



New Mexico Compilation Commission

Financial Statements
June 30, 2017



TABLE OF CONTENTS

INTRODUCTORY SECTION

Official Roster 1

FINANCIAL SECTION

Independent Auditor’s Report 2

Management’s Discussion and Analysis 4

Statement of Net Position..... 8

Statement of Activities..... 9

Balance Sheet – Governmental Fund..... 10

Statement of Revenues, Expenditures and Changes in Fund Balances –
Governmental Fund 11

Statement of Revenues and Expenditures Budget and Actual (Budgetary Basis)
– General Fund 12

Notes to the Financial Statements..... 13

GOVERNMENT AUDITING STANDARDS REPORT

Independent Auditor’s Report 24

Schedule of Findings and Responses 26

Exit Conference 27

OFFICIAL ROSTER

June 30, 2017

Members of the New Mexico Compilation Commission

Charles W. Daniels, Chief Justice, Supreme Court of New Mexico, President

Hector Balderas, Attorney General

Joey D. Moya, Chief Clerk of the Supreme Court, Secretary

Matthew Ortiz, designee, State Records Center and Archives

Eileen Guana, Designee, University of New Mexico School of Law

Scotty A. Holloman, President, State Bar of New Mexico

Raul Burciaga, Director, Legislative Council Service

New Mexico Compilation Commission Advisory Committee

Paula Tackett, Chair, Advisory Committee

Gary Kilpatric, Montgomery & Andrews PA

Michael B. Browde, UNM Law School

Robert J. Desiderio, Sanchez, Mowrer & Desiderio, PC

Jon Boller, Senior Staff Attorney, Legislative Council Service

Lynne S. Rhys, State Law Librarian, Supreme Court of New Mexico

Joey D. Moya, Chief Clerk, Supreme Court of New Mexico

Gary Don Reagan, Gary Don Reagan, P.A.

Carolyn A. Wolf, former General Counsel, NM Department of Taxation and Revenue

New Mexico Compilation Commission Management

Brenda Castello, Executive Director and Chief Financial Officer

Loretta Barela, Deputy Director

Independent Auditor's Report

Tim Keller
New Mexico State Auditor
and
Honorable Judith K. Nakamura, Chief Justice, President
New Mexico Compilation Commission
Santa Fe, New Mexico

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the general fund, and the budgetary comparisons for the general fund of the State of New Mexico, New Mexico Compilation Commission ("Commission"), as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Commission's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and the general fund of the Commission, as of June 30, 2017, and the respective changes in financial position thereof and the respective budgetary comparisons for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, on pages 4 to 7, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2017 on our consideration of the Commission'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* in considering the Commission's internal control over financial reporting and compliance.

Zlotnick, Laws & Sandoval, P.C.

Zlotnick, Laws & Sandoval, PC
October 20, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2017

The discussion and analysis section provides an overview of the objective and program of the New Mexico Compilation Commission ("Commission"). This discussion helps the reader understand the Commission's purpose and its operation of financial planning and expenditures of the annual budget.

AGENCY OVERVIEW

The Commission was created in 1941 and is a self-sustaining enterprise agency. Sections 12-1-1 to 12-1-14, 8-5-6 to 8-5-14 and 32-4-2 NMSA 1978 set forth the powers and duties of the Commission as the official legal publisher of the State of New Mexico. The Commission's purpose is to compile, publish and distribute the official laws, court opinions and court rules of the state. The official laws are published and distributed by paid subscription to *NMONESOURCE.COM*[®], *New Mexico One Source of Law*[®] on DVD and print publications. The print publications are the *New Mexico Statutes Annotated 1978*[®] ("NMSA 1978"), *New Mexico Rules Annotated*, *[Session] Laws of New Mexico*, *Election Law Handbook*, *Constitution of the State of New Mexico*, *New Mexico Criminal and Traffic Law Manual*[®] and *New Mexico Selected Taxation and Revenue Laws and Regulations*[®].

The Commission publishes agency and public database websites for the citizenry to access court opinions, unannotated statutes, court rules and court-approved forms.

USING THIS ANNUAL REPORT

The financial report includes the sections described below.

Management Discussion and Analysis (MD&A)

This section includes information on the use of the annual report and management's analysis of the financial position and results of operations for the Commission.

