Transfers in (out):						
State General Fund appropriation	2,970,700	-	-	-	-	2,970,700
Severance tax bond appropriation	-	-	5,433,094	5,299,128	566,442	11,298,664
Other appropriations - tobacco settlement funds	253,699	-	-	-	-	253,699
Reversion to State General Fund	(633,782)	(348,105)	(6,402)	-	(1,210)	(989,499)
Total other financing sources (uses)	2,590,617	(348,105)	5,426,692	5,299,128	565,232	13,533,564
Net change in fund balances	-	(4,002,649)	(751,184)	-	(191,475)	(4,945,308)
Fund balances:						
Fund balances, beginning, as previously stated	-	5,062,332	(50,586)	189,625	7,157	5,208,528
Prior period adjustment (Note 17)	-	(950,129)	50,586	(17,048)	899,543	(17,048)
Fund balances, beginning, as restated	-	4,112,203	-	172,577	906,700	5,191,480
Fund balances, ending	\$ -	109,554	(751,184)	172,577	715,225	246,172

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

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2011

Net change in fund balance - Governmental Fund (Statement of Revenues, Expenditures and Changes in Fund Balances)	\$ (4,945,308)
--	----------------

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

Decrease in compensated absences	24,407
----------------------------------	--------

Capital outlays are reported as expenditures in governmental funds.

However, in the Statement of Activities, the cost of capital assets is
allocated over their estimated useful lives as depreciation expense.
This is the amount by which capital asset purchases exceeded
depreciation expense in the current period.

Capital asset purchases	\$ -	
Current period depreciation	(24,916)	(24,916)

Change in net assets of governmental activities (Statement of Activities)	\$ <u>(4,945,817)</u>
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The accompanying notes are an integral part of the financial statements.

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
Statement of Revenues and Expenditures
Budget and Actual (Budgetary Basis)
General Fund 04800
For the Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		(Modified Accrual) Actual Budget Basis	Variance Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
Revenues:				
State General Fund:				
General Fund appropriation	\$ 3,164,400	3,164,400	2,970,937	(193,463)
Other funds:				
Other gifts and grants	-	-	-	-
Other financing sources-transfers	<u>293,800</u>	<u>293,800</u>	<u>253,699</u>	<u>(40,101)</u>
Total revenues	3,458,200	3,458,200	3,224,636	(233,564)
Prior-year fund balance	<u>-</u>	<u>-</u>		
Total revenues budgeted	\$ <u>3,458,200</u>	<u>3,458,200</u>		
Expenditures:				
General government:				
Personal services and employee benefits	\$ 1,224,500	1,224,500	795,290	429,210
Contractual services	750,000	750,000	518,413	231,587
Other costs	<u>1,483,700</u>	<u>1,483,700</u>	<u>1,245,184</u>	<u>238,516</u>
Total expenditures	\$ <u>3,458,200</u>	<u>3,458,200</u>	<u>2,558,887</u>	<u>899,313</u>
Reconciliation of GAAP basis to budgetary basis revenue:				
GAAP basis revenue			\$ 3,224,636	
Adjustments:				
None			<u>-</u>	
Budget basis revenue			\$ <u>3,224,636</u>	
Reconciliation of GAAP basis to budgetary basis expenditures:				
GAAP basis expenditures			\$ 2,558,887	
Adjustments: None			<u>-</u>	
Budget basis expenditures			\$ <u>2,558,887</u>	

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

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
Statement of Revenues and Expenditures
Budget and Actual (Budgetary Basis) (Multi-Year)
Major Special Revenue Fund - Special Capital Outlay Fund 10000
For the Year Ended June 30, 2011

	Budgeted Amounts		Actual Budget	Variance
	Original	Final	Basis	Favorable (Unfavorable)
Revenues:				
Other funds:				
Other financing sources-transfers	\$ -	-	-	-
Total revenues	-	-	-	-
Prior-year fund balance	<u>4,112,203</u>	<u>4,112,203</u>		
Total revenues budgeted	\$ <u>4,112,203</u>	<u>4,112,203</u>		
Expenditures:				
General government:				
Other costs	\$ <u>4,112,203</u>	<u>4,112,203</u>	<u>3,631,352</u>	<u>480,851</u>
Total expenditures	\$ <u>4,112,203</u>	<u>4,112,203</u>	<u>3,631,352</u>	<u>480,851</u>
Reconciliation of GAAP basis to budget basis revenue:				
GAAP basis revenue			\$ -	
Adjustments:				
None			-	
Budget basis revenue			\$ <u>-</u>	
Reconciliation of GAAP basis to budget basis expenditures:				
GAAP basis expenditures			\$ 3,631,352	
Adjustments: None			-	
Budget basis expenditures			\$ <u>3,631,352</u>	

There are 17 Special Capital Outlay Projects summarized in the statement above.

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

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
Statement of Revenues and Expenditures
Budget and Actual (Budgetary Basis) (Multi-Year)
Major Special Revenue Fund - Special Capital Outlay Fund 10100
For the Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		Actual Budget Basis	Variance Favorable (Unfavorable)	
	<u>Original</u>	<u>Final</u>			
Revenues:					
Other funds:					
Severance tax bond appropriations	\$	<u>9,411,040</u>	<u>8,759,751</u>	<u>5,433,094</u>	<u>(3,326,657)</u>
Total revenues		<u>9,411,040</u>	<u>8,759,751</u>	<u>5,433,094</u>	<u>(3,326,657)</u>
Prior-year fund balance		<u>-</u>	<u>-</u>		
Total revenues budgeted	\$	<u>9,411,040</u>	<u>8,759,751</u>		
Expenditures:					
General government:					
Other costs	\$	<u>9,411,040</u>	<u>8,759,751</u>	<u>6,177,876</u>	<u>2,581,875</u>
Total expenditures	\$	<u>9,411,040</u>	<u>8,759,751</u>	<u>6,177,876</u>	<u>2,581,875</u>
Reconciliation of GAAP basis to budget basis revenue:					
GAAP basis revenue			\$ 5,433,094		
Adjustments:					
None			<u>-</u>		
Budget basis revenue			\$ <u>5,433,094</u>		
Reconciliation of GAAP basis to budget basis expenditures:					
GAAP basis expenditures			\$ 6,177,876		
Adjustments: None			<u>-</u>		
Budget basis expenditures			\$ <u>6,177,876</u>		

There are 13 Special Capital Outlay Projects summarized in the statement above.

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

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
Statement of Revenues and Expenditures
Budget and Actual (Budgetary Basis) (Multi-Year)
Major Special Revenue Fund - Tribal Infrastructure
Capital Projects Fund 42900
For the Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		Actual Budget Basis	Variance Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Other funds:				
Severance tax bond appropriations	\$ 4,545,428	12,127,403	5,299,128	(6,828,275)
Total revenues	4,545,428	12,127,403	<u>5,299,128</u>	<u>(6,828,275)</u>
Prior-year fund balance	<u>172,577</u>	<u>172,577</u>		
Total revenues budgeted	\$ <u>4,718,005</u>	<u>12,299,980</u>		
Expenditures:				
General government:				
Other costs	\$ <u>4,718,005</u>	<u>12,299,980</u>	<u>5,298,003</u>	<u>7,001,977</u>
Total expenditures	\$ <u>4,718,005</u>	<u>12,299,980</u>	<u>5,298,003</u>	<u>7,001,977</u>
Reconciliation of GAAP basis to budget basis revenue:				
GAAP basis revenue			\$ 5,299,128	
Adjustments:				
None			-	
Budget basis revenue			<u>\$ 5,299,128</u>	
Reconciliation of GAAP basis to budget basis expenditures:				
GAAP basis expenditures			\$ 5,298,003	
Adjustments: None			-	
Budget basis expenditures			<u>\$ 5,298,003</u>	

There are 28 Capital Projects summarized in the statement above.

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

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
Notes to Financial Statements
June 30, 2011

1. History and Functions

The Indian Affairs Department (IAD or Department) was established by the Laws of 1975 as a component unit of the State of New Mexico. The forty-sixth legislature, first session passed House Bill 585, which elevated the Office of Indian Affairs to a cabinet-level department to be led by a Secretary. The effective date of House Bill 585 was June 30, 2003. Subsequently, the Governor of the State of New Mexico issued Executive Order No. 2003-022, which among other things elevated the Office of Indian Affairs to a cabinet-level department. The Office of Indian Affairs is now known as the Indian Affairs Department, which is led by a Secretary, subject to the advice and consent of the senate. Legislation approving the executive reorganization of the Office of Indian Affairs was signed into law during the forty-sixth legislature, second session. The Department's primary function is to act as a liaison between the State of New Mexico and local tribal governments by administering state funding for the development and building of various infrastructure and other projects to improve their communities.

