November 15, 2011

Office of Management and Budget
725 17th St NW, Rm 8223
Washington DC 20503

Dear OMB,

The mission of the Office of Navajo and Hopi Indian Relocation is to provide quality services to eligible households and other impacted by the Relocation Act, in such a way that our clients have the opportunity to re-establish their lives in a positive and productive manner.

The Office is organized as a separate agency reporting directly to the President of the United States. This makes the Office part of the Executive Branch, with oversight being provided by both the Office of Management and Budget and various Congressional committees.

Our goal has always been to assure that all relocation activities that are conducted by the Office are consistent with the intent of Congress and the Executive Branch, as expressed in PL93-531 and the Navajo and Hopi Indian Relocation Amendments Acts. Our program includes necessary family counseling assistance, payment of incentive bonuses, acquisition of decent, safe, and sanitary replacement housing, disposal of abandoned property, and improvements on the former Joint Use Area, and various other activities necessarily associated with relocation of the affected families. As of 9/30/11, out of 5972 applications, the Office has certified 3765 families for relocation benefits and denied 2207 others. Of those certified, we have moved 3553, closed cases on 123 families that for various reasons could not move, and have currently 89 certified families left to move. At this time, there are about 160 appeals pending that will be heard by our Hearing Officer during FY2012 and FY2013. In FY2012, our budget request plus carryover funds should be sufficient to move 15 families. For FY2012, there is less than $500,000 left in carryover funds, down from over $4.2 million in carryover funding available at the start of FY2011.

Over the years, some of the denied applicants have taken their cases to the US District Court for the District of Arizona after completing the administrative appeal process, and some of these have had their denials reversed. When this has happened, the Office has had to determine if the District Court's decision requires changes in our standards or procedures for evaluating Applications.

In FY2008, a judgment was entered against the Office (the *Noller Herbert* case) concerning the adequacy of the notice the Office had provided to certain persons potentially eligible for Relocation Benefits. After reviewing the decision, the Office determined that it had an obligation to review its eligibility files and attempt to contact all persons named in these files who it had reason to believe might have met the Office's eligibility criteria in effect through July 7, 1986, and who had not applied for relocation benefits, and provide such persons an opportunity to apply for these benefits. The Office also decided to let other persons who might have met the eligibility criteria in effect through July 7, 1986, and who had not previously applied for Relocation Benefits apply for such benefits. Applications were accepted through August 31, 2010. The Office received about 3100 applications in the period from November 2008 through August 31, 2010, or which about 2200 have been through an initial scan. Of these, 598 applications have been denied, and 81 applicants have been certified since the *Noller Herbert* decision. Some of these were Applicants with appeals pending, whose Applications were re-evaluated under the eligibility criteria in effect through July 7, 1986, and some were new Applicants. The remaining applications are being reviewed currently by in-house staff and contract lawyers as the applicants furnish the necessary information that has been requested.

In FY2011, our agency had both qualitative and quantitative goals:

Qualitative Goals:
a) The financial operations will be audited yearly to assure the agency is complying with federal requirements and good business practices: The audit of FY2010 was performed in FY2011, revealed no findings, and a clean opinion was issued by the outside auditors. The Office has received a clean opinion every year.

b) There will be a constant application of equal opportunity to all staff, and managers or team leaders will be informed of their EEO/AA responsibilities: During FY2011, there were no EEOC complaints that, and all staff received training on ethics. All justifiable requests for employee job training were approved.

c) There will be no violations of the Anti-Deficiency Act: There were no such violations during FY2011.

d) The mission of the agency will be executed using sound business practices, considering the interest of the general public as well as the clients of the agency: Several examples of managerial efficiency during FY2011 are: there were sufficient resources used in FY2011 to continue the relocation program without delays; the program staff is required to measure client satisfaction by regular and recurring client contact, and there were no formal complaints received from clients or other outsiders during this period; to speed up the appeal process, the Office has funded outside lawyers as well as a portion of the Navajo Hopi Legal Services to deal with clients making appeals of denied benefits.