Financial Statements Overview

The financial statements are for the purpose of presenting to the reader the financial position and financial changes for the Commission. The financial statements are not intended to report the financial position of the State of New Mexico as a whole. The Commission is one of 100± agencies in the State that contributes to the financial position of the State of New Mexico.

The Commission has one fund, "07600." The Commission is a non-reverting agency wherein its fund does not revert into the State General Fund. The revenues are as follows:

- 1833 - Civil Filing Fees
- 2493 - Other Intra-State Services
- 3133 - New Mexico Reports
- 3143 - New Mexico Compilation
- 9693 - Miscellaneous Revenue

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2017

Government-Wide Financial Statements

The government-wide financial statements are designed to be corporate-like in that all governmental activities are consolidated into one column. The Commission has no business type activities. The focus of the Statement of Net Position (the "Unrestricted Net Position") is designed to be similar to a bottom line for the Commission and its governmental activities. This statement combines and consolidates governmental fund's current financial resources (short-term spendable resources) with capital assets and long term liabilities.

The Statement of Activities is focused on costs of various activities that are provided by the Commission's general and other revenues. This is intended to summarize and simplify the general analysis of the cost of services.

Fund Financial Statements

The Governmental Fund presentation is presented on a sources and uses of liquid resources basis. This is the manner in which the financial plan (the budget) is typically developed. The flow and availability of liquid resources is a clear and appropriate focus of any analysis of a government. Funds are established for various purposes and the financial statements allow the demonstration of sources and uses and/or budgeting compliance associated therewith.

Infrastructure Assets

The Commission does not own any infrastructure assets such as roads, bridges, etc.

BUDGETARY COMPARISONS

In addition to MD&A, GASB 34 requires budgetary comparison schedules for the general fund and for each major special revenue fund that has a legally adopted annual budget to be presented. The budgetary comparison schedules should present both the original and the final appropriated budgets for the reporting period as well as the actual inflows, outflows and balances, stated on the government's budgetary basis.

As required by the Office of the State Auditor under 2 NMAC 2.2, the Statements of Revenues and Expenditures – Budget and Actual also are presented. This information is provided at the approved budget level to demonstrate compliance with legal requirements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2017

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following summarized Statement of Net Position, June 30, 2017 and 2016, represents a year-over-year comparison of the Commission's assets, liabilities and net position.

STATEMENT OF NET POSITION

	<u>2017</u>	<u>2016</u>
Government Activities:		
Current Assets	\$ 1,379,772	1,241,793
Capital Assets	<u>3,679</u>	<u>5,686</u>
Total Assets	<u>\$ 1,383,451</u>	<u>1,247,479</u>
Total Liabilities	<u>\$ 78,304</u>	<u>59,634</u>
Net Position		
Net Investment in Capital Assets	\$ 3,679	5,686
Unrestricted	<u>1,301,468</u>	<u>1,301,044</u>
Total Net Position	<u>\$ 1,305,147</u>	<u>1,187,845</u>

STATEMENT OF ACTIVITIES

The following summarized Statement of Activities for the year ended June 30th, represents a year-over-year comparison of the Commission's expenses, revenue and net position.

	<u>2017</u>	<u>2016</u>
Program Expenses	\$ 1,565,892	1,786,609
Program Revenues	<u>1,283,194</u>	<u>1,265,717</u>
Deficiency of Revenues Over Expenses	(282,698)	(520,892)
General Revenues and Transfers	<u>400,000</u>	<u>400,000</u>
Change in Net Position	117,302	(120,892)
Net Position, Beginning	<u>1,187,845</u>	<u>1,371,862</u>
Net Position, Ending	<u>\$ 1,305,147</u>	<u>1,187,845</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2017

The positive change in net position of the Commission is attributable to the reduction in product education and awareness expenses and the retooling of those activities through technology instead of through contractual professional services. The change in net position was further affected by the 13% increase in the collection of civil action filing fees, pursuant to NMSA 1978, Section 12-1-9, as compared to the FY 2017 operating budget.

Managing print product migration to digital products with the varied needs of the multi-generational users served by the Commission has been a focus of the Commission during FY 2017 and remains an important focus in the coming years.