2. Summary of Significant Accounting Policies

The financial statements of the Indian Affairs Department have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Department applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 to the government-wide financial statements, unless they conflict with GASB pronouncements. The more significant of the Department's accounting policies are described below:

A. Reporting Entity

The Department is a department of the primary government, the State of New Mexico. These financial statements present the financial position and results of operations of only those *Statewide Human Resources, Accounting and Management Reporting System* (SHARE) funds over which the Indian Affairs Department has oversight responsibility. The Department does not have any component units.

The Department is a user organization of the State of New Mexico Statewide Human Resource, Accounting, and Management Reporting System. The service organization is the Department of Finance and Administration (DFA).

B. Basic Financial Statements - Government-Wide Statements

The Department's basic financial statements include both government-wide (based on the Department as a whole) and fund financial statements. Both the government-

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
Notes to Financial Statements (continued)
June 30, 2011

2. Summary of Significant Accounting Policies (continued)

B. Basic Financial Statements - Government-Wide Statements (continued)

wide and fund financial statements categorize primary activities as either governmental, business type, or fiduciary. The Department is a single purpose government entity and has no business type activities or fiduciary funds. Government-wide financial statements exclude information about fiduciary funds. In the government-wide Statement of Net Assets, the governmental activities are presented on a consolidated basis and are reflected on the full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. The Department's net assets are reported in three parts: invested in capital assets, restricted net assets, and unrestricted net assets. When applicable, the effect of inter-fund activity between two funds is removed from the Statement of Net Assets in order to avoid a grossing-up effect on the assets and liabilities within the statement.

The government-wide Statement of Activities reflects both the gross and net cost 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. The appropriation from the State General Fund not included among program revenues is reported instead as general revenue. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB 33. The revenue recognition policy for grants is when the eligibility requirements have been met, and costs have been incurred.

The net cost by function is normally covered by general revenue.

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

Restricted net assets are those with constraints placed on their use by either: 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or 2) imposed by law through constitutional provisions or enabling legislation. All net assets not otherwise classified as restricted, are shown as unrestricted. Generally, the Department would first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
Notes to Financial Statements (continued)
June 30, 2011

2. Summary of Significant Accounting Policies (continued)

C. Basic Financial Statements - Fund Financial Statements

The fund financial statements are similar to the financial statements presented in previous years. Emphasis is on the major funds of the governmental category. Non-major funds are summarized into a single column. The Department's major funds are its general fund and three special revenue funds (capital outlay funds 10000 and 10100 and Tribal Infrastructure Capital Fund 42900).

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. Under this method, revenues and other governmental fund financial resource increments are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the current fiscal period. Available is defined as soon enough after year end to pay liabilities of the current period. This presentation is deemed more appropriate to demonstrate legal and covenant compliance, to demonstrate the source and use of liquid resources and to demonstrate how the Department's actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements governmental 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 financial transactions of the Department are recorded in individual funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, expenditures or expenses and other financing sources or uses. Government resources are allocated to, and accounted for, in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

The GASB 34 reporting model sets forth the minimum criteria (percentage of the assets, liabilities, revenues or expenditures of either fund category or the governmental and enterprise combined) for the determination of major funds. The Department, at its discretion, may elect to present a fund as a major fund. The non-major funds are combined in a column in the fund financial statements and detailed in the combining section.

The Department uses the following fund types:

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
Notes to Financial Statements (continued)
June 30, 2011

2. Summary of Significant Accounting Policies (continued)

C. Basic Financial Statements - Fund Financial Statements (continued)

GOVERNMENTAL FUND TYPES

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

General Fund - The General Fund is the general operating fund of the Department. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is made up of the following SHARE fund:

General Operating (Fund 04800) - The operating account for the Department. Except for special appropriations, which may extend into subsequent fiscal years, this is a reverting fund. There were no special appropriations during the fiscal year ending June 30, 2011.

Special Revenue Funds - The Special Revenue Funds are used to account for the proceeds of specific revenue sources, particularly capital projects, that are legally restricted to expenditures for specified purposes. The Department's Special Revenue Funds are as follows:

Special Capital Outlay Fund (Fund 09900) - This fund is used to account for capital outlay projects appropriated by Laws of 1999. Unexpended funds revert at the end of the authorization period.

Special Capital Outlay Fund (Fund 10000) - This fund is used to account for capital outlay projects appropriated from the state general fund from the Laws of 2004-2011. Unexpended funds revert at the end of the authorization period.

Special Capital Outlay Fund (Fund 10100) - This fund is used to account for capital outlay projects appropriated from severance tax bonds issued from the Laws of 2004-2011. Unexpended funds revert at the end of the authorization period.

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
Notes to Financial Statements (continued)
June 30, 2011

2. Summary of Significant Accounting Policies (continued)

C. Basic Financial Statements - Fund Financial Statements (continued)

Special Tribal Infrastructure Capital Projects (Fund 42900) - This fund was legislatively created by the Laws of 2005 and is used to account for capital outlay projects appropriated from the state general fund and from severance tax bonds from the Laws of 2007-2011, as well as projects reauthorized from other funds or state agencies. Unexpended funds revert at the end of the authorization period.

Special Capital Outlay Fund (Fund 53100) - This fund is used to account for capital outlay projects appropriated by Laws of 1998. Unexpended funds revert at the end of the authorization period.

Special IAD Grant Fund (Fund 66700) - This fund is used to account for private gifts and grants. Unexpended funds revert at the end of the grant term in accordance with the respective granting agency provisions.

STB Reauthorization Fund (Fund 89200) - This fund was established in fiscal year 2011 by Senate bill 373 to administer projects funded by severance tax bonds. Unexpended funds revert at the end of the appropriation period.

General Fund Reauthorization (Fund 93100) - This fund was established in fiscal year 2011 by Senate bill 373 to administer projects funded by general fund appropriations. Unexpended funds revert at the end of the appropriation period.

D. Basis of Accounting

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

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated. In the Statement of Activities, internal balances have been eliminated.

Revenues from grants that are restricted for specific uses are recognized as revenues and as receivables when the related costs are incurred. Contributions and other monies held by other state and local agencies are recorded as a receivable at the time the money is made available to the specific fund. Revenues are available if collected within sixty days of the end of the fiscal year. 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

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
Notes to Financial Statements (continued)
June 30, 2011

2. Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

accrued as current liabilities, in the government-wide financial statements. Expenditures charged to federal programs are recorded utilizing the cost principles described by the various funding sources.

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

E. Budgets and Budgetary Accounting

The State Legislature makes annual appropriations to the Department for general operating expenses which lapse at fiscal year end. Legal compliance is monitored through the establishment of a budget and a financial control system, which permits a budget-to-actual expenditure comparison. Expenditures may not legally exceed appropriations for each budget at the appropriation program level. Budgeted appropriation program 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 Appropriation Act. The budget amounts shown in the financial statements are the original and final authorized amounts as legally revised during the year and are presented under the modified accrual basis.

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

1. No later than September 1, the Department prepares a budget request for the subsequent fiscal year by appropriation unit to be presented to the next legislature.
2. The appropriation request is submitted to the Department of Finance and Administration's Budget Division (DFA) and the Legislative Finance Committee (LFC).
3. DFA makes recommendations and adjustments to the appropriation request which become the Governor's proposal to the legislature.
4. LFC holds hearings on the appropriation request, also submitting recommendations and adjustments before presentation to the Legislature for approval of the final budget plan.

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
Notes to Financial Statements (continued)
June 30, 2011

2. Summary of Significant Accounting Policies (continued)

E. Budgets and Budgetary Accounting (continued)

5. Budgetary control is exercised by the Department at the appropriation unit level. Budget Adjustment Requests (BARs) are approved by the DFA Budget Division.
6. The budget for the General Fund and all special revenue funds are adopted on a modified accrual basis of accounting. Per the General Appropriations Act, Laws of 2006, Chapter 109, Section 3, Subsections O and N, the budgetary basis is modified accrual. However, there is 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 require approval to pay prior year bills out of the FY2011 budget. At June 30, 2011, there was an amount of \$476,288.

Each year the Legislature approves multiple year appropriations, which the State considers as continuing appropriations. The Legislature authorizes these appropriations for two to five years; however, it does not identify the authorized amount by fiscal year. Consequently, the appropriation is budgeted in its entirety the first year the Legislature authorizes it. The unexpended portion of the budget is carried forward as the next year's beginning budget balance until either the project period has expired or the appropriation has been fully expended. The budget presentations in these financial statements are consistent with this budgeting methodology.
7. The original budgets differ from the final budgets presented in the budget comparison statements by amendments made during the fiscal year.
8. Appropriations lapse at the end of the fiscal year or at the end of the appropriation period, in the case of multi-year appropriations.