Quantitative Goals:
In FY2011, the Office will move 35 clients already certified: The agency actually had 24 relocation contract signings during FY2011. There are various reasons for not reaching this goal, the primary one being that the Office did not receive

> enough funding from Congress. There are also many client issues that have delayed moves: clients are waiting for homesite leases from the Navajo Nation or Bureau of Indian Affairs; clients are waiting for a particular subdivision to be completed by the Navajo Nation; clients are having trouble getting their own personal financing for costs above their benefit level; and, finally, each case has its own individual problems that must be resolved prior to signing a relocation contract. In addition to this, the Office has had to fund the application reviews by outside lawyers brought about by the large number of applications received after the *Noller Herbert* case.

In accordance with the Federal Managers' Financial Integrity Act (FMFIA), the Office has established a system of managerial and financial internal controls. The Office can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2011, was operating effectively and no material weaknesses were found in the design or operation of the internal controls. The contents of the reports attached, therefore, may be relied upon by staff as well as external viewers. As the need arises, improvements are made in both managerial and financial controls.

Sincerely,

Christopher J. Bavasi
Executive Director

OFFICE OF NAVAJO AND HOPI INDIAN RELOCATION

ANNUAL PERFORMANCE REPORT

For the Fiscal Year 2011

GOALS:

1. Performance Goals and Indicators - The specific performance goal to be attained in FY2011 by the Office is to move 35 clients that are already certified consistent with PL93-531 and the Navajo and Hopi Indian Relocation Amendments Acts.

2. Resources Needed to Meet Goals - To move 35 clients, the Office will use the Relocation Program staff to counsel clients, to secure homesites on the Navajo reservation, to dispose of abandoned property on the former Joint Use Area, and to acquire replacement housing either through new construction or purchase of resale homes, on or off reservation.

The New Lands staff will provide services, such as fence-building, water-line and windmill maintenance, biological counseling in range and herd management, and other personal services to relocatees in the New Lands area.

The remaining Administrative staff will provide support to these two programs in the areas of Contracting, Information Systems, Policies & Personnel, and Finance.

To accomplish all these various duties, the Office has requested an FTE of 46 for FY2011 from OMB. Funds to carry out the required work will come from a requested appropriation of approximately $8,000,000, as well as carryover funds from FY2010.

3. Verification and Validation of the Plan - The means used to verify and validate the actual performance of the Office will, first and foremost, be a tally of the actual cases closed during the fiscal year, as well as a scrutiny of the list of clients awaiting relocation. In addition, the Office will still rely on an audit of financial performance for the year.

RESULTS:

The Office actually signed 24 relocation contracts with clients during FY2011.

AREAS FOR IMPROVEMENT:

Clients who are relocating to the Navajo Reservation must have a homesite lease from the Navajo Nation approved by the Bureau of Indian Affairs (BIA) for the area where they plan to move, move into a Navajo Housing Authority subdivision, or move into an available lot in a subdivision built by the Office.

Currently, the Office has 25 leases pending at the Navajo Nation Office of Land Administration. Of this number, 14 leases are at BIA going through their approval process, and 10 leases are simply awaiting a resurvey of the land involved. We have received twelve completed leases from the Navajo Nation during FY2011. Through a grant in FY2011, the Office paid the salary of two Navajo Nation employees that handle the obtaining of these leases for our clients in a quicker-than-normal fashion. A typical Navajo seeking a lease may wait several years for tribal processing. For FY2012, we are in the process of deciding whether this grant should continue, or because of the small number of moves forecasted (based on the probable budget), the Office should save this expense and let clients deal with obtaining leases themselves or move to an area that doesn't require a lease (i.e., a Navajo Housing Authority subdivision, a subdivision built by the Office, or an off-reservation area).

Our housing specialists have been instructed by the Executive Director to help their clients in any way they can in order to facilitate their moves. This may involve anything from helping the clients obtain necessary documentation to transporting them to appointments with various Navajo Nation departments.