The increase in inventory valuation is due to the addition of Volumes 9 and 10 of the New Mexico Appellate Reports and the higher quantities remaining of unsold print products.

THE COMMISSION'S FUND

The Commission has only one governmental fund, 07600, which is the General Fund. Analysis of its activities is outlined above.

BUDGETARY HIGHLIGHTS

The Commission continues to monitor changes in the state and in the practice of law that could impact it as a self-sustaining enterprise agency and to research effective strategies to successfully manage print migration with the need of the public to have free access to the state's laws, reports and court rules.

ANTICIPATED CHANGES

The Commission has no knowledge of anticipated changes that will significantly affect the financial position of the agency other than the potential impact of the trends outlined in the Budgetary Highlights above. It will closely monitor these trends and evaluate a request for temporary assistance in a future year(s).

FINANCIAL CONTACT

The Commission's financial statements are designed to present users with the general overview of the Commission's finances and to demonstrate the Commission's accountability. If you have questions about the report or need additional financial information, contact Brenda Castello, Director, at 4355 Center Place, Santa Fe, New Mexico 87507-9706.

STATEMENT OF NET POSITION

June 30, 2017

	<u>Governmental Activities</u>
ASSETS	
Investment in State General Fund Investment Pool	\$ 1,228,128
Accounts Receivable	14,689
Inventory	136,955
Capital Assets, net	<u>3,679</u>
Total Assets	<u>\$ 1,383,451</u>
LIABILITIES	
Accounts Payable	\$ 24,387
Payroll Benefits Payable	6,251
Payroll Taxes Payable	3,925
Accrued Payroll	8,150
Compensated Absences:	
Due Within One Year	32,262
Due After One Year	<u>3,329</u>
Total Liabilities	<u>78,304</u>
NET POSITION	
Net Investment in Capital Assets	3,679
Unrestricted	<u>1,301,468</u>
Total Net Position	<u>1,305,147</u>
Total Liabilities and Net Position	<u>\$ 1,383,451</u>

See Notes to Financial Statements.

STATEMENT OF ACTIVITIES

June 30, 2017

	Governmental Activities
Expenses:	
Judicial:	
Support Services	\$ 535,543
Reports and Compilations	1,028,342
Depreciation	2,007
	<hr/>
Total Expenses	1,565,892
	<hr/>
Program Revenues:	
Civil Action Filing Fees	549,538
New Mexico Reports and Compilations	733,656
	<hr/>
Total Program Revenues	1,283,194
	<hr/>
Excess (Deficiency) of Revenue over Expenses	(282,698)
	<hr/>
General Revenues and Transfers	
Transfers From Other State Agencies	400,000
	<hr/>
Change in Net Position	117,302
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Net Position, Beginning	1,187,845
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Net Position, Ending	\$ 1,305,147
	<hr/> <hr/>

See Notes to Financial Statements.

BALANCE SHEET - GOVERNMENTAL FUND

June 30, 2017

	07600
	General Fund
ASSETS	
Investment in State Gen. Fund Investment Pool	\$ 1,228,128
Accounts Receivable	14,689
Inventory	<u>136,955</u>
Total Assets	<u><u>\$ 1,379,772</u></u>
LIABILITIES	
Accounts Payable	\$ 24,387
Payroll Benefits Payable	6,251
Payroll Taxes Payable	3,925
Accrued Payroll	<u>8,150</u>
Total Liabilities	<u>42,713</u>
FUND BALANCES	
Nonspendable - Inventory	136,955
Committed	194,000
Assigned	<u>1,006,104</u>
Total Fund Balances	<u>1,337,059</u>
Total Liabilities and Fund Balances	<u><u>\$ 1,379,772</u></u>
Amounts reported in the Statement of Net Assets differ because:	
Total fund balances	\$ 1,337,059
Capital assets reported in the governmental activities are not financial resources and, therefore, are not reported in the governmental funds statement	3,679
Compensated absences accrued in the government-wide financial statements are excluded from the governmental funds statement	<u>(35,591)</u>
Net Position per Statement of Net Position	<u><u>\$ 1,305,147</u></u>

See Notes to Financial Statements.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUND
June 30, 2017