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 allowance made by GASB 34, footnote 53, the budgetary comparison statements for major funds have been included as part of the basic financial statements.

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
Notes to Financial Statements (continued)
June 30, 2011

2. Summary of Significant Accounting Policies (continued)

F. Accrued Compensated Absences

Qualified employees accumulate annual leave as follows:

Years of Service	Hours Earned Per Month	Days Earned Per Month	Days of Maximum Accrual
1-3	6.67	0.83	30
4-6	8.00	1.00	30
7-10	9.99	1.25	30
11-14	12.00	1.50	30
15th/Beyond	13.33	1.67	30

Thirty days of accrued annual leave may be carried forward into the beginning of the next calendar year and any excess is forfeited. When employees terminate, they are compensated for accumulated annual leave as of the date of termination, up to a maximum of thirty (30) days. Accrued annual leave is recorded as a liability in the government-wide financial statements.

Employees who have over 600 hours of accumulated sick leave can receive payment for hours over 600, up to 120 hours on July 1 or January 1 of each year. However, sick leave is paid at fifty percent of the employee's regular hourly wage. At retirement, employees can receive fifty percent payment for up to 400 hours for the hours over 600 hours of accumulated sick leave. Therefore, the only leave which has been accrued represents the hours earned at June 30, 2011, over 600 hours up to 120 hours per employee. Expenditures for accumulated sick pay for hours under 600 hours will be recognized as employees take such absences. Accrued vested sick pay is recorded as a liability in the government-wide financial statements.

Fair Labor Standards Act (FLSA) nonexempt employees accumulate compensatory 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 compensatory time at the same rate as the number of hours worked. 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.

G. Fund Balance Classifications

Fund balances in the governmental fund statements are classified as follows:

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
Notes to Financial Statements (continued)
June 30, 2011

2. Summary of Significant Accounting Policies (continued)

G. Fund Balance Classifications (continued)

Restricted – amounts that have constraints placed on the use of the resources either by external sources such as creditors, grantors, contributors, laws or regulations, or by enabling legislation.

Committed – amounts that have constraints placed on the use of the resources by formal action of the government's highest level of decision making authority, which is the Advisory Board (p. iv). The board does not actively exercise the authority to make internal commitments.

Assigned – amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed; these assignments would be exercised by the Advisory Board if there was need to do so.

Unassigned – represents amounts that do not meet the definition of restricted, committed, or assigned.

The agency has not developed an internal policy to determine whether amounts expended are considered to have been spent from committed, assigned, or unassigned fund balances when amounts from any of these fund balance types are available.

During the year ended June 30, 2011, SHARE fund 10100 reported a deficit fund balance which resulted from expenditures exceeding recognized revenue.

H. Net Assets

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

Investment in Capital Assets - Is intended to reflect the portion of net assets which are associated with non-liquid, capital assets, which amounted to \$50,020 for fiscal year ending June 30, 2011.

Restricted Assets - are liquid assets (generated from revenues and bond proceeds appropriations), which have third-party (statutory enabling legislation or granting agency) limitation on their use, and which are legally enforceable as to their use. Restricted assets amounted to \$226,391 for fiscal year ending June 30, 2011.

Unrestricted Assets - represent unrestricted liquid assets. Unrestricted net assets for fiscal year ending June 30, 2011, amount to \$7,157, which represents unassigned amounts held in fund 66700.

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
Notes to Financial Statements (continued)
June 30, 2011

2. Summary of Significant Accounting Policies (continued)

H. Net Assets (continued)

The Department allocates expenses to restricted or unrestricted resources based on the budgeted source of funds.

I. 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.

J. Capital Assets

Capital assets of the Department include data processing equipment, furniture and fixtures, equipment and automobiles. The Department 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 Department has adopted this change in an accounting estimate, per Accounting Principles Board (APB) 20. 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, will be 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 in accordance with 2.20.1.9 C (5). The cost of maintenance and repairs that do not add to the asset value or materially extend assets lives are not capitalized. The Department 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 Department are depreciated using zero salvage value and the straight-line method over the following estimated useful lives:

	<u>Years</u>
Furniture and fixtures	10
Equipment and machinery	5
Automobiles	5
Data processing equipment	3

The Department utilizes facilities and buildings that are owned by the Property Control Division of the State of New Mexico, General Services Department via a

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
Notes to Financial Statements (continued)
June 30, 2011

2. Summary of Significant Accounting Policies (continued)

J. Capital Assets (continued)

space assignment understanding. These assets and the related depreciation expense are not included in the accompanying financial statements. GASB 34 requires the recording and depreciation of infrastructure assets, such as roads, bridges, etc. The Department does not own any infrastructure assets.

3. Cash and Collateral

Cash accounts on deposit with the State Treasurer in the General Fund Investment Pool consist of the following:

SHARE				
Account			Balance Per	Balance Per
Number	Account Name		Treasurer	Books
04800	NM Office of Indian Affairs	\$	2,903,980	2,903,980
10000	IAD Capital Projects-General Fund		1,428,671	1,428,671
42900	Tribal Infrastructure Fund		783,808	783,808
93100	General Fund Reauthorization Fund		899,543	899,543
66700	Grants for IAD		57,247	57,247
		\$	<u>6,073,249</u>	<u>6,073,249</u>

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

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

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

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
Notes to Financial Statements (continued)
June 30, 2011

3. Cash and Collateral (continued)

- B. Contracts for the present purchase and resale at a specified time in the future, not to exceed one year or, in the case of bond proceeds appropriations, not to exceed three years, of specific securities at specified prices at a price differential representing the interest income to be earned by the state. No such contract shall be invested in unless the contract is fully secured by obligations of the United States or other securities backed by the United States having a market value of at least one hundred two percent of the amount of the contract;
- C. Contracts for the temporary exchange of state-owned securities for the use of broker-dealers, banks or other recognized institutional investors in securities, for periods not to exceed one year for a specified fee rate. No such contract shall be invested in unless the contract is fully secured by exchange of an irrevocable letter of credit running to the state, cash or equivalent collateral of at least one hundred two percent of the market value of the securities plus accrued interest temporarily exchanged. The collateral required for either of the forms of investment in sections (b) and (c) shall be delivered to the fiscal agent of New Mexico or its designee contemporaneously with the transfer of funds or delivery of the securities at the earliest time industry practice permits, but in all cases, settlement shall be on the same-day basis. Neither of the contracts in (b) or (c) shall be invested in unless the contracting bank, brokerage firm or recognized institutional investor has a net worth in excess of five hundred million dollars;
- D. Any of the following investments in an amount not to exceed forty percent of any fund that the state treasurer invests: (1) commercial paper rated "prime" quality by a national rating service, issued by corporations organized and operating within the U.S.; (2) medium-term notes and corporate notes with a maturity not exceeding five years that are rated A or its equivalent or better by a nationally recognized rating service and that are issued by a corporation organized and operating in the U.S.; or (3) an asset-backed obligation with a maturity not exceeding five years that is rated AAA or its equivalent by a nationally recognized rating service;
- E. Shares of a diversified investment company registered pursuant to the federal Investment Company Act of 1940 that invests in U.S. fixed income securities or debt instruments authorized pursuant to (a), (b), and (d) above provided that the investment company has total assets under management of at least one billion dollars and the investments made by the State Treasurer pursuant to this paragraph are less than five percent of the assets of the investment company; or
- F. Individual, common or collective trust funds of banks or trust companies that invest in U.S. fixed income securities or debt instruments authorized pursuant to (a), (b), and (d) above provided that the investment manager has assets under management of at least one billion dollars and the investments made by the state treasurer pursuant to this paragraph are less than five percent of the assets of the individual, common or collective trust fund.

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
Notes to Financial Statements (continued)
June 30, 2011

3. Cash and Collateral (continued)

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

For additional GASB 40 disclosure information regarding cash held by the State Treasurer, the reader should see the separate audit report for the State Treasurer's Office for the fiscal year ended June 30, 2011.

