

**STATE OF NEW MEXICO
JUDICIAL STANDARDS COMMISSION
INDEPENDENT AUDITORS' REPORT
AND FINANCIAL STATEMENTS
For The Year Ended June 30, 2008**

**STATE OF NEW MEXICO
 JUDICIAL STANDARDS COMMISSION
 INDEPENDENT AUDITORS' REPORT
 AND FINANCIAL STATEMENTS
 AS OF THE YEAR ENDED JUNE 30, 2008**

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**STATE OF NEW MEXICO
 JUDICIAL STANDARDS COMMISSION
 OFFICIAL ROSTER
 AS OF JUNE 30, 2008**

Commission Members

Name	Appointed By
David S. Smoak	Governor
Vacant	Governor
Hon. Dan Sosa, Jr. (Retired)	Governor
Gloria Taradash	Governor
William R. Valentine	Governor
Larry Garcia	Governor
Bob Turner, Esq.	Board of Bar Commissioners
Albert J. Lama, Esq.	Board of Bar Commissioners
Hon. Buddy J. Hall	Supreme Court
Hon. James A. Hall	Supreme Court
Hon. Nan Nash	Supreme Court

Administration

Name	Position
James A. Noel	Executive Director/General Counsel

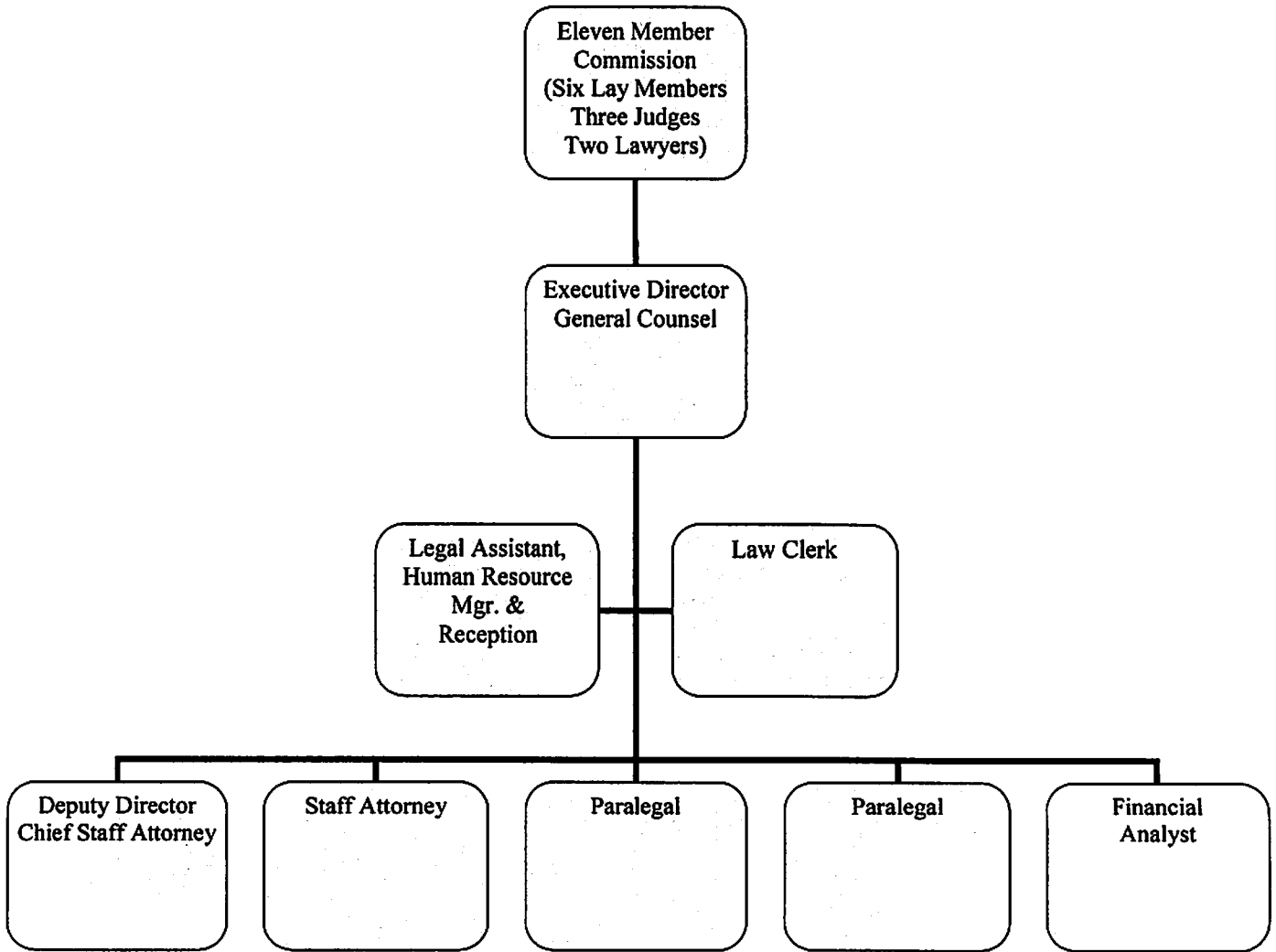
**STATE OF NEW MEXICO
JUDICIAL STANDARDS COMMISSION
ORGANIZATIONAL CHART
AS OF JUNE 30, 2008**