The other basic reason the Office did not achieve our goal of 35 moves in FY2011 is that we did not receive enough funding from Congress. At the beginning of FY2011, the Office had $4.2 million of carryover funds. All but about $500,000 of these funds plus our FY2011 appropriation were obligated in FY2011, meaning that we could have only moved about 3 other clients. As of FY2012, the Office is restructuring and/or eliminating some programs that have been very effective in the past so that more client moves will be possible.

MANAGEMENT DISCUSSION AND ANALYSIS

The mission of the Office of Navajo and Hopi Indian Relocation is to provide quality services to eligible households and others impacted by the Relocation Act, in such a way that our clients have the opportunity to re-establish their lives in a positive and productive manner.

The Office is organized as a separate agency reporting directly to the President of the United States. The makes the Office part of the Executive Branch, with oversight being provided by both the Office of Management and Budget and various Congressional committees.

Our goal has always been to assure that all relocation activities that are conducted by the Office are consistent with the intent of Congress and the Executive Branch, as expressed in PL93-531 and the Navajo and Hopi Indian Relocation Amendments Acts. Our program includes necessary family counseling assistance, payment of incentive bonuses, acquisition of decent, safe, and sanitary replacement housing, disposal of abandoned property, and improvements on the former Joint Use Area, and various other activities necessarily associated with relocation of the affected families. As of 9/30/11, out of 5972 applications, the Office has certified 3765 families for relocation benefits and denied 2207 others. Of those certified, we have moved 3553, closed cases on 123 families that for various reasons could not move, and have currently 89 certified families left to move. At this time, there are nearly 160 appeals pending that will be heard by our Hearing Officer during FY2012 and FY2013. In FY2012, our budget request plus carryover funds should be sufficient to move 15 families. For FY2012, there is less than $500,000 left in carryover funds, down from over $4.2 million in carryover funding available at the start of FY2011.

Over the years, some of the denied applicants have taken their cases to the US District Court for the District of Arizona after completing the administrative appeal process, and some of these have had their denials reversed. When this has happened, the Office has had to determine if the District Court's decision requires changes in our standards or procedures for evaluating Applications.

In FY2008, a judgment was entered against the Office (the *Noller Herbert* case) concerning the adequacy of the notice the Office had provided to certain persons potentially eligible for Relocation Benefits. After reviewing the decision, the Office determined that it had an obligation to review its eligibility files and attempt to contact all persons named in these files who it had reason to believe might have met the Office's eligibility criteria in effect through July 7, 1986, and who had not applied for relocation benefits, and provide such persons an opportunity to apply for these benefits. The Office also decided to let other persons who might have met the eligibility criteria in effect through July 7, 1986, and who had not previously applied for Relocation Benefits apply for such benefits. Applications were accepted through August 31, 2010. The Office received 3137 applications in the period from November 2008 through August 31, 2010, all of through an initial review. Over 1900 of these applications have been denied, and 120 applicants have been certified since the *Noller Herbert* decision. Some of these were Applicants with appeals pending, whose Applications were re-evaluated under the eligibility criteria in effect through July 7, 1986, and some were new Applicants. The remaining applications are being reviewed currently by in-house staff and contract lawyers as the applicants furnish the necessary information that has been requested.

During FY2011, our financial statements show that there have been no major changes in types or amounts of assets, liabilities, costs, obligations, and outlays. In accordance with the requirements of the Federal Managers' Fiscal Integrity Act of 1982 and the Inspector General Act of 1988, as amended, our agency had our fifteenth financial audit by an outside CPA firm, performed in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements." There were no significant findings, and an unqualified opinion was issued to the Office of Navajo and Hopi Indian Relocation. In addition, no matters relating to personnel, programs, and operations have been referred to prosecuting authorities. Internal reviews of management controls indicate no weaknesses and no material non-conforming areas in our financial systems. The Office can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2011, was operating effectively and no material weaknesses were found in the design or operation of the internal controls. In addition, the financial management systems of the Office conform to Federal financial system requirements, FASAB standards, and the US Standard General Ledger at the transaction level. Improvements in management and financial controls are made as the need arises.

The principal financial statements have been prepared to report the financial position and results of operations of the Office of Navajo and Hopi Indian Relocation, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from the books and records of the entity in accordance with GAAP for Federal entities and formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the US Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources to do so.