4. Due From/To Other State Agencies

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

	<u>Purpose</u>	<u>Due From</u>	<u>Due To</u>
<u>Fund 04800 - General Fund</u>			
DFA 36900/85300	General fund reversions	\$ -	633,782
<u>Fund 09900 - Capital Outlay Fund</u>			
DFA/BOF 34100/01900	Severance tax bond proceeds	68,221	-
<u>Fund 10000 - Special Capital Outlay Fund</u>			
DFA/BOF 34100/01900	Severance tax bond proceeds	87,828	-
DFA	Reversion to State General Fund for capital outlay projects swapped from SGF to STB	-	429,164
<u>Fund 53100 - Special Capital Outlay Fund</u>			
DFA/BOF 34100/01900	Severance tax bond proceeds	22,198	-
<u>Fund 89200 - STB Reauthorization Fund</u>			
DFA/BOF 34100/01900	Severance tax bond proceeds	539,361	-
<u>Fund 42900 - Tribal Infrastructure Fund</u>			
DFA 36900/85300	Reversion to State General Fund for expired capital outlay projects	-	-
<u>Fund 93100 - GF Reauthorization Fund</u>			
DFA 36900/85300	Reversion to State General Fund	-	1,210

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
Notes to Financial Statements (continued)
June 30, 2011

4. Due From/To Other State Agencies (continued)

	<u>Purpose</u>	<u>Due From</u>	<u>Due To</u>
DFA/BOF 34100/01900	Severance tax bond proceeds	985,726	-
<u>Fund 10100 - Special Capital Outlay Fund</u>			
DFA/BOF 34100/01900	Severance tax bond proceeds	1,156,129	-
	Refund overpaid capital outlay projects from FYs 2007-2011	-	88,489
		<u>\$ 2,859,463</u>	<u>1,152,645</u>

All balances due from other State Agencies are deemed to be fully collectible; no allowance for uncollectible amounts has been established.

5. Capital Assets

The capital asset activity for the governmental activities for the year ended June 30, 2011, is as follows:

	<u>Governmental Activities</u>			
	<u>Beginning Balance July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance June 30, 2011</u>
<u>Cost</u>				
Furniture and fixtures	\$ 67,111	-	-	67,111
Equipment and machinery	28,300	-	-	28,300
Data processing equipment	19,279	-	-	19,279
Automobiles	85,561	-	-	85,561
Total capital assets	<u>200,251</u>	<u>-</u>	<u>-</u>	<u>200,251</u>
<u>Accumulated depreciation</u>				
Furniture and fixtures	(29,755)	(6,312)	-	(36,067)
Equipment and machinery	(16,745)	(7,099)	-	(23,844)
Data processing equipment	(19,280)	-	-	(19,280)
Automobiles	(59,535)	(11,505)	-	(71,040)
Total accumulated depreciation	<u>(125,315)</u>	<u>(24,916)</u>	<u>-</u>	<u>(150,231)</u>
Net assets	<u>\$ 74,936</u>	<u>(24,916)</u>	<u>-</u>	<u>50,020</u>

The Department does not have any debt related to capital assets. Depreciation expense for the year was \$24,916.

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
Notes to Financial Statements (continued)
June 30, 2011

6. Compensated Absences Payable

Employees are entitled to accumulate annual leave at a graduated rate based on years of service. In addition, employees may accumulate sick leave and compensatory leave. A maximum of 240 hours (30 days of annual leave) can be carried forward at calendar year end. The Department has recognized a liability of \$12,624 in the Statement of Net Assets for compensated absences based on current pay rates and hours accumulated at June 30, 2011.

A summary of changes in the compensated absences payable for the year ended June 30, 2011, is as follows:

	Balance June 30, 2010	Additions	Deletions	Balance June 30, 2011	Current Portion
Current compensated absences payable	\$ 37,029	32,101	(56,506)	12,624	12,624

Compensated absences are usually paid with state general fund appropriations out of the General Fund, SHARE Fund 04800. The Department considers the compensated absence balances to be a current liability on the statement of net assets.

7. Reversions - Due to State General Fund

Unexpended cash balances at year end of State General Fund monies appropriated to the Department are reverted to the State General Fund, unless otherwise specified in the appropriation language.

The General Fund 04800 receives a State General Fund appropriation annually. Any unexpended funds at the end of the year revert to the State General Fund. In 2011, the Department was appropriated \$253,699 from the tobacco settlement fund in addition to the general fund appropriation of \$2,970,700. The Indian Affairs Department did not receive a Compensation Package in FY2011. The Department also, did not receive special appropriations in FY2011. Any other revenue received in the fund, which is not specifically appropriated by the legislature, also reverts to the State General Fund.

	<u>General Fund</u>
Cash on deposit, June 30, 2011	\$ 1,387,169
Add: due from other funds	37,875
Add: due from other state agencies (DFA Central Payroll)	-
Less: accounts payable	(759,571)
Less: accrued salaries payable	(16,971)
Less: payroll taxes payable	(2,109)
Less: payroll benefits payable	(2,753)
Less: other liabilities	(9,858)
Due to State General Fund	\$ <u>633,782</u>

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
Notes to Financial Statements (continued)
June 30, 2011

7. Reversions - Due to State General Fund (continued)

Source of reversions amounts to budget fiscal year are as follows:

Budget fiscal year ended:	
June 30, 2011	\$ <u>633,782</u>

The Department intends to revert the funds within the 45 day period after the audit to remain in compliance with statutory requirements.

8. Restricted Net Assets/Fund Balances

The government-wide statement of net assets reports \$226,391 of restricted net assets, all of which is restricted by enabling legislation.

9. Accrued Salaries Payable

A portion of payroll expenditures pertaining to the year ended June 30, 2011, was paid on July 1, 2011. Since the disbursements occur subsequent to June 30, 2011, accrued salaries payable totaling \$16,971 has been reflected in the statement of net assets.

10. Pension Plan - Public Employees Retirement Association

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

Funding Policy - Plan members are required to contribute 8.92% of their gross salary. The Department is required to contribute 15.09% of the gross covered salary. The contribution requirements of plan members and the Department's are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Department's contributions to PERA for the fiscal years ending June 30, 2011, 2010, and 2009 were \$86,887, \$118,072, and \$144,329, respectively, which equal the amount of the required contributions for each fiscal year.

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
Notes to Financial Statements (continued)
June 30, 2011

11. Post Employment Benefits - State Retiree Health Care Plan

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

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

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

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

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. During the fiscal year ended June 30, 2011, the statute required each participating employer to contribute 1.666% of each participating employee's annual salary; each participating employee was required to contribute .8333% of their salary. In the fiscal years ending June 30, 2012 and June 30, 2013 the contribution rates for employees and employers will rise as follows:

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
Notes to Financial Statements (continued)
June 30, 2011

11. Post Employment Benefits - State Retiree Health Care Plan (continued)

Fiscal Year	Employer Contribution Rate	Employee Contribution Rate
FY12	1.834%	0.917%
FY13	2.000%	1.000%

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

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 Department's contributions to the RHCA for the years ended June 30, 2011, 2010, and 2009 were \$9,527, \$10,139, and \$11,310, respectively, which equal the required contributions for each fiscal year.

12. Risk Management

The Department 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 Department are covered by blanket fidelity bond up to \$5,000,000 with a \$1,000 deductible per occurrence by the State of New Mexico for the period July 1, 2010, through June 30, 2011.

13. Transfer In/Out Other Agencies

From Agency/Fund	To Agency/Fund	Purpose	Amount
36900/85300 DFA	60900/04800 IAD	State General Fund Appropriation	\$ 2,970,700
		Other funds - Tobacco Settlement Funds	253,699
60900/04800 IAD	36900/85300 DFA	Reversion to State General Fund	(633,782)
60900/10000 IAD	36900/85300 DFA	Reversion to State General Fund	(348,105)
36900/85300 DFA	60900/10000 IAD	State General Fund Appropriation - Capital Projects	-
34100/01900 DFA/BOF	60900/10100 IAD	Bond Proceeds Appropriation - Severance Tax Bonds Project	5,433,094
60900/10100 IAD	36900/85300 DFA	STB Reversion	(6,402)

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
Notes to Financial Statements (continued)
June 30, 2011

13. Transfer In/Out Other Agencies (continued)

<u>From Agency/Fund</u>	<u>To Agency/Fund</u>	<u>Purpose</u>	<u>Amount</u>
60900/42900 IAD	36900/85300 DFA	Reversion to State General Fund	-
34100/01900 DFA/BOF	60900/42900 IAD	Bond Proceeds Appropriation - Severance Tax Bonds Project	5,299,128
34100/01900 DFA/BOF	60900/89200 IAD	Bond Proceeds Appropriation - Severance Tax Bonds Project	539,361
34100/01900 DFA/BOF	60900/53100 IAD	Bond Proceeds Appropriation - Severance Tax Bonds Project	27,081

14. Due From/To Other Funds

<u>Purpose</u>	<u>Due From</u>	<u>Due To</u>
<u>Fund 04800 - General Fund</u>		
Due from Fund 10100	\$ 25,000	-
Due from Fund 66700	12,875	-
<u>Fund 10000 - Special Capital Outlay Fund</u>		
Due to Fund 42900	-	46,095
Due to Fund 101	-	50,586
<u>Fund 10100 - Special Capital Outlay Fund</u>		
Due From Fund 10000	50,586	-
Due to Fund 04800	-	25,000
<u>Fund 42900 - Tribal Infrastructure Fund</u>		
Due from Fund 10000	46,095	-
<u>Fund 66700 - IAD Grant Fund</u>		
Due to Fund 04800	-	12,875
	<u>\$ 134,556</u>	<u>134,556</u>

Due from and due to other funds represent interfund receivables and payables arising from interdepartmental transactions. These amounts have been eliminated on the government-wide statement.