**ELEVEN MEMBER
COMMISSION**

THREE JUDGES
Appointed by the
New Mexico Supreme Court

SIX LAY MEMBERS
Appointed by the
Governor of New Mexico,
One serves as Chair
Another as Vice-Chair

TWO LAWYERS
Appointed by the
Board of Bar Commissioners



Hinkle & Landers, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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Albuquerque, New Mexico 87102
Tele (505) 883-8788
Fax (505) 883-8797

INDEPENDENT AUDITORS' REPORT

Mr. James A. Noel, Executive Director
State of New Mexico
Judicial Standards Commission
Albuquerque, New Mexico
and
Mr. Hector Balderas, State Auditor
Santa Fe, New Mexico

We have audited the accompanying financial statements of the governmental activities, the major fund and the respective budgetary comparison of the General Fund of the State of New Mexico Judicial Standards Commission (Commission) as of and for the year ended June 30, 2008, which collectively comprise the Commission's basic financial statements, as listed in the Table of Contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements and the individual fund 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 audit provides a reasonable basis for our opinions.

As discussed in Note IA, the financial statements of the Commission are intended to present the financial position and results of operations of only that portion of the financial reporting entity of the State of New Mexico that is attributable to the transactions of the Commission.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major of the Commission at June 30, 2008, and the respective changes in financial position, thereof and the respective budgetary comparison of the General fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 14, 2008, on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 5 through 9 is not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Management's Discussion and Analysis. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Hinkle & Landers, P.C." in a cursive, flowing script.

Hinkle & Landers P.C.
November 14, 2008

**STATE OF NEW MEXICO
JUDICIAL STANDARDS COMMISSION
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

BASIC FINANCIAL STATEMENTS

Financial data presented in these financial statements is for the activities of the Judicial Standards Commission as a single agency. It does not purport to represent the State of New Mexico as a whole.

All of the Commission's basic services are reported in governmental funds, which focus largely on the establishment of an appropriation by the state legislature and the expenditure of this money in accordance with a budget. General fund appropriations not expended or encumbered at year-end revert to the general fund. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The differences between governmental activities and governmental funds are reconciled on pages 13 and 15.

The Commission implemented the provisions of GASB 34 effective July 1, 2001. With the implementation of this statement, the presentation of the financial statements are significantly different from the previous general-purpose financial statements.

The new financial model includes: Management's Discussion and Analysis

This document is used to provide an objective analysis of the Commission's financial activities based on currently known facts, decision, or conditions. It provides an analysis of the Commission's overall financial position and results of operations, to assist users in assessing whether the financial position of the Commission has improved as a result of the year's activities. Additionally, it provides an analysis of significant changes that have occurred in funds and significant budget variances. It should be read in conjunction with the financial statements, which begin on page 10.

Government-Wide Financial Statements

The government-wide financial statements are designed to be corporate-like in that all governmental and business-type activities are consolidated into columns that add to a total for the Commission and consist of a statement of net assets and a statement of activities. These statements report all of the Commission's assets, liabilities, revenues, expenses, and gains and losses. The Commission did not have any business type activities during the year ended June 30, 2008.

Fund Financial Statements

The fund financial statements are similar to the financial statements presented in the previous accounting model. Emphasis here is on the Major funds in either the governmental or business-type categories. Nonmajor funds (by category) or fund type are summarized into a single column. Due to the fund structure of the Commission, the only individual governmental fund, the General Fund, has been classified as a major fund. The Commission has no non-major funds.

Notes to the Financial Statements

The notes to the financial statements consist of notes that provide information that is essential to a user's understanding of the Commission's basic financial statements.