CFO Letter

The Office of Navajo and Hopi Indian Relocation has had a financial audit every year starting in FY1995, per requirements of the Federal Managers' Financial Integrity Act. The Office has always received a clean opinion, with no material weaknesses or significant deficiencies.

At this time, there are no serious management and performance challenges facing the Office. As problems arise, the small size of the Office makes it somewhat easy to find solutions that are both efficient and practical, while still maintaining good internal controls.

Nancy L. Thomas

11/15/11

OFFICE OF NAVAJO AND HOPI INDIAN RELOCATION

PRINCIPAL STATEMENTS

Years ended September 30, 2011 and 2010

CONTENTS

Walker & Armstrong LLP
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Office of Navajo and Hopi
Indian Relocation
Flagstaff, Arizona

We have audited the accompanying principal statements (hereinafter referred to as financial statements) of Office of Navajo and Hopi Indian Relocation (ONHIR) as of and for the years ended September 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of ONHIR's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget Bulletin No. 07-04, "Audit Requirements for Federal Financial Statements." Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Office of Navajo and Hopi Indian Relocation as of September 30, 2011 and 2010, and the results of its operations and changes in its net position, and its results of budgetary resources and its financing for the years then ended in conformity with U.S. generally accepted accounting principles.

The management discussion and analysis on pages three through four is not a required part of the financial statements but is supplementary information required by the Federal Accounting Standards Advisory Board. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

In accordance with *Government Auditing Standards*, we have also issued our reports dated October 31, 2011, on our consideration of ONHIR's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations and other matters. The purpose of these reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Walker + Armstrong LLP

Phoenix, Arizona
October 31, 2011

MANAGEMENT DISCUSSION AND ANALYSIS

The mission of the Office of Navajo and Hopi Indian Relocation ("the Office") is to provide quality services to eligible households and others impacted by the Relocation Act, in such a way that our clients have the opportunity to re-establish their lives in a positive and productive manner.

The Office is organized as a separate agency reporting directly to the President of the United States. This makes the Office part of the Executive Branch, with oversight being provided by both the Office of Management and Budget and various Congressional committees.

Our goal is to assure that all relocation activities that are conducted by the Office are consistent with the intent of Congress and the Executive Branch as expressed in the Navajo-Hopi Settlement Act (PL93-531), and the Navajo and Hopi Indian Relocation Amendments Acts. Our program includes necessary family counseling assistance, payment of incentive bonuses, acquisition of decent, safe, and sanitary replacement housing, disposal of abandoned property, and improvements on the former Joint Use Area, and various other activities necessarily associated with relocation of the affected families. As of September 30, 2011, out of 5,972 applications, the Office has certified 3,765 families for relocation benefits and denied 2,207 others. Of those certified, we have moved 3,553, closed cases on 123 families that for various reasons could not move, and have currently 89 certified families left to move. At this time, there are 160 appeals pending that will be heard by our Hearing Officer during FY2012 and FY2013. In FY2012, our budget request plus carryover funds should be sufficient to move 15 families. For FY2012, there is less than $500,000 left in carryover funds, down from over $4.2 million in carryover funding available at the start of FY2011.

Over the years, some denied applicants have taken their cases to the U.S. District Court for the District of Arizona after completing the administrative appeal process, and some of these have had their denials reversed. When this has happened, the Office has had to determine if the District Court's decision requires changes in our standards or procedures for evaluating Applications.

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In FY2011, our agency had both qualitative and quantitative goals:

Qualitative Goals

a. *The financial operations will be audited yearly to assure the agency is complying with federal requirements and good business practices:* The audit of FY2010 was performed in FY2011, revealed no findings, and a clean opinion was issued by the outside auditors. The Office has received a clean opinion every year.

b. *There will be a constant application of equal opportunity to all staff, and managers and team leaders will be informed of their EEO/AA responsibilities:* During FY2011, there were no EEOC complaints, and all staff members were given training on ethics. All justifiable requests for employee job training were approved.

c. *There will be no violations of the Anti-Deficiency Act:* There were no such violations during FY2011.

d. *The mission of the agency will be executed using sound business practices, considering the interests of the general public as well as the clients of the agency:* Several examples of managerial efficiency during FY2011 are: there were sufficient resources used in FY2011 to continue the relocation program without delays; the program staff is required to measure client satisfaction by regular and recurring client contact, and there were no formal complaints received from clients or other outsiders during this period; to speed up the appeal process, the Office has funded outside lawyers as well as a portion of the Navajo Hopi Legal Services to deal with clients making appeals of denied benefits.