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
Notes to Financial Statements (continued)
June 30, 2011

15. Intergovernmental Agreements

The Department has entered into an Intergovernmental Agreement with each entity who has been awarded funding for capital projects. The Schedule of Capital Projects – Severance Tax Appropriations and General Fund Appropriations provides a schedule of capital projects and the entity’s name. All unexpended balances of general fund capital outlay appropriations are reported in the fund statements as restricted fund balance. Unexpended balances of severance tax bond capital outlay appropriations are not reported in the financial statements as the amounts will be recognized in future periods.

16. New Accounting Pronouncement

In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement establishes fund balance classifications (See note 2(G)) that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The provisions are effective for the Department for periods beginning after June 15, 2010. Management has implemented this statement for the year ending June 30, 2011.

17. Prior Period Adjustments

The following adjustments were made to restate prior year fund balances:

Fund Name	SHARE		Explanation of Prior-Period Adjustment
	Fund No.	Amount	
Special Capital Outlay Fund	10000	\$ 50,586	To record amount due to fund 10100 for an amount paid on behalf of fund 10000 in a prior period
Special Capital Outlay Fund	10000	899,543	To adjust cash balance for transfer to new fund in accordance with Senate Bill 373
Special Capital Outlay Fund	10100	(50,586)	To adjust deficit fund balance with respect to amount due from fund 10000 for an amount paid on behalf of fund 10000 in a prior period
Tribal Infrastructure Capital Fund	42900	17,050	To adjust expenditures to be reflected in the proper period
General Fund Reauthorization Fund	93100	(899,543)	To adjust cash balance for transfer to new fund in accordance with Senate Bill 373
	Total	\$ <u>17,050</u>	

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
Notes to Financial Statements (continued)
June 30, 2011

18. Commitments and Contingencies

Capital Project Funding – The Department has future commitments to fund projects through June 30, 2014. These future project commitments are listed in detail in the Schedule of Capital Projects – Severance Tax Appropriations and State General Fund Appropriations.

Legal Proceedings – The Department is involved in legal proceedings pertaining to a \$337,500 Professional Services Contract awarded to and paid to a film production company to create an educational documentary film regarding the contribution of the Navajo Code Talkers in World War II. The production company has disputed the State's ownership of the product. The Department intends to contest the case and feels there is a high likelihood of a favorable outcome, which would result in the Department maintaining ownership of the rights of the documentary film. No formal resolution of this matter has been executed as of June 30, 2011. In the event that the outcome is not in the Department's favor, any settlement would be covered under the Risk Management agreement with the General Services Department (see Note 12).

19. Subsequent Events

The Department has evaluated subsequent events through December 14, 2011, the date which the financial statements were available to be issued.

COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
Combining Balance Sheet – Non-Major Funds
Governmental Funds
June 30, 2011

	Special Revenue Funds					Total
	Special Capital Outlay Fund 09900	IAD Grant Fund 66700	Special Capital Outlay Fund 53100	STB Reauthor- ization Fund 89200	GF Reauthor- ization Fund 93100	
Assets						
Investment in the State Treasurer General						
Fund investment pool	\$ -	57,247	-	-	899,543	956,790
Due from other state agencies	68,221	-	22,198	539,361	-	629,780
Total assets	\$ 68,221	57,247	22,198	539,361	899,543	1,586,570
Liabilities						
Accounts payable	\$ -	1,500	22,198	441,796	190,265	655,759
Bank overdraft	68,221	935	-	97,565	-	166,721
Deferred revenue	-	34,780	-	-	-	34,780
Due to other agencies	-	-	-	-	1,210	1,210
Due to other funds	-	12,875	-	-	-	12,875
Total liabilities	68,221	50,090	22,198	539,361	191,475	871,345
Fund balance:						
Restricted	-	-	-	-	708,068	708,068
Unassigned	-	7,157	-	-	-	7,157
Total fund balances	-	7,157	-	-	708,068	715,225
Total liabilities and fund balances	\$ 68,221	57,247	22,198	539,361	899,543	1,586,570

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

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances – Non-Major Funds
Governmental Funds
For the Year Ended June 30, 2011

	Special Revenue Funds					Total
	Special Capital Outlay Fund 09900	IAD Grant Fund 66700	Special Capital Outlay Fund 53100	STB Reauthor- ization Fund 89200	GF Reauthor- ization Fund 93100	
Revenues:						
Private grants	\$ -	55,399	-	-	-	55,399
Expenditures:						
General government:						
Personal services	-	-	-	-	-	-
Contractual services	-	29,096	-	-	-	29,096
Other costs	-	26,303	27,081	539,361	190,265	783,010
Total expenditures	-	55,399	27,081	539,361	190,265	812,106
Excess (deficiency) of revenues over expenditures	-	(55,399)	(27,081)	(539,361)	(190,265)	(812,106)
Other financing sources (uses):						
Reversions	-	-	-	-	(1,210)	(1,210)
Bond proceeds appropriations	-	-	27,081	539,361	-	566,442
Total other financing sources (uses)	-	55,399	27,081	539,361	-	621,841
Net change in fund balance	-	-	-	-	(191,475)	(191,475)
Fund balance, beginning, as previously stated	-	7,157	-	-	-	7,157
Prior period adjustment (Note 17)	-	-	-	-	899,543	899,543
Fund Balances, beginning, as restated	-	7,157	-	-	899,543	906,700
Fund balance, ending	\$ -	7,157	-	-	(191,475)	715,225

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

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
Statement of Revenues and Expenditures – Budget and Actual
(Budgetary Basis)
Non-Major Special Revenue Fund – IAD Grant 66700
For the Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		Actual Budget Basis	Variance Favorable (Unfavor- able)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Other funds:				
Private gifts and grants	\$ 90,179	90,179	<u>55,399</u>	<u>55,399</u>
Total revenues	90,179	90,179	<u>55,399</u>	<u>55,399</u>
Prior-year fund balance	<u>7,157</u>	<u>7,157</u>		
Total revenues budgeted	\$ <u>97,336</u>	<u>97,336</u>		
Expenditures:				
General government:				
Personal services	\$ -	-	-	-
Contractual services	55,178	55,178	29,096	26,082
Other costs	<u>36,635</u>	<u>36,635</u>	<u>26,303</u>	<u>10,332</u>
Total expenditures	\$ <u>91,813</u>	<u>91,813</u>	<u>55,399</u>	<u>36,414</u>
Reconciliation of GAAP basis to budget basis revenue:				
GAAP basis revenue			\$ 55,399	
Adjustments:				
None			<u>-</u>	
Budget basis revenue			\$ <u>55,399</u>	
Reconciliation of GAAP basis to budget basis expenditures:				
GAAP basis expenditures			\$ 55,399	
Adjustments:				
None			<u>-</u>	
Budget basis expenditures			\$ <u>55,399</u>	

Note: The actual expenditures on the budgetary basis do not include any accounts payable that required a request to pay prior-year bills out of the FY 2011 budget.

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

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
Statement of Revenues and Expenditures –
Budget and Actual (Budgetary Basis) (Multi-Year)
Non-Major Special Revenue Fund – Special Capital Outlay Fund 53100
For the Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		Actual Budget Basis	Variance Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Other funds:				
Severance tax bond appropriations	\$ 27,081	27,081	27,081	-
Total revenues	\$ 27,081	27,081	27,081	-
Prior-year fund balance	\$ -	-		
Total revenues budgeted	\$ 27,081	27,081		
Expenditures:				
General government:				
Other costs	\$ 27,081	27,081	27,081	-
Total expenditures	\$ 27,081	27,081	27,081	-
Reconciliation of GAAP basis to budget basis revenue:				
GAAP basis revenue			\$ 27,081	
Adjustments:				
None			-	
Budget basis revenue			\$ 27,081	
Reconciliation of GAAP basis to budget basis expenditures:				
GAAP basis expenditures			\$ 27,081	
Adjustments:				
None			-	
Budget basis expenditures			\$ 27,081	

Note: The actual expenditures on the budgetary basis do not include any accounts payable that required a request to pay prior-year bills out of the FY 2011 budget.