**STATE OF NEW MEXICO
JUDICIAL STANDARDS COMMISSION
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

Condensed financial information comparing current year to prior year:

	<u>Statement of Net Assets</u>	
	<u>6/30/2008</u>	<u>6/30/2007</u>
Assets		
Cash	\$ 100,670	23,230
Receivables	6,704	16,761
Interest receivables	45	587
Capital assets, net of accumulated depreciation	16,531	22,834
Total assets	<u>\$ 123,950</u>	<u>63,412</u>
Current liabilities	\$ 129,620	48,180
Noncurrent liabilities		
Compensated absences payable expected to be paid after one year	6,633	10,779
Total liabilities	<u>136,253</u>	<u>58,959</u>
Net assets		
Invested in capital assets	16,531	22,834
Unrestricted (deficit)	<u>(28,834)</u>	<u>(18,381)</u>
Total net assets	<u>(12,303)</u>	<u>4,453</u>
Total net assets and liabilities	<u>\$ 123,950</u>	<u>63,412</u>

The Commission's net assets decreased by approximately \$16.7K from FY 07 to FY 08, which is primarily due to the agency's receipt of outstanding Garza obligation from FY 07 that was received in FY 08 and then subsequently was accrued to revert to the State General Fund. Total liabilities increased by approximately 77K. The increase was due to increased payables and amounts due to other state agencies.

	<u>Statement of Activities</u>	
	<u>6/30/2008</u>	<u>6/30/2007</u>
Revenues		
Program	\$ 6,704	-
General fund appropriation	802,162	686,789
Special appropriations (BAR Authority for Reimbursements)	-	16,761
Operating state grant	-	152,158
Interest earned on judgment receivable of reimbursement costs	45	588
Reversion to state general fund	<u>(16,077)</u>	<u>(40)</u>
Total revenues	<u>792,834</u>	<u>856,256</u>
Expenses		
General government	<u>(809,590)</u>	<u>(703,689)</u>
Change in net assets:	(16,756)	152,567
Net assets (deficit) - beginning of year	4,453	(148,114)
Net assets (deficit) - end of year	<u>\$ (12,303)</u>	<u>4,453</u>

**STATE OF NEW MEXICO
JUDICIAL STANDARDS COMMISSION
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

Objective analysis of the Commission's financial condition as a whole:

The State of New Mexico Judicial Standards Commission is an independent state agency established by the New Mexico Constitution to investigate and prosecute cases of willful misconduct in office (judicial); persistent failure or inability to perform judicial duties; habitual intemperance; and disability or impairment of a permanent nature or those likely to become permanent, which seriously interferes with the performance of a judge's duties. Where appropriate, the Commission holds hearings and, if violations are found, recommends discipline to the New Mexico Supreme Court.

Of the cases resolved in FY08, the Commission concluded 9 cases through formal proceedings, and issued 12 letters of caution. The Commission dismissed or closed 73 cases because they were appellate in nature, and closed 11 cases because they were outside the Commission's jurisdiction. The Commission dismissed 32 cases that were not substantiated after initial inquiry.

In FY 08, the Agency expended \$803,432.93 as follows:

FY 2008 EXPENDITURES

DESCRIPTION	AMOUNT	PERCENTAGE
Employee Salaries	\$430,921.88	53.6%
Employee Benefits	143,222.35	17.8%
Employee Training & Licensing	5,676.90	0.7%
Commission Travel	8,812.80	1.2%
Investigation & Prosecution	24,731.21	3.1%
Contractual Services	30,680.94	3.8%
Overhead & Rent	146,273.87	18.2%
Supplies & Postage	13,112.98	1.6%
Total	\$803,432.93	100%

Analysis of balances and transactions on a fund basis:

The Commission operates one governmental fund in which all activity related to the Commission is recorded. The financial statements beginning on page 10 present the financial position and results of operations for the governmental fund. Funding is 100% from annual appropriations from the New Mexico State Legislature.

It is important to note that beginning in FY 05, the Commission began seeking imposition of fines and cost reimbursement on judges found to have violated the code of judicial conduct. The Commission collects both fines and cost reimbursement, but fines are directed to the Supreme Court, whereas cost reimbursements are processed by the Commission. The Commission received statutory authority to use cost reimbursement funds (other state funds) in FY 08 up to \$30,000. In FY 08, the Supreme Court ordered cost reimbursements totaling \$10,278, none of which was recovered in FY 08. The Commission did recover \$16,761 in outstanding cost reimbursement from FY 07, along with \$587 in accrued interest.