Quantitative Goals

In FY2011, we will move 35 clients already certified. The agency actually had 24 relocation contract signings during FY2011. There are various reasons for not reaching the goal, the primary one being that the Office did not receive enough funding from Congress. There are also many client issues that have delayed moves: clients are waiting for homesite leases from the Navajo Nation or BIA; clients are waiting for a particular subdivision to be completed by the Navajo Nation; clients are having trouble getting their own personal financing for costs above their benefit level; and finally each case has its own individual problems that must be resolved prior to signing a relocation contract. In addition to this, the Office has had to fund the application reviews by outside lawyers brought about by the *Noller Herbert* case.

The Office has established a system of managerial and financial internal controls. Reviews of these controls have indicated no weaknesses and no areas of material non-conformance with the requirements established by the Treasury and Office of Management and Budget. The contents of the reports attached, therefore, may be relied upon by staff as well as external viewers. As the need arises, improvements are made in both managerial and financial controls.

Christopher J. Bavasi
Executive Director

Office of Navajo and Hopi
Indian Relocation

BALANCE SHEETS

September 30, 2011 and 2010

	2011	2010
ASSETS		
ENTITY ASSETS		
Intergovernmental:		
Fund balance with Treasury	$ 3,835,357	$ 7,203,978
Governmental:		
Inventory and related property, net	2,000	2,000
General property and equipment, net	680,656	412,450
Total assets	$ 4,518,013	$ 7,618,428
LIABILITIES AND NET POSITION		
LIABILITIES		
Liabilities covered by budgetary resources:		
Governmental liabilities:		
Other governmental liabilities	$ 453,518	$ 586,132
Total liabilities	453,518	586,132
NET POSITION		
Unexpended appropriations	3,480,680	6,860,098
Cumulative results of operations	583,815	172,198
Total net position	4,064,495	7,032,296
Total liabilities and net position	$ 4,518,013	$ 7,618,428

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

Office of Navajo and Hopi
Indian Relocation

STATEMENTS OF CHANGE IN NET POSITION

Years ended September 30, 2011 and 2010

	2011	2010
Net position, beginning of year	$ 7,032,296	$ 9,663,111
Financing sources:		
Appropriations used	12,143,083	11,396,935
Net results of operations	19,175,379	21,060,046
Decrease in unexpended appropriations	(3,799,363)	(3,142,160)
Total financing sources	15,376,016	17,917,886
Net cost of operations	(11,311,521)	(10,885,590)
Net position, end of year	$ 4,064,495	$ 7,032,296

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

Office of Navajo and Hopi
Indian Relocation

STATEMENTS OF NET COST

Years ended September 30, 2011 and 2010

	2011	2010
OBLIGATIONS AND NONBUDGETARY RESOURCES		
Obligations incurred:		
Personnel compensation	$ 3,113,276	$ 3,266,170
Personnel benefits	826,692	834,121
Travel and transportation/persons	202,263	208,144
Transportation/things	500	165
Rents, utilities, and communications	532,735	538,849
Printing and reproduction	10,728	10,706
Services and contracts	1,046,303	681,605
Supplies and materials	153,820	122,203
Equipment	290,729	161,672
Total operations	6,177,046	5,823,635
Housing acquisitions costs	4,741,522	4,965,646
Bonuses	5,000	18,000
Discretionary funds	1,219,515	589,654
Total obligations	12,143,083	11,396,935
Additional pension and insurance costs not yet obligated	417,231	437,492
	12,560,314	11,834,427
Financing imputed from pension costs	(417,231)	(437,492)
RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS		
Change in amount of undelivered orders	(864,333)	(639,693)
COSTS THAT DO NOT REQUIRE RESOURCES		
Depreciation	22,523	102,100
FINANCING SOURCES YET TO BE PROVIDED		
Change in unused annual leave	10,248	26,248
NET COST OF OPERATIONS	$ 11,311,521	$ 10,885,590