There is 1 Capital Project summarized in the statement above, which was closed-out in FY 2011.

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

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
Statement of Revenues and Expenditures –
Budget and Actual (Budgetary Basis) (Multi-Year)
Non-Major Special Revenue Fund – STB Reauthorization Fund 89200
For the Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		Actual Budget Basis	Variance Favorable (Unfavorable)	
	<u>Original</u>	<u>Final</u>			
Revenues:					
Other funds:					
Severance tax bond appropriations	\$	-	908,389	539,361	(369,028)
Total revenues		-	908,389	539,361	(369,028)
Prior-year fund balance		-	-		
Total revenues budgeted	\$	-	908,389		
Expenditures:					
General government:					
Other costs	\$	-	908,389	539,361	369,028
Total expenditures	\$	-	908,389	539,361	369,028
Reconciliation of GAAP basis to budget basis revenue:					
GAAP basis revenue			\$ 539,361		
Adjustments:					
None			-		
Budget basis revenue			\$ 539,361		
Reconciliation of GAAP basis to budget basis expenditures:					
GAAP basis expenditures			\$ 539,361		
Adjustments:					
None			-		
Budget basis expenditures			\$ 539,361		

Note: The actual expenditures on the budgetary basis do not include any accounts payable that required a request to pay prior-year bills out of the FY 2010 budget.

There are 5 Capital Projects summarized in the statement above.

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

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
Statement of Revenues and Expenditures –
Budget and Actual (Budgetary Basis) (Multi-Year)
Non-Major Special Revenue Fund – General Fund Reauthorization Fund 93100
For the Year Ended June 30, 2011

	Budgeted Amounts			
	Original	Final	Actual Budget Basis	Variance Favorable (Unfavorable)
Revenues:				
Other funds:				
Other financing sources-transfers	\$ -	-	-	-
Total revenues	-	-	-	-
Prior-year fund balance	-	-		
Total revenues budgeted	\$ -	-		
Expenditures:				
General government:				
Other costs	\$ -	899,543	190,625	708,918
Total expenditures	\$ -	899,543	190,625	708,918
Reconciliation of GAAP basis to budget basis revenue:				
GAAP basis revenue			\$ -	
Adjustments:				
None			-	
Budget basis revenue			\$ -	
Reconciliation of GAAP basis to budget basis expenditures:				
GAAP basis expenditures			\$ 190,625	
Adjustments:				
None			-	
Budget basis expenditures			\$ 190,625	

Note: The actual expenditures on the budgetary basis do not include any accounts payable that required a request to pay prior-year bills out of the FY 2011 budget.

There are 6 Capital Projects summarized in the statement above.

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

OTHER SUPPLEMENTAL INFORMATION

STATE OF NEW MEXICO INDIAN AFFAIRS DEPARTMENT
 Schedule of Capital Projects - Severance Tax Appropriations and State General Fund Appropriations
 June 30, 2011

#	Fund Code	Org. Code	BOF/CPD Proj. #	Description	Tribal Govt.	Funding Source	Appr. End Date	Amount	Amount	Unexpended/ Uncommitted
								Appropriated or Reauthorized	Expended	Balance
1	100	083962	08-3962	Indian Pueblo Cultural Center p/d/c cultural center	Other	GF/08	6/30/2012	\$ 66,262	52,735	13,527
2	100	083965	08-3965	Acoma Pueblo design & renovate boy's & girl's club	19 Pueblos	GF/08	6/30/2012	25,000	-	25,000
3	100	083967	08-3967	Acoma Pueblo p/d/c/e wastewater treatment facility	19 Pueblos	GF/08	6/30/2012	50,000	-	50,000
4	100	083969	08-3969	Laguna Pueblo plan & design swimming pool	19 Pueblos	GF/08	6/30/2012	25,000	-	25,000
5	100	083970	08-3970	Laguna Pueblo p/d/c water, WW & infrastructure	19 Pueblos	GF/08	6/30/2012	40,000	-	40,000
6	100	083971	08-3971	Ramah Ch. p/d/c bathroom additions to homes	Navajo Nat.	GF/08	6/30/2012	55,000	53,469	1,531
7	100	083973	08-3973	Fort Defiance Ch. p/d/c water lines & bathroom additions	Navajo Nat.	GF/08	6/30/2012	30,000	29,523	477
8	100	083975	08-3975	Baahaali Ch. p/d/c parking lot	Navajo Nat.	GF/08	6/30/2012	85,000	-	85,000
9	100	083978	08-3978	Baca-Prewitt Ch. p/d/c bathroom additions renovations	Navajo Nat.	GF/08	6/30/2012	35,000	22,457	12,543
10	100	083991	08-3991	Pinedale Ch. p/d/c wiring & powerline	Navajo Nat.	GF/08	6/30/2012	35,000	15,571	19,429
11	100	083999	08-3999	Twin Lakes Ch. Construct Government office complex	Navajo Nat.	GF/08	6/30/2012	35,000	20,542	14,458
12	100	084003	08-4003	Zuni Pueblo construct wastewater treatment cells	19 Pueblos	GF/08	6/30/2012	50,000	48,563	1,437
13	100	084006	08-4006	Isleta Pueblo p/d/c veterans' center	19 Pueblos	GF/08	6/30/2012	25,000	9,623	15,377
14	100	084007	08-4007	Sandia Pueblo p/d/c/r/e health center	19 Pueblos	GF/08	6/30/2012	118,800	107,354	11,446
15	100	084016	08-4016	Lake Valley Ch. construct a powerline	Navajo Nat.	GF/08	6/30/2012	40,000	-	40,000
16	100	084030	08-4030	Jemez Pueblo construct tribal admin comm serv bldg	19 Pueblos	GF/08	6/30/2012	148,500	13,192	135,308
17	100	084040	08-4040	San Ildefonso Pueblo Wellness Center	19 Pueblos	GF/08	6/30/2012	50,000	49,872	128
Total projects fund 100								\$ 913,562	422,901	490,661
1	101	074713	09-3008	Ohkay Owingeh p/d/c airport improvements	19 Pueblos	STB/09	6/30/2013	\$ 1,000,000	856,900	143,100
2	101	061377	09-3833	Shiprock Home for Women and Children	Other	GF 09/STB09	6/30/2013	247,500	-	247,500
3	101	074643	09-3824	Laguna Pueblo p/d/c improvements to public water sys	19 Pueblos	GF/07/STB09	6/30/2013	100,000	-	100,000
4	101	083976	09-3825	Baahaali Ch. p/d/c & renovate chapter house	Navajo Nat.	GF/08/STB09	6/30/2012	45,000	-	45,000
5	101	074660	09-3826	Breadsprings Ch. p/d/c powerline extensions	Navajo Nat.	GF/07/STB09	6/30/2013	114,000	-	114,000
6	101	074668	09-3828	Crownpoint Inst. Of Tech. Internet to Hogan	Other	GF/07/STB09	6/30/2013	500,000	33,043	466,957
7	101	074724	09-3832	Nenahnezad Ch. Improve & repairs community center	Navajo Nat.	GF/07/STB09	6/30/2013	100,000	-	100,000
8	101	083156	08-3156	Acoma Pueblo p/d/c water & wastewater system improv	19 Pueblos	STB/08	6/30/2012	200,000	81,497	118,503
9	101	083168	08-3168	Dine College p/d/c library	Other	STB/08	6/30/2012	5,000,000	4,786,826	213,174
10	101	083169	08-3169	T'iistoh Sikaad Ch (Burnham) d/c/e veterans center	Navajo Nat.	STB/08	6/30/2012	325,000	-	325,000
11	101	083170	08-3170	Cochiti Pueblo p/d/c/ef multiuse fac & cultural ctr	19 Pueblos	STB/08	6/30/2012	100,000	39,358	60,642
12	101	083171	08-3171	Jemez Pueblo p/d/c improv to dams, waterways & culverts	19 Pueblos	STB/08	6/30/2012	200,000	47,720	152,280
13	101	083173	08-3173	Santa Ana Pueblo p/d/c/ef fire & emergency medical facility	19 Pueblos	STB/08	6/30/2012	365,000	300,141	64,859
Total projects fund 101								\$ 8,296,500	6,145,485	2,151,015