**STATE OF NEW MEXICO
JUDICIAL STANDARDS COMMISSION
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

Significant variances between the Commission's original budget, final budget and actual expenditures:

The Commission's initial budget and appropriation for FY 08 was \$802,162 from the general fund, and B.A.R. authority of \$30,000 in other state funds. The Commission collected \$17,348 in outstanding debt and interest, which increased the Commission's FY 08 budget to \$819,510. The Commission expended \$803,433 of these funds, and reverted \$16,077 to the state general fund.

Activity relating to the Commission's capital assets and long-term debt activity during the year:

The Commission's long term debt at June 30, 2008 in the amount of \$7,313 represents the estimated future cost of compensated absences that will be funded and paid from future appropriations. Compensated absences represent the amount of accrued but unused vacation and sick time at current rates to be paid from future appropriations.

Significant changes in the assessed condition of these assets from prior condition assessments:

Consistent with application of GASB #34, the Commission has recognized depreciation of its assets during the FY 08. In FY 06, the Commission had outstanding loan balances in the amount of \$152,158. This includes \$94,839 from FY 05 Loan #209-88 (this initial loan was for \$100,952, of which the Commission made a payment of \$6,113 in June 2005), and \$57,318 from FY 06 Loan #209-101 (for which no payments were made). The Commission was required to repay these loans as of May 2008, but sought to have both loans converted to grants. In FY 07 the New Mexico State Board of Finance granted the Commission's request to convert both loans to a grant, eliminating this liability from the Commission's financial position.

**STATE OF NEW MEXICO
JUDICIAL STANDARDS COMMISSION
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

Currently known facts, decisions or conditions expected to impact the Commission's financial position and results of operation:

It is expected that the State's current financial situation will impact the Commission's financial position. However, the exact impact is yet to be determined. This financial report is designed to provide citizens, taxpayers, customers, legislators and other stakeholders a general overview of the Commission's finances and to demonstrate the Commission's accountability for the money it receives. If you have any questions about this report or need addition financial information, contact:

James A. Noel
Executive Director & General Counsel
State of New Mexico
Judicial Standards Commission
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(505) 222.9353

**STATE OF NEW MEXICO
JUDICIAL STANDARDS COMMISSION
STATEMENT OF NET ASSETS (DEFICIT)
AS OF THE YEAR JUNE 30, 2008**

	Governmental Activities
ASSETS	
Current assets	
Petty cash	50
Investments in the State General Fund Investment Pool	\$ 100,620
Receivables	6,704
Accrued interest receivable	45
Total current assets	107,419
Capital assets	
Machinery and equipment	12,192
Data processing equipment	23,514
Furniture	15,660
Total capital assets	51,366
Less accumulated depreciation	(34,835)
Total capital assets, net of accumulated depreciation	16,531
Total assets	\$ 123,950
LIABILITIES	
Current liabilities	
Accounts payable	\$ 39,940
Accrued payroll and taxes	24,937
Due to other State Agencies	19,626
Due to State General Fund (reversion FY07)	40
Due to State General Fund (reversion FY08)	16,077
Compensated absences payable - expected to be paid within one year	29,000
Total current liabilities	129,620
Noncurrent liabilities:	
Compensated absences payable - expected to be paid after one year	6,633
Total noncurrent liabilities	6,633
Total liabilities	136,253
NET ASSETS (DEFICIT)	
Invested in capital assets	16,531
Unrestricted (deficit)	(28,834)
Total net assets (deficit)	(12,303)
Total net assets and liabilities	\$ 123,950

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO
 JUDICIAL STANDARDS COMMISSION
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2008**

	Governmental Activities
EXPENSES	
General government	\$ (809,590)
Less: Program revenues	
Reimbursement of trial costs	6,704
	6,704
Net program (expense)/revenue	(802,886)
GENERAL REVENUES	
Transfers - State General fund appropriation	802,162
less Transfers reversion to State General Fund FY 08	(16,077)
Interest earned on receivable of reimbursement of trial costs	45
Total general revenues	786,130
Change in net assets	(16,756)
Net assets, beginning of year	4,453
Net assets (deficit), end of year	\$ (12,303)

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO
 JUDICIAL STANDARDS COMMISSION
 BALANCE SHEET - GOVERNMENTAL FUND
 AS OF JUNE 30, 2008**