	07600
	General Fund
REVENUES	
Civil Action Filing Fees	\$ 549,538
New Mexico Reports and Compilation	703,514
Total Revenues	<u>1,253,052</u>
EXPENDITURES	
Judicial:	
Current:	
Personal Services and Benefits	484,163
Contract Services	947,316
Other Costs	129,832
Capital Outlay	-
Total Expenditures	<u>1,561,311</u>
Excess (Deficiency) of Revenues Over Expenditures	(308,259)
OTHER FINANCING SOURCES (Uses)	
Transfers from Other Agencies	<u>400,000</u>
Net Change in Fund Balances	91,741
Fund Balances, beginning	1,215,176
Increase in inventory	<u>30,142</u>
Fund Balances, ending	<u>\$ 1,337,059</u>
Amounts reported in the Statement of Activities are different because:	
Net change in fund balance	\$ 91,741
Net change in current and long-term portions of compensated absences	(2,574)
Increase (decrease) in inventory	30,142
Excess depreciation over capital outlay expenditures	<u>(2,007)</u>
Changes in net position of governmental activities	<u>\$ 117,302</u>

See Notes to Financial Statements.

STATEMENT OF REVENUES AND EXPENDITURES BUDGET AND ACTUAL (BUDGETARY BASIS)

GENERAL FUND

June 30, 2017

	Budget		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Civil Action Filing Fees	\$ 485,000	485,000	549,538	64,538
New Mexico Reports and Compilation	754,400	754,400	703,514	(50,886)
Other Financing Sources	400,000	400,000	400,000	-
Total Revenues	<u>1,639,400</u>	<u>1,639,400</u>	<u>1,653,052</u>	<u>13,652</u>
Fund Balance	<u>214,100</u>	<u>214,100</u>		
Total Revenues and Fund Balance	<u>\$ 1,853,500</u>	<u>1,853,500</u>		
EXPENDITURES				
Administrative Services:				
Personal Services	\$ 532,400	532,400	484,163	48,237
Contractual Services	1,177,000	1,177,000	947,316	229,684
Other	144,100	144,100	129,832	14,268
Total Expenditures	<u>\$ 1,853,500</u>	<u>1,853,500</u>	<u>1,561,311</u>	<u>292,189</u>

See Notes to Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the State of New Mexico, New Mexico Compilation Commission (“Commission”) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Commission’s accounting policies are described below:

A. Financial Reporting Entity

In evaluating how to define the Commission, for financial reporting purposes, management has considered all potential component units in the reporting entity by applying the criteria set forth in GAAP. The basic – but not the only – criterion for including a potential component unit within the reporting entity is the governing body’s ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no component units.

Included within the reporting entity:

New Mexico Compilation Commission. The Commission was established by Section 12-1-2, NMSA 1978. Revenue sources are from the sale of compilations or supplements thereto, sale of reports of the Supreme Court of New Mexico, and fees levied upon each civil action filed in the Office of the Clerk by the various District Courts in the State of New Mexico.

The Chief Justice of the Supreme Court of New Mexico serves as President of the Commission, with the State Attorney General as member and the Supreme Court of New Mexico, Chief Clerk, as Secretary.

Reporting Entity. The Commission’s responsibilities include:

- Purchasing and distributing copies of the compilation of the New Mexico Statutes;
- purchasing and distributing copies of the compilation to state agencies, local governmental bodies and other public officials;
- publishing opinions of the State Attorney General; and
- providing a computerized data base of the New Mexico Statutes Annotated 1978 and parallel tables for computerized search and manipulation.

Excluded from the reporting entity:

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

The other entities of the Judicial Branch of government are excluded because they are separate entities established by statute.

B. Basic Financial Statements

In accordance with GASB Statement No. 34 - Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, the basic financial statements include both government-wide and fund financial statements.

The government-wide financial statements, the statement of net assets and the statement of activities, report information on all of the non-fiduciary activities. The Commission does not have any fiduciary activities. The Commission does not have any business-type activities; therefore, only governmental activities are shown. Governmental activities are normally supported by taxes and intergovernmental revenues.