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

Office of Navajo and Hopi
Indian Relocation

STATEMENTS OF BUDGETARY RESOURCES

Years ended September 30, 2011 and 2010

	2011	2010
BUDGETARY RESOURCES		
Budget authority	$ 8,000,000	$ 8,000,000
Fund balance - beginning of year	7,203,978	9,857,197
Rescissions	(16,000)	-
Undelivered orders – beginning of year	(2,622,774)	(2,149,263)
Accounts payable and other liabilities – beginning of year	(343,879)	(328,450)
Total budgetary resources	$ 12,221,325	$ 15,379,484
STATUS OF BUDGETARY RESOURCES		
Unobligated balances – end of year	$ 437,961	$ 4,237,324
Undelivered orders – end of year	3,042,719	2,622,774
Undelivered orders – beginning of year	(2,622,774)	(2,149,263)
Accounts payable and other liabilities – end of year	354,677	343,879
Accounts payable and other liabilities – beginning of year	(343,879)	(328,450)
Outlays	11,352,621	10,653,220
Total status of budgetary resources	$ 12,221,325	$ 15,379,484
OUTLAYS		
Fund expenditures	$ 11,209,759	$ 10,664,017
Accrued payroll – beginning of year	216,063	205,266
Accrued payroll – end of year	(73,201)	(216,063)
Total outlays	$ 11,352,621	$ 10,653,220

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

Office of Navajo and Hopi
Indian Relocation

NOTES TO PRINCIPAL STATEMENTS

Years ended September 30, 2011 and 2010

Note 1 - Summary of Significant Accounting Policies

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

Reporting Entity

Office of Navajo and Hopi Indian Relocation (ONHIR) was established pursuant to 25 USC 640d-11 in 1974 as a part of the executive branch of the federal government. ONHIR was formed in order to facilitate development of a relocation plan to relocate members of the Navajo Nation residing within the area partitioned to The Hopi Tribe, and members of The Hopi Tribe residing within the area partitioned to the Navajo Nation and to carry out the directed relocation as promptly and fairly as possible, with a minimum of hardship and discomfort to the relocatee.

The financial statements of ONHIR have been prepared in conformity with U.S. generally accepted accounting principles as applied to federal government departments and agencies. The Federal Accounting Standards Advisory Board (FASAB) is the accepted standard setting body establishing governmental accounting and financial reporting principles. The more significant of ONHIR's accounting policies are described below.

Recognition of Financing Sources

The entire fund balance with Treasury derives from appropriated funds. This balance is reported under entity assets as ONHIR has full access to these funds and has the authority to decide how these funds are used.

Property and Equipment

Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated useful lives based upon federal government fixed asset schedules ranging between five and fifteen years on a straight-line basis. Maintenance and repairs are charged to operations when obligated. Betterments and renewals are capitalized. The capitalization threshold for ONHIR is $1,000. These assets are available for unrestricted use.

As a branch of the federal government, upon completion of the objectives of ONHIR, all property and equipment will remain the property of the United States government.

Note 1 - Summary of Significant Accounting Policies - Continued

Retirement Plans

Employees hired by ONHIR prior to January 1, 1984 are eligible to participate in the Civil Service Retirement System (CSRS), to which ONHIR makes contributions of seven (7%) of employee gross wages. ONHIR does not report CSRS assets or accumulated plan benefits, as these reporting requirements are the responsibility of the U. S. Office of Personnel Management.

Employees hired by ONHIR subsequent to January 1, 1984 are eligible to participate in the Federal Employees Retirement System (FERS). FERS went into effect on January 1, 1984 pursuant to Public Law 99-335. One feature of FERS is that it offers a savings plan whereby ONHIR automatically contributes one percent (1%) of gross wages and matches any employee's contributions up to an additional four percent (4%).