		<u>General Fund</u>
ASSETS		
Petty cash	\$	50
Investments in the State General Fund Investment Pool		100,620
Receivables - Judgments, net of allowance account		6,704
Accrued interest receivable		<u>45</u>
 Total assets	 \$	 <u><u>107,419</u></u>
LIABILITIES		
Vouchers payable	\$	39,940
Accrued payroll and taxes		24,937
Due to other State Agencies		19,626
Due to State General Fund (reversion FY07)		40
Due to State General Fund (reversion FY08)		<u>16,077</u>
 Total liabilities		 <u>100,620</u>
FUND BALANCES		
Reserved for petty cash		50
Unreserved		<u>6,749</u>
 Total fund balances		 <u>6,799</u>
 Total liabilities and fund balances	 \$	 <u><u>107,419</u></u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO
 JUDICIAL STANDARDS COMMISSION
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUND
 TO THE STATEMENT OF NET ASSETS - GOVERNMENTAL ACTIVITIES
 FOR YEAR ENDED JUNE 30, 2008**

Total fund balances - Governmental Fund (Balance Sheet - Governmental Fund)	\$	6,799
<p>Amounts reported for governmental activities in the Statement of Net Assets are different at June 30, because:</p> <p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund financial statements.</p> <p>These assets consist of:</p>		
Machinery and equipment		12,192
Data processing equipment		23,514
Furniture		15,660
Less accumulated depreciation		<u>(34,835)</u>
Total capital assets, net of accumulated depreciation		16,531
<p>Some liabilities are not due and payable in the current period and therefore are not reported in the governmental fund:</p>		
Compensated absences		<u>(35,633)</u>
Net assets (deficit) of governmental activities (Statement of Net Assets)	\$	<u><u>(12,303)</u></u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO
 JUDICIAL STANDARDS COMMISSION
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
 BALANCES - GOVERNMENTAL FUND
 FOR THE YEAR ENDED JUNE 30, 2008**

	<u>General Fund</u>
REVENUES	
Reimbursement of trial costs	\$ 6,704
Interest earned on receivable of reimbursement of trial costs	45
Total revenues	<u>6,749</u>
EXPENDITURES	
Current	
General government:	
Personal services/employee benefits	574,144
Contractual services	30,681
Other costs	198,608
Capital outlay	
Total expenditures	<u>-</u> <u>803,433</u>
Excess (deficiency) of revenues over expenditures	<u>(796,684)</u>
OTHER FINANCIAL SOURCES (USES)	
Transfers - State General Fund appropriation	802,162
less Transfers reversion to State General Fund FY 08	<u>(16,077)</u>
Total other financial sources (uses)	<u>786,085</u>
Net change in fund balances	(10,599)
Fund balances, beginning of year	<u>17,398</u>
Fund balances, ending of year	<u>\$ 6,799</u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO
 JUDICIAL STANDARDS COMMISSION
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2008**

Net change in fund balances (deficits) (Statement of Revenues, Expenditures and changes in Fund Balances)	\$	(10,599)
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Amounts reported for governmental activities in the Statement of Activities are different for the year ended June 30, because:

In the Statement of Activities, certain operating expenses - compensated absences payable - are measured by the amounts earned during the year. In the Governmental Fund, however, expenditures are measured by the amount of financial resources used (essentially the amounts actually paid). The increase in the liability for compensated absences payable for the year was:		146
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The Governmental Fund reports capital outlays as expenditures. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives and reported as depreciation expenses. In the current year, these amounts were:

Capital outlay expenditures which were capitalized	\$	-	
Depreciation		<u>(6,303)</u>	
(Deficiency) of capital outlay expenditures over depreciation			<u>(6,303)</u>
Change in net assets (deficit) of Governmental Activities (Statement of Activities)	\$		<u><u>(16,756)</u></u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
JUDICIAL STANDARDS COMMISSION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
(DEFICITS) - BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL -
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary</u>	<u>Favorable</u>
			<u>Basis</u>	<u>(Unfavorable)</u>
REVENUES				
Reimbursement of trial costs	\$ -	-	6,704	6,704
Interest earned on receivable of reimbursement of trial costs	-	-	45	45
Total revenues	<u>-</u>	<u>-</u>	<u>6,749</u>	<u>6,749</u>
EXPENDITURES				
Current				
General government:				
Personal services/Employee benefits	610,600	574,800	574,144	656
Contractual services	54,800	46,048	30,681	15,367
Other costs	136,800	198,700	198,608	92
Total expenditures	<u>802,200</u>	<u>819,548</u>	<u>803,433</u>	<u>16,115</u>
Excess (deficiency) of revenues over expenditures	<u>(802,200)</u>	<u>(819,548)</u>	<u>(796,684)</u>	<u>22,864</u>
OTHER FINANCIAL SOURCES (USES)				
Transfers - State General Fund appropriation less Transfers reversion to State General Fund FY 08	802,200	819,548	802,162	(17,386)
	-	-	(16,077)	(16,077)
Total other financing sources and uses	<u>802,200</u>	<u>819,548</u>	<u>786,085</u>	<u>(33,463)</u>
Net change in fund balance	-	-	(10,599)	(10,599)
Fund balances, beginning of year	<u>17,398</u>	<u>17,398</u>	<u>17,398</u>	<u>-</u>
Fund balances, ending of year	<u>\$ 17,398</u>	<u>17,398</u>	<u>6,799</u>	<u>(10,599)</u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO
JUDICIAL STANDARDS COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The State of New Mexico Judicial Standards Commission (Commission) was created by the Constitution of the State of New Mexico, Article VI, Sect. 32, and By Laws 1968, Chapter 48. The Commission consists of six lay members appointed by the Governor of New Mexico, two lawyers appointed by the Board of Commissioners of the State Bar Association and three members appointed by the New Mexico Supreme Court.