The fund financial statements, the balance sheet and the statement of revenues, expenditures and changes in fund balances, are presented to report additional and detailed information about the Commission. The general fund (SHARE fund #07600) is the Commission's operating fund and includes all financial transactions conducted to fulfill its general government function. It accounts for all financial resources of the Commission.

Measurement focus, basis of accounting and financial statement presentation basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting is related to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and 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 Statement No. 33. Capital assets are reported at historical cost and depreciated over their estimated useful lives. Depreciation expense is reported in the statement of activities.

The government-wide Statement of Activities demonstrates the direct expenses of the single function (general government) of the Commission which is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. The Commission has no indirect expenses and, therefore, indirect expenses are not required to be allocated to functions in the Statement of Activities. Program revenues include charges for services provided by a particular function or program. Other revenues not identifiable with a particular function or program are included as general revenue. The general revenues support the net costs of the function or program not covered by program revenues.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Only current assets and current liabilities are included on the balance sheet. The reported fund balance 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 fund balance. Accordingly, they are said to present a summary of sources and uses of available spendable resources during a period. Revenues are recognized as soon as they are both measurable and available. Revenues are available if collectible within the current period or soon enough afterwards to pay liabilities of the current period. The Commission considers revenues to be available if collected within sixty days of the end of the fiscal year. Expenditures are recorded when a liability is incurred, as under accrual accounting. The Commission does not have any debt service expenditures. The current portion of the compensated absences liability is not included in the fund financial statements because the State of New Mexico does not budget for any compensated absences in the current year.

C. Accounts Receivable

Accounts receivable consists of Civil Action Filing Fees from various District Courts throughout the State of New Mexico which are transferred to the Commission through operating transfers and are considered substantially collectable. Accordingly, no allowance for doubtful accounts is deemed necessary.

In addition, accounts receivable consist of state publication sales to both the public and private sectors, which are recorded as revenue when earned. These receivables are reported net of an allowance for doubtful accounts when necessary.

The allowance for doubtful accounts is based on management's assessment of the collectability of the customer accounts, the aging of the accounts receivable, and other currently available evidence. As of June 30, 2017 no allowance for doubtful accounts was deemed necessary.

D. Inventory

Inventories consist of publications held for resale and to service subscribers of the New Mexico Statutes compilations and are recorded using the purchase (or expenditure) method. Under the purchase method, the purchases of inventory are recorded as expenditures and at year-end. The balance of inventories is recorded with an offsetting reserve in fund balance. Inventories are stated primarily at average cost. The increase or decrease in non-spendable inventory reserve is reflected as an overall change in fund balance in the statement of revenues, expenditures and changes in fund balances.

The primary purposes of the inventory are to comply with the statutory requirement to publish and distribute the official laws and related publications as the sole distributor and to sell the publications and collect the revenue as one of the commission's funding sources.

NOTES TO THE FINANCIAL STATEMENTS**June 30, 2017**

In determining the value of inventory management considers items which may be obsolete. Obsolescence is determined by management on a case by case basis. When an Item is determined obsolete it is expensed as a decrease in inventory as described above. During the fiscal year ended June 30, 2017 the changes in inventory did not include any decreases for obsolete items.

E. Capital Assets

Capital assets of the Commission include furniture and fixtures, and equipment. The Commission 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 to \$5,000. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of maintenance and repairs that do not add to the asset value or materially extend assets lives are not capitalized. The Commission 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 Commission are depreciated using zero salvage value and the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Machinery and equipment	5
Data processing equipment	4
Furniture and fixtures	7

F. Accrued Compensated Absences

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

Fair Labor Standards Act (FLSA) states that nonexempt employees accumulate compensation time at a rate of 1.5 times the number of hours worked, in excess of forty hours per week, based on their regular hourly rate. Exempt and classified employees who are FLSA exempt accumulate compensation time at the same rate as the number of hours worked. Overtime must be preapproved by management. Payment of this liability can be made by compensated leave time or cash payment. At June 30th, there was no compensation time owed to any employees.

In accordance with GASB 16, accrued compensated absences consist of accumulated annual leave up to 240 hours, sick leave between 600 and 720 hours, compensatory leave for employees, including the related employers' matching FICA and Medicare payroll taxes.