Note 2 - Accounting Estimates

Preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

Note 3 – General Property and Equipment

General property and equipment as shown on ONHIR's financial statements consists of the following:

Description	Beginning Cost	Additions	Disposals	Ending Cost	Accumulated Depreciation	Net Book Value
			Year ended September 30, 2011			
Office furniture and equipment	$ 745,519	$ 62,370	$ 895	$ 806,994	$ 706,406	$ 100,588
Heavy equipment	1,088,028	228,359	-	1,316,387	736,319	580,068
	$ 1,833,547	$ 290,729	$ 895	$ 2,123,381	$ 1,442,725	$ 680,656
			Year ended September 30, 2010			
Office furniture and equipment	$ 724,106	$ 23,796	$ 2,383	$ 745,519	$ 685,082	$ 60,437
Heavy equipment	950,152	137,876	-	1,088,028	736,015	352,013
	$ 1,674,258	$ 161,672	$ 2,383	$ 1,833,547	$ 1,421,097	$ 412,450

Note 4 - Other Governmental Liabilities

Other liabilities are covered by budgetary resources and are made up of the following at September 30, 2011 and 2010:

Description	2011	2010
Accrued payroll	$ 73,201	$ 216,063
Accrued leave	380,317	370,069
	$ 453,518	$ 586,132

Note 5 -Unexpended Appropriations

Unexpended appropriations at September 30, 2011 and 2010, are comprised of the following:

Description	2011	2010
Unobligated appropriations	$ 437,961	$ 4,237,324
Undelivered orders	3,042,719	2,622,774
	$ 3,480,680	$ 6,860,098

Note 6 - Operating Leases

ONHIR leases a building for its administrative offices under an operating lease expiring June 1, 2014, with an option to renew year to year thereafter. The lease agreement is cancellable by ONHIR for lack of appropriations. For the years ended September 30, 2011 and 2010, the lease obligation for this building was $324,253 and $323,043, respectively. During fiscal year 2011 and 2010, ONHIR subleased a portion of the building to Indian Health Services for $22,000 and $21,302, respectively.

ONHIR also leases vehicles on a month-to-month basis from the General Services Administration. ONHIR obligated $161,570 and $157,809 on vehicle leases for the years ended September 30, 2011 and 2010, respectively. The vehicles can be returned or exchanged as needed by ONHIR.

Note 7 - Pension and Other Retirements Benefits

ONHIR has adopted the Statement of Federal Financial Accounting Standards Number 5 (SFFAS-5) "*Accounting for Liabilities of the Federal Government*" which requires ONHIR to recognize the cost of pensions and other retirement benefits during the employees' active years of service.

Note 7 - Pension and Other Retirements Benefits - Continued

FUNDING POLICY

Federal Employees Retirement System (FERS)

The law requires that FERS be fully funded so that the amounts contributed by and for FERS-covered employees are sufficient to cover the projected cost of providing a basic pension benefit to the employees when they retire. For "regular" FERS employees, the actuarially determined cost factor for 2011 and 2010 was 13.8 percent of employees' basic pay.

Plan contributions for the years ended September 30, 2011 and 2010 are as follows:

Description	2011	2010
Plan contributions recognized	$ 233,258	$ 227,323
Required contribution	297,419	291,933
Contributions (excess)	$(64,161)	$(64,610)

Civil Service Retirement System (CSRS)

Employees covered under the CSRS plan and their employers each contribute 7 percent of employee's basic pay for CSRS coverage. The combined 14 percent of basic pay contributed by and for these "regular" CSRS-covered employees is less than the amount calculated to be sufficient to pay for the projected CSRS benefit. Accordingly, the "regular" CSRS employee actuarially determined cost factor for 2011 is 30.1 percent of employees' basic pay. ONHIR's contributions to CSRS for the year ended September 30, 2011 were $64,989 which is 30 percent of the total required contributions of $219,821. ONHIR's contribution to CSRS for the year ended September 30, 2010 was $65,102, which is 28 percent of the total required contributions of $234,237.