The purpose of the Commission is to receive complaints against any justice, judge or magistrate of any state court in New Mexico. The Commission has jurisdiction to prosecute cases of willful misconduct in office, persistent failure to perform duties, habitual intemperance and disability seriously interfering with the performance of judicial duties which is, or is likely to become, of a permanent character.

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

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement #34 "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments." This Statement provides for the most significant change in financial reporting in over twenty years and is scheduled for a phased implementation based on size of government.

The Commission implemented the provisions of GASB #34 effective July 1, 2001. As a part of this Statement, there is a reporting requirement regarding the government's infrastructure (road, bridges, etc.) The Commission does not own any infrastructure assets and therefore is unaffected by this requirement. The Commission also implemented the provisions of the later related GASB statements #37 and #38 which affect GASB #34 and its implementation.

A. Financial Reporting Entity

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

GASB 14 defines the financial reporting entity as consisting of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. This definition of the reporting entity is based primarily on the notion of financial accountability as the "cornerstone of all financial reporting in government." A primary government is any state government or general-purpose local government, consisting of all the organizations that make up its legal entity. All funds, organizations, institutions, agencies, departments, and offices that are not legally separate are, for financial reporting purposes, part of the primary government. The Commission, therefore, is part of the primary government of the State of New Mexico, and its

**STATE OF NEW MEXICO
JUDICIAL STANDARDS COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

financial data should be included with the financial data of the State. However, New Mexico does not at present issue an audited Comprehensive Annual Financial Report inclusive of all agencies of the primary government.

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

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

No entities were noted that should be considered component units of the Commission. No entities were specifically excluded from the Commission because no entities were noted as meeting any of the criteria for potential inclusion. Also, there were no fiduciary funds held by the Commission as of June 30, 2008.

B. Basic Financial Statements - GASB Statement #34

The basic financial statements include both government-wide (based on the Commission as a whole) and fund financial statements. The new reporting model focus is on either the Commission as a whole or major individual fund (within the fund financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type activities. In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are presented on a consolidated basis by column, and are reflected on a full accrual, economic resources measurement focus basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. The Commission did not have any business-type activities during the year ended June 30, 2008, so no FASB pronouncements were applicable to the Commission.

For its government-wide activities, the Commission has elected to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles or any Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (education, labor, transportation, etc.), which are otherwise being supported by general government revenues. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function or a business type activity. The Commission includes only one function (general government).

The net cost (by function or business-type activity) is normally covered by general revenues (taxes, intergovernmental revenues, interest income, etc.). Historically, the previous mode did not summarize or present net cost by function or activity. The Commission does not currently employ indirect cost allocation systems. The Commission only receives one type of program revenue, which is reimbursement of trial and court costs and the Commission only serves one function, therefore, there is no need to allocate indirect expenses to one or more functions. The Commission's policy for when an expense is incurred for purposes for which both restricted and unrestricted assets are available is to

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utilize the restricted assets first. No such expenses occurred during the year ended June 30, 2008.

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

The fund financial statements are similar to the financial statements presented in the previous accounting model. Emphasis here is on the major funds in either the governmental or business type categories. Non-major funds (by category) or fund type are summarized into a single column. Due to the limited fund structure of the Commission; the only governmental fund is the General Fund which has been classified as a major fund as required.

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

C. Basis of Presentation

The financial transactions of the Commission are maintained on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, expenditures or expenses and other financing sources or uses. Government resources are allocated to, and accounted for, in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The various funds are summarized by type in the accompanying financial statements. The various funds are reported by generic classification within the financial statements.