G. Net Position

In the government-wide financial statements, net position consists of three components:

- Net Investment in Capital Assets
- Restricted
- Unrestricted

The Commission has no debt related to capital assets; therefore, amounts invested in capital assets equal the capital assets, net of related accumulated depreciation. The Commission's financial statement does not show any restricted resources because it does not have any resources that were received or earned with the explicit understanding between the Commission and the resource provider (grantor, contributor, other government, or enabling legislation) that the funds would be used for a specific purpose narrower than the general purposes of the Commission itself. Therefore, all remaining resources that are not related to capital assets are shown as unrestricted.

H. Fund Balance

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Commission is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.

Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Commission. These amounts cannot be used for any other purpose unless the Commission removes or changes the specified use by taking the same type of action

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

(resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

Assigned: This classification includes amounts that are constrained by the Commission's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Commission or through the Commission delegating this responsibility to the Commission manager through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund.

Unassigned: This classification includes the residual fund balance for the General Fund, or, in other words, all amounts not included in other spendable classifications.

Amounts classified as restricted, committed, or assigned would be used for a specific purpose narrower than the general purposes of the Commission itself.

The Commission would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

The Commission has a committed fund balance of \$194,000 which is the amount budgeted to cover FY2018 expenditures. The remaining fund balance is assigned to the Commission by virtue of section 12-1-5 NMSA 1978 to be used to further the purposes for which the Commission was created.

I. Reversions

Any unexpended balance remaining in SHARE Fund #07600 does not revert to the State General Fund as provided by law, Section 12-1-5, NMSA 1978.

J. Budget and Budgetary Accounting

The Commission prepares and submits an annual budget for the General Fund to the Department of Finance and Administration (DFA) for approval based upon the appropriations made by the State Legislature. This budget must be submitted by September 1 for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them and is approved by the Legislature of the State of New Mexico. Subsequent amendments affecting a category must be approved by the Director of the State Budget Division of DFA.

Budgets are controlled at the "appropriation unit" level. Appropriations lapse at the end of the fiscal year except for those goods and services provided to the Commission by June 30th. The accounting records are held open for approximately one additional month per DFA directive, in order to record the transactions in the fiscal year ended June 30th.

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

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 must be paid out of the next year’s budget.

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 statement has been included as part of the basic financial statements.

K. 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2: INVESTMENT IN STATE TREASURER GENERAL FUND INVESTMENT POOL

State law (Section 8-6-3 NMSA 1978) requires that the Commission’s cash be managed by the New Mexico State Treasurer's Office. Accordingly, the investments of the Commission consist of an interest in the General Fund Investment Pool managed by the New Mexico State Treasurer's Office.

At June 30, 2017 the Commission had the following invested in the General Fund Investment Pool:

	Maturity	Account Balance	Fair Value
Governmental Funds:			
Investment in the State General Fund			
Investment Pool, fund 07600	1 day	\$ 1,228,128	\$ 1,228,128

Interest Rate Risk - The New Mexico State Treasurer’s Office has an investment policy that limits investment maturities to five years or less on allowable investments. This policy is a means of managing exposure to fair value losses arising from increasing interest rates. This policy is reviewed and approved annually by the New Mexico State Board of Finance.

Credit risk - The New Mexico State Treasurer pools are not rated.

For additional GASB 40 disclosure information regarding cash held by the New Mexico State Treasurer, the reader should see the separate audit report for the New Mexico State Treasurer's Office for the fiscal year ended June 30, 2017.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 3: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was as follows:

	Balance 6/30/16	Additions	Deletions	Balance 6/30/17
Machinery and Equipment	10,034	-0-	-0-	10,034
Accumulated Depreciation	<u>(4,348)</u>	<u>(2,007)</u>	<u>-0-</u>	<u>(6,355)</u>
Net Capital Assets	<u>5,686</u>	<u>(2,007)</u>	<u>-0-</u>	<u>3,679</u>

Depreciation expense for the fiscal year ended June 30, 2017 was \$2,007.

NOTE 4: COMPENSATED ABSENCES

The following is a summary of changes in compensated absences:

	Balance 6/30/16	Additions	Deletions	Balance 6/30/17	Due within One Year
Annual Leave	<u>\$ 33,017</u>	<u>29,619</u>	<u>27,045</u>	<u>\$ 35,591</u>	<u>\$ 32,262</u>

The Commission's General Fund resources have been used to liquidate accrued compensated absences in the past. The Commission had no other debt activity during the year.