Note 7 - Pension and Other Retirements Benefits - Continued

FUNDING POLICY - CONTINUED

Other Retirement Benefits

The Office of Personnel Management (OPM) administers the post-retirement benefits for federal employees which includes the Federal Employees Health Benefits Program (FEHB) and the Federal Employees Group Life Insurance Program (FEGLI). SFFAS-5 requires ONHIR to recognize an expense for its share of cost of providing health benefits and life insurance for its employees after they retire. This expense is called the Employer's Other Retirement Benefits (ORB) Expense. For the year ended September 30, 2011, the ORB cost factor was $6,027 per employee enrolled in the FEHB program and .02 percent of employees' basic pay for the FEGLI program. For the year ended September 30, 2011, the average number of employees enrolled by ONHIR in the ORB was 33 employees. For the years ended September 30, 2011 and 2010, the cost recognized by ONHIR per SFFAS-5 for these costs was $198,238 and $203,746, respectively. Total cost of retirement benefits is as follows:

	2011	2010
Pension	$ 517,240	$ 526,170
Other benefits	198,238	203,746
	715,478	729,916
Payment by ONHIR	(298,247)	(292,424)
Additional cost not yet obligated by ONHIR	$ 417,231	$ 473,492

The liability for these costs is recognized by OPM on their financial statements, thus creating a funding source to ONHIR for these expenses.

Note 8 – Subsequent Events

Management evaluated subsequent events through October 31, 2011, the date the financial statements were available to be issued. No events or transactions occurred after year-end that require additional disclosure or adjustment to the financial statements.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

Office of Navajo and Hopi
Indian Relocation
Flagstaff, Arizona

We have audited the principal statements (hereinafter referred to as "financial statements") of Office of Navajo and Hopi Indian Relocation (ONHIR) as of and for the year ended September 30, 2011, and have issued our report thereon dated October 31, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 07-04, "Audit Requirements for Federal Financial Statements."

In planning and performing our audit, we considered ONHIR's internal control over financial reporting by obtaining an understanding of ONHIR's internal controls, determined whether these internal controls have been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 07-04. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on the internal control. Consequently, we do not provide an opinion on internal control.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the second paragraph and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

In addition, we considered ONHIR's internal control over required supplementary stewardship information by obtaining an understanding of ONHIR's internal control, determined whether these internal controls have been placed in operation, assessed control risk, and performed tests of controls as required by OMB Bulletin No. 07-04 and not to provide assurance on these internal controls. Accordingly, we do not provide an opinion on such controls.

Finally, with respect to internal control related to performance measures reported in the management discussion and analysis section of the financial statements, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 07-04. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

This report is intended solely for the information and use of the management of ONHIR, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Walker + Armstrong LLP

Phoenix, Arizona
October 31, 2011

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

Office of Navajo and Hopi
Indian Relocation
Flagstaff, Arizona

We have audited the principal statements (hereinafter referred to as "financial statements") of Office of Navajo and Hopi Indian Relocation (ONHIR) as of and for the year ended September 30, 2011, and have issued our report thereon dated October 31, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 07-04, "Audit Requirements for Federal Financial Statements."

The management of ONHIR is responsible for complying with laws and regulations applicable to ONHIR. As part of obtaining reasonable assurance about whether ONHIR's financial statements are free of material misstatement caused by error or fraud, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statements amounts, and certain other laws and regulations specified in OMB Bulletin No. 07-04, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to ONHIR.

The results of our tests of compliance disclosed no instances of noncompliance or other matters with other laws and regulations discussed in the preceding paragraph exclusive of FFMIA that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 07-04.

Under FFMIA, we are required to report whether ONHIR's financial management systems substantially comply with the federal financial management systems requirements, applicable federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

The results of our tests disclosed no instances in which ONHIR's financial management systems did not substantially comply with the three requirements discussed it the preceding paragraph.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

This report is intended solely for the information and use of the management of ONHIR, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Walker + Armstrong LLP

Phoenix, Arizona
October 31, 2011