The new reporting model, GASB Statement 34, sets forth minimum criteria for the determination of major funds based on a percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or governmental and enterprise combined. Due to the fund structure of the Commission, the only individual governmental fund, the General Fund, has been classified as a major fund. Only individual governmental or individual enterprise funds can be considered for major fund status.

1. Governmental Fund Types

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

2. General Fund

The General Fund is the general operating fund of the Commission. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is funded primarily from appropriations from the State of New Mexico General Fund.

3. Non-Current Governmental Assets/Liabilities

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

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D. Basis of Accounting

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

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

Modified Accrual - All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period which is considered to be within sixty days of year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general long-term debt, if any, is recognized when due.

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

E. Budgetary Accounting

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

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

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8. All subsequent budget adjustments must be approved by the Commission and the Director of the DFA - Budget Division. The budget for the current year was properly amended.
9. Legal budget control for expenditures and encumbrances is by category of line item.
10. Formal budgetary integration is employed as a management control device during the fiscal year for the General Fund.
11. The budget for the General Fund is not adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP). The budget does not include prior year encumbrances paid in the current year in the budgetary amounts. Budgetary comparisons presented for the General Fund in this report are on a Non-GAAP budgetary basis because the proceeds from a loan from the State Board of Finance is included as an other financing source in the budgetary comparisons.
12. Appropriations lapse at the end of the fiscal year beginning with the year ended June 30, 2005. The Commission's General Fund is a reverting fund.
13. The budget for this State Agency is adopted on the modified accrual basis of accounting except for accounts payable at the end of the fiscal year that do not get paid by the statutory deadline (Section 6-10-4 NMSA 1978), that must be paid out of next year's budget. There were no accounts payable paid out of the next year's budget.

F. Capital Assets

Property, plant and equipment including software, purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at the fair market values as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The State's capitalization policy, i.e., the dollar value above which asset acquisitions including software are added to the capital accounts, was changed to \$5,000 as of July 1, 2005 from \$1,000. Assets with historical cost under \$5,000 and over \$1,000 that capitalized prior to July 1, 2005 remain on the Commission's capital assets schedule. However, all capital outlay purchases may not necessarily be capitalized. The Commission does not capitalize any interest in regards to its capital assets. Computer software which has been developed for internal use and which meets the capitalization minimum of \$5,000 is capitalized and depreciated in accordance with the Commission's depreciation guidelines.

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

Furniture, machinery and equipment	5 to 10 years
------------------------------------	---------------

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

G. Compensated Absences Payable

Vacation and sick leave earned and not taken is cumulative; however, upon termination of employment, sick pay for such leave hours accumulated up to 600 hours is forfeited, and vacation pay is limited to payment for 240 hours. Vacation leave up to the maximum of 240 hours is payable upon separation from service at the employee's current hourly rate. Sick leave is payable semiannually to qualified employees for hours accumulated above 600 hours at a rate equal to 50 percent of their hourly rate, not to exceed

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120 hours each semiannual period. Upon retirement, payment for sick leave is limited to 400 hours accumulated in excess of 600 hours at the 50 percent hourly rate. The compensated absences payable is included in the government-wide financial statements. No sick leave at June 30, 2008 met the requirements for accrual as no one had over 600 hours of sick leave at June 30, 2008.

Qualified employees, per the schedule approved by the Commission, accumulate annual leave to a maximum of 240 hours as follows:

Years of Service	Hours Earned Per Pay Period
Between 1 month to 3 years	4.62
Between 3 to 7 years	5.54
Between 7 and 14 year	6.46
Over 14 years	7.39

H. Due to State General Fund (Reversions)

Reversions to the State General Fund by the Commission are based on the definitions of reverting funds. Reverting Funds - All funds that are not identified by law as non-reverting, such funds are those in excess of budgeted appropriated expenditures.

Current and prior year reversions due to the State General Fund as of June 30, 2008 were as follows:

	General Fund
FY07 reversions	\$ 40
FY08 reversions	16,077
Total reversions	\$ 16,117

I. Reservations of Fund Balances

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

Reserved for Petty Cash - This reserve was created to represent the portion of fund balance that is used in petty cash or imprest cash in bank account.

J. Net Assets

The government-wide financial statements utilize a net asset presentation. Net Assets are categorized as investment in capital assets (net of related debt), restricted and unrestricted.

Investment in Capital Assets (net of related debt) - is intended to reflect the portion of net assets which are associated with non-liquid, capital assets less outstanding capital asset related debt. The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost. The Commission did not have any related debt during the year ended June 30, 2008.