NOTE 5: PERA PENSION PLAN

Compliant with the requirements of Government Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions, the State of New Mexico has implemented the standard for the fiscal year ending June 30, 2017.

The New Mexico Compilation Commission, as part of the primary government of the State of New Mexico, is a contributing employer to a cost-sharing multiple employer defined benefit pension plan administered by the Public Employees Retirement Association (PERA). Disclosure requirements for governmental funds apply to the primary government as a whole, and as such, this information will be presented in the Component Appropriation Funds Annual Financial Report (General Fund) and the Comprehensive Annual Financial Report (CAFR) of the State of New Mexico.

Information concerning the net pension liability, pension expense, and pension-related deferred inflows and outflows of resources of the primary government will be contained in the General Fund and the

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

CAFR and will be available, when issued, from the Office of State Controller, Room 166, Bataan Memorial Building, 407 Galisteo Street, Santa Fe, New Mexico, 87501.

NOTE 6: POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN

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

NOTES TO THE FINANCIAL STATEMENTS**June 30, 2017**

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2017, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2017, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7-15 (G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The Commission's contributions to the RHCA for the years ended June 30, 2017, 2016 and 2015 were \$6,977, \$7,113 and \$6,871, respectively, which equal the required contributions for each year.

NOTE 7: OPERATING LEASES

The Commission leases Office space under a lease agreement with a four year term beginning November 1, 2016 and terminating on October 31, 2020. Additionally, the Commission leases equipment, all with terms of four years beginning in fiscal year 2015. Expenditures for leases for the year ended June 30, 2017 was \$64,974. Future minimum lease payments are as follows:

Year ending June 30	Equipment	Building
2018	\$ 7,397	48,000
2019	7,397	48,000
2020	2,136	48,000
2021	-	16,000
Total	<u>\$ 16,930</u>	<u>160,000</u>

NOTE 8: RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and, natural disasters. Section 15-7-2, NMSA 1978 requires the General Services Department, Risk Management Division (RMD) to be responsible for the acquisition and administration of all insurance purchased by the state. Since 1977, various state laws have been passed which allow RMD to insure, self-insure or use a combination of both. For the past

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

several years, the RMD has elected to self-insure, and has not obtained liability coverage from commercial insurance companies. The RMD has effectively managed risk through various employee education and prevention programs. Risk management expenditures for the Commission are accounted for in the General Fund. Any claims are processed through RMD. The Commission expended \$1,972 for coverage through RMD.

NOTE 10: SCHEDULE OF OPERATING TRANSFERS

	SHARE FUND	TITLE	TRANSFER	
			In	Out
(1)	13300	Legislative Council Service	\$ 400,000	\$ -

(1) Laws of 2016, Chapter 1, Section 11

NOTE 11: SUBSEQUENT EVENTS

In preparing the financial statements management has evaluated events and transactions for potential disclosure through October 20, 2017, the date the financial statements were available to be issued.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Tim Keller
New Mexico State Auditor
and
Honorable Judith K. Nakamura, Chief Justice, President
New Mexico Compilation Commission
Santa Fe, New Mexico

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the general fund, and the budgetary comparisons for the general fund of the State of New Mexico, New Mexico Compilation Commission ("Commission"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated October 20, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Commission's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet is important enough to merit attention by those charged with governance

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission'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 did not disclose any other matter that is required to be reported by Section 12-6-5 NMSA 1978.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Zlotnick Laws & Sandoval, P.C.

Zlotnick, Laws & Sandoval, P.C.

October 20, 2017

SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2017

Current Year Findings:

None

Prior Year Findings:

None

EXIT CONFERENCE

June 30, 2017

The contents of this report were discussed at an exit conference held October 26, 2017.

The New Mexico Compilation Commission was represented by:

Judith K. Nakamura, Chief Justice, Supreme Court of New Mexico, President

Brenda Castello, Executive Director and Chief Financial Officer

Zlotnick, Laws & Sandoval, P.C. was represented by:

Asa Laws, CPA

Brian Laws, CPA