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

STATE OF NEW MEXICO INDIAN AFFAIRS DEPARTMENT
Schedule of Capital Projects - Severance Tax Appropriations and State General Fund Appropriations (continued)
June 30, 2011

#	Fund Code	Org. Code	BOF/CPD Proj. #	Description	Tribal Govt.	Funding Source	Appr. End Date	Amount	Amount	Unexpended/ Uncommitted	
								Appropriated or Reauthorized	Expended	Balance	
1	42900	9002	08-9002	San Ildefonso Pueblo Mesa Vista Affordable Housing Develop	19 Pueblos	GF/08/STB09R	6/30/2011	\$ 574,023	332,332	241,691	
2	42900	9010	08-9010	Shiprock Youth Home	Navajo Nat.	GF/08/STB09R	6/30/2011	50,000	15,874	34,126	
3	42900	9011	08-9011	Crownpoint Judicial & Public Safety Complex	Navajo Nat.	GF/08/STB09R	6/30/2011	50,000	17,890	32,110	
4	42900	099009	09-9009	Alamo Ch Water Improvement Project	Navajo Nat.	STB/09	6/30/2012	500,000	198,960	301,040	
5	42900	09-3138	09-3138A	Ohkay Owingeh Water Conveyance	19 Pueblos	STB/10	9/23/2011	770,000	-	35,000	
6	42900	09-3138	09-3138B	Nambe Pueblo WasteWater Treatment Facility Project	19 Pueblos	STB/10	10/26/2011	672,000	-	150,000	
7	42900	09-3138	09-3138C	Navajo Nation Tribal Project-DWR Cutter Lateral Phase 5	Navajo Nat.	STB/10	2/5/2012	698,250	-	50,000	
8	42900	09-3138	09-3138E	Acoma Pueblo Water/WasteWater Improvement Project	19 Pueblos	STB/10	9/3/2012	560,000	16,779	33,221	
9	42900	09-3138	09-3138F	Navajo Nation Ft. Defiance Chapter Road Improvements Project	Navajo Nat.	STB/10	2/5/2012	60,767	13,052	36,948	
10	42900	09-3138	09-3138G	Tesuque Pueblo (ENHA) Water Extension Project	19 Pueblos	STB/10	2/26/2012	399,083	27,154	22,847	
11	42900	09-3138	07-4615AB	Navajo Nation Ramah Chapter Livestock Facility	Navajo Nat.	STB/10	2/5/2012	150,000	-	49,875	
12	42900	09-3138	09-3138H	Navajo Nation Benciti Chapter Bathroom Additions	Navajo Nat.	STB/10	2/4/2012	260,000	84,825	685,175	
13	42900	09-3138	09-3138I	Navajo Nation Churchrock Ch Sundance Rehoboth Electric Ext Proj	Navajo Nat.	STB/10	2/5/2012	300,000	483,584	188,416	
14	42900	09-3138	07-4615A	Navajo Nation Ramah Ch Navajo School Board Community Plan	Navajo Nat.	STB/10	1/15/2012	35,000	240,538	457,711	
15	42900	09-3138	07-4615B	Navajo Nation Beclabito Ch GIS Database Dev & Comm Analysis	Navajo Nat.	STB/10	2/5/2012	50,000	-	560,000	
16	42900	09-3138	07-4615C	Picuris Pueblo Electrical & Communication System Upgrade	Navajo Nat.	STB/10	12/9/2011	50,000	-	340,000	
17	42900	09-3138	07-4615D	Navajo Nation Eastern Navajo Agency Council Land Assessment	Navajo Nat.	STB/10	2/4/2012	50,000	-	60,767	
18	42900	09-3138	07-4615E	Jemez Pueblo Energly Efficiency Project	19 Pueblos	STB/10	12/9/2011	50,000	-	399,083	
19	42900	09-3138	07-4615F	Zia Pueblo Housing Development Project	19 Pueblos	STB/10	8/28/2013	49,875	167,770	92,230	
20	42900	10-1288A	10-1288A	Mescalero Apache Windy Point Affordable Housing Development	Other	STB/11	6/30/2014	340,702	-	300,000	
21	42900	10-1288B	10-1288B	Santa Clara Pueblo Wastewater System Improvements Phase I	19 Pueblos	STB/11	6/30/2014	300,000	-	340,702	
22	42900	10-1288C	10-1288C	Pueblo of Pojoaque White Sands Phase II	19 Pueblos	STB/11	6/30/2014	380,150	-	300,000	
23	42900	10-1288D	10-1288D	White Rock Powerline Extension	Navajo Nat.	STB/11	6/30/2014	504,148	-	380,150	
24	42900	10-1288E	10-1288E	Tsayatoh Bathroom Additions	Navajo Nat.	STB/11	6/30/2014	390,000	-	504,148	
25	42900	10-1288F	10-1288F	Kewa Pueblo Head Start Facility	19 Pueblos	STB/11	6/30/2014	115,000	-	390,000	
26	42900	10-1288G	10-1288G	Pinedale Community Power Line/House Wiring Project	Navajo Nat.	STB/11	6/30/2014	80,000	-	115,000	
27	42900	10-1288H	10-1288H	Mariano Lake Water System Improvement Project	Navajo Nat.	STB/11	6/30/2014	50,000	-	80,000	
28	42900	09-3138E	09-3138E	Acoma Pueblo Water/WasteWater Improvement Project	19 Pueblos	STB/11	6/30/2014	340,000	-	50,000	
Total projects fund 429								\$	7,828,998	1,598,758	6,230,240

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

STATE OF NEW MEXICO INDIAN AFFAIRS DEPARTMENT
Schedule of Capital Projects - Severance Tax Appropriations and State General Fund Appropriations (continued)
June 30, 2011

#	Fund Code	Org. Code	BOF/CPD Proj. #	Description	Tribal Govt.	Funding Source	Appr. End Date	Amount		Unexpended/ Uncommitted Balance
								Appropriated or Reauthorized	Amount Expended	
1	89200	0243	02-0373	Shiprock Home for Women & Children	Navajo Nat.	STB/11 R	6/30/2013	\$ 50,000	-	50,000
2	89200	1582	04-1582	Nageezi Chapter Powerline Extensions	Navajo Nat.	STB/11 R	6/30/2013	50,000	-	50,000
3	89200	0414	04-0414	Shiprock Home for Women & Children	Navajo Nat.	STB/11 R	6/30/2013	200,000	-	200,000
4	89200	1579	04-1579	Tohatchi Chapter Powerline Extension	Navajo Nat.	STB/11 R	6/30/2013	80,000	56,000	24,000
5	89200	1581	04-1581	Shiprock Home for Women & Children	Navajo Nat.	STB/11 R	6/30/2013	45,000	-	45,000
Total projects fund 892								\$ 425,000	56,000	369,000
1	93100	073442	07-3442	Tohatchi Ch. p/d/c/r/e skateboard park	Navajo Nat.	GF/09 R	6/30/2011	\$ 210,000	-	210,000
2	93100	074639	07-4639	Acoma Pueblo p/d/c & renovate skyline lagoon system	19 Pueblos	GF/11 R	6/30/2013	50,000	-	50,000
3	93100	074669	07-4669	Crownpoint Wellness Center Construct	Navajo Nat.	GF/11 R	6/30/2013	445,500	113,363	332,137
4	93100	074697	07-4697	Twin Lakes Ch. Construct Government office complex	Navajo Nat.	GF/11 R	6/30/2013	198,000	113,708	84,292
5	93100	074738	07-4738	White Rock Ch. p/d/c powerline home sites	Navajo Nat.	GF/11 R	6/30/2013	50,000	44,623	5,377
6	93100	050928	05-0928	Burnham Ch. Veteran's Multiplex Bldg.	Navajo Nat.	GF/11 R	6/30/2013	262,350	236,087	26,263
Total projects fund 931								\$ 1,215,850	507,782	708,068

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



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*

Mr. Arthur Allison, Cabinet Secretary
State of New Mexico, Indian Affairs Department
and

Mr. Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

We have audited the financial statements of the governmental activities, each major fund, the aggregate remaining fund information, the budgetary comparisons of the general fund and major special revenue funds, and the combining and individual funds and related budgetary comparisons presented as supplemental information of the State of New Mexico, Indian Affairs Department (Department) as of and for the year ended June 30, 2011, and have issued our report thereon dated December 14, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses be material weaknesses, which are listed as findings 2009-1, 2010-2, 2011-1, and 2011-2.

State of New Mexico, Indian Affairs Department
and New Mexico Office of the State Auditor

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We identified one deficiency that we considered to be a significant deficiency, which is listed as finding 2011-3.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and responses as items 2009-1 and 2011-1.

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

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

Burt & Company CPAs, LLC
Burt & Company CPAs, LLC

December 14, 2011

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
Schedule of Findings and Responses
June 30, 2011

I. Prior-Year Audit Findings

- A. Finding #2009-1 – Severance Tax Bond Fund Not Reconciled – Repeated and modified
- B. Finding #2010-1 – Segregation of Duties - Resolved
- C. Finding #2010-2 – Timeliness of Drawdown Requests - Repeated
- D. Finding #2010-3 – Timeliness of Audit Report – Resolved

II. Current-Year Findings Pertaining to the Financial Statements

A. Finding #2009-1 – Severance Tax Bond Fund Not Reconciled (Material Weakness)

Condition: Severance tax bond fund 10100 was not reconciled to amounts due from the Board of Finance. In addition, expenditures were not reconciled to revenues which resulted in a deficit fund balance of \$751,184.

Criteria: Amounts that have been reimbursed to project recipients should be reconciled to draw downs received by the Board of Finance to balance the revenues with the expenditures.

Cause: Periodic monitoring of projects was not sufficient to detect amounts paid but not received.

Effect: Material audit adjustments were made to the fund because the fund was not reconciled.

Recommendation: Monthly monitoring to identify discrepancies should be performed as well as preparing a year end accrual and/or reconciliation.

Response: As of the date of this report a monthly reconciliation of all severance tax bonds in fund 10100 is being conducted by the CFO and the new Bus Ops Specialist hired for this purpose, in conjunction with the Capital Outlay Unit. FY 2011 imposed unprecedented workload challenges due to staff turnover. The Capital Outlay Unit lost 50% of its staff in the last two quarters of FY 2011.

B. Finding #2010-2 – Timeliness of Drawdown Requests (Material Weakness)

Condition: Drawdown requests for reimbursements were not done in a timely manner.

Criteria: Per New Mexico Department of Finance and Administration Model Accounting Practices (2010), state agencies must not make payments of state monies if the issuing fund does not have a positive cash balance.

Cause: A consistent methodology for recording and processing transactions has not been implemented.

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
Schedule of Findings and Responses (continued)
June 30, 2011

Effect: Reimbursement requests from the Board of Finance are being submitted in periods subsequent to the period in which the expenditure occurred causing deficit cash balances.

Recommendations: The agency should implement a process to submit drawdown requests more timely as well as a monitoring system to follow up timely on drawdown status.

Response: In FY 2012, the agency is implementing a new process to submit drawdown requests. Payment vouchers will be prepared at the same time as the draw requests and then audited by ASD prior to being submitted to DFA. The payment vouchers will then be submitted to DFA-FCD simultaneously with the draw requests. This will ensure that the expense is incurred prior to the revenue being received.

C. Finding #2011-1 – Reversions – SHARE Fund 10000 (Material Weakness)

Condition: Prior year reversion accrual was not adjusted for payments made in current year in the amount of \$353,815.

Reversions for the current fiscal period in the amount of \$297,665 were not recorded as due to the state general fund.

Criteria: Pursuant to the respective laws for state general fund capital appropriations, unexpected funds at the end of the appropriation period are to be reverted to the state general fund.

Cause: Staff did not reconcile fund activity at the end of the period.

Effect: The amount due to the state general fund was overstated by \$56,150.

Recommendations: We recommend that systematic reconciliation processes as well as ongoing monitoring processes be implemented to identify the proper accrual amounts and adjustments to those accruals.

Response: Indian Affairs Department Administrative Services Division will be assuming the responsibility of determining the amounts to be reverted and establishing the payables necessary for the reversions.

D. Finding #2011-2 – SHARE Fund 10000 underfunded (Material Weakness)

Condition – SHARE fund 10000 does not appear to have sufficient resources to fund remaining open projects.

Criteria – General fund capital outlay projects are funded in full at the beginning of the appropriation period(s). Proper accounting practices should be followed to insure

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
Schedule of Findings and Responses (continued)
June 30, 2011

that resources are managed so as to provide complete funding for all appropriated projects.

Cause – Staff monitoring of the projects in this fund were not adequate which resulted in an improper accounting of the amounts to be funded in future periods.

Effect – The agency will be required to further research the cause of this condition in order to determine if a deficiency appropriation request will be required to be submitted to remedy the condition.

Recommendations – The Department should consider staffing the capital outlay position with an individual that has the proper level of accounting experience/training to properly monitor and account for all funds appropriated to and administered by the department.

As of the date of this report, it appears that the agency has staffed the position with a properly trained individual for the purpose of addressing this finding.

Response: ASD will be reconciling Fund 10000 to determine the shortfall and make the appropriate corrections. The departments DFA Budget Analyst will be consulted on this issue as well the DFA CAFR Unit. In the future, this fund will be reconciled on a monthly basis to ensure no discrepancies are occurring.

E. Finding #2011-3 – Interagency balances – (Significant Deficiency)

Condition: Amounts due from other agencies have not been collected.

Criteria: Interagency balances should be settled and/or collected within a one year period; there are two funds with amounts uncollected that are over two years old.

Cause: The balances do not appear to be tied to specific projects or the source documents to support the transactions from previous periods are not available.

Effect: The agency has resources due to them that have not been available to Support current operations for SHARE funds 10000 and 09900.

Recommendations: We recommend that the agency continue to make efforts to collect on these amounts and consider whether they are indeed fully collectible for the purposes of subsequent year presentation and disclosure.

Response: Staff and management have made efforts to identify and collect the amounts due to the agency but have experienced difficulty locating the supporting information. Management will continue to attempt to resolve this issue going forward.

STATE OF NEW MEXICO
INDIAN AFFAIRS DEPARTMENT
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III. Current Year Findings in Accordance with N.M.A.C.2.2.2

A. Finding #2009-1 – Severance Tax Bond Fund Not Reconciled (Material Weakness)

Condition: Severance tax bond fund 10100 was not reconciled to amounts due from Board of Finance. In addition, expenditures were not reconciled to revenues which resulted in a deficit fund balance of \$751,184.

Criteria: Amounts that have been reimbursed to project recipients should be reconciled to draw downs received by the Board of Finance to balance the revenues with the expenditures.

Cause: Periodic monitoring of projects was not sufficient to detect amounts paid but not received.

Effect: Material audit adjustments were made to the fund because the fund was not reconciled.

Recommendation: Monthly monitoring to identify discrepancies should be performed as well as preparing a year end accrual and/or reconciliation.

Response: As of the date of this report a monthly reconciliation of all severance tax bonds in fund 10100 is being conducted by the CFO and the new Bus Ops Specialist hired for this purpose, in conjunction with the Capital Outlay Unit. FY 2011 imposed unprecedented workload challenges due to staff turnover. The Capital Outlay Unit lost 50% of its staff in the last two quarters of FY.2011.

B. Finding #2011-2 – SHARE Fund 10000 underfunded (Material Weakness)

Condition – SHARE fund 10000 does not appear to have sufficient resources to fund remaining open projects.

Criteria – General fund capital outlay projects are funded in full at the beginning of the appropriation period(s). Proper accounting practices should be followed to insure that resources are managed so as to provide complete funding for all appropriated projects.

Cause – Staff monitoring of the projects in this fund were not adequate which resulted in an improper accounting of the amounts to be funded in future periods.

Effect – The agency will be required to further research the cause of this condition in order to determine if a deficiency appropriation request will be required to be submitted to remedy the condition.

Recommendations – The Department should consider staffing the capital outlay position with an individual that has the proper level of accounting experience/training

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to properly monitor and account for all funds appropriated to and administered by the department.

As of the date of this report, it appears that the agency has staffed the position with a properly trained individual for the purpose of addressing this finding.

Response: ASD will be reconciling Fund 10000 to determine the shortfall and make the appropriate corrections. The departments DFA Budget Analyst will be consulted on this issue as well the DFA CAFR Unit. In the future, this fund will be reconciled on a monthly basis to ensure no discrepancies are occurring.

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Financial Statement Preparation

The financial statements were substantially prepared by the auditor with the assistance of the Department. 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.

Exit Conference

An exit conference was held on December 14, 2011 to discuss the audit. The following individuals were in attendance:

State of New Mexico, Indian Affairs Department

Arthur Allison, Cabinet Secretary
Lillian Brooks, Administrative Services Director, Chief Financial Officer
Lea Larranaga, Capital Projects

Independent Auditor – Burt & Company CPAs, LLC

Ronald E. Schranz, CPA, CVA
Robert M. Santiago, CPA