Unrestricted (deficit) Net Assets - represent the deficit of the Commission at June 30, 2008. It consists of the Commission's current assets less the current liabilities and the non current liabilities.

It is expected that the deficit related to the compensated absences payable will be financed by future state appropriations.

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K. Revenues, Expenditures and Expenses

Substantially all governmental fund revenues are accrued. The only revenues that the Commission receives other than State appropriations are due to reimbursements of court costs and other trial costs.

Expenditures are recognized when the related fund liability is incurred.

L. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

2. CASH ACCOUNTS AND INVESTMENT POLICY

Investments in the State Treasurer General Fund Investment Pool

Please see the State Treasurer's annual audit report for the GASB 40 disclosure of the investments. That report may be obtained by writing to the New Mexico State Treasurer's Office, P.O. Box 608, Santa Fe, NM 87504-0608.

The following is a summary of the investment and cash balances of the Commission. The investments are with the New Mexico State Treasurer as reported by the New Mexico Department of Finance and Administration (DFA) at fair value:

	SHARE Number	Financial Statement Balances
General fund	21000-13500	\$ 100,670
Total		\$ 100,670
Balance per State Treasurer		\$ 100,620
Less: outstanding warrants		-
Petty cash		50
Total cash on deposit with State Treasurer per financial statements		\$ 100,670

The New Mexico State Treasurer monitors the collateral for deposits held by it for other state entities, which would include the investment account of the Commission. The Office of the State Treasurer has its own separate annual independent audit in which the collateral pledged to secure these deposits is disclosed. By law, the Commission is not permitted to have any investments other than what is held at the State Treasurer's Office and the Commission did not have any other investments during the year ended June 30, 2008. There is no credit risk at the Commission's level since the cash amount is under the contract of the New Mexico State Treasurer.

Credit Risk: The New Mexico State Treasurer pools are not rated.

Interest Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The State General Fund does not have an investment policy that limits investment policy as a means of managing its exposure to fair value losses arising from increasing interest rates.

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3. RECEIVABLES

	<u>General</u>
Judgements	\$ 13,906
Allowance for doubtful accounts	(7,202)
	\$ 6,704

The Commission has two judgment receivables. One receivable accrues interest at 8% per annum and the other does not accrue interest. One receivable has been fully allowed as it has been determined that its likelihood of collectibility is considered remote, the other receivable is deemed fully collectible.. The judgment receivables are considered reimbursement of legal costs required to be spent by the Commission as part of its mission to prosecute cases of willful misconduct in office, persistent failure to perform duties, habitual intemperance and disability seriously interfering with the performance of judicial duties which is, or is likely to become, of a permanent character.

If and when the receivables are collected they will be reverted to the State General Fund or, if a budget adjustment request is approved by DFA, the funds will be used for future operating expenses.

4. DUE TO OTHER STATE AGENCIES

	<u>Due To Due From SHARE SHARE</u>				
<u>Due to Agency</u>	<u>Fund</u>	<u>Fund</u>	<u>Purpose</u>	<u>Amount</u>	
Department of Finance and Administration	34101	13500	Amounts due to DFA due to errors.	\$	<u>19,626</u>

5. COMPENSATED ABSENCES PAYABLE

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

	<u>2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>2008</u>	<u>Current Portion</u>
Compensated absences payable \$	<u>35,779</u>	<u>28,654</u>	<u>(28,800)</u>	<u>35,633</u>	<u>29,000</u>

Of the \$35,633, \$29,000 has been classified as a current liability in the Statement of Net Assets. In prior years, the General Fund was used to liquidate compensated absences.

6. INSURANCE COVERAGE

The Commission obtains coverage through the Risk Management Division of the State of New Mexico General Services Department. This coverage includes liability and civil rights, property, vehicle, employer bond, workers' compensation, group insurance and state unemployment. The coverage is designed to satisfy the requirements of the State Tort Claims Act. All employees of the Commission are covered by blanket fidelity bond and money securities coverage by the State of New Mexico for the period July 1, 2007, through June 30, 2008.

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7. CAPITAL ASSETS

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

	2007	Additions	Deletions	2008
Machinery and equipment	\$ 12,192	-	-	12,192
Data processing equipment	23,514	-	-	23,514
Furniture	15,660	-	-	15,660
Total	<u>51,366</u>	<u>-</u>	<u>-</u>	<u>51,366</u>
Less accumulated depreciation for				
Machinery and equipment	(7,781)	(1,508)	-	(9,289)
Data processing equipment	(16,223)	(3,229)	-	(19,452)
Furniture	<u>(4,528)</u>	<u>(1,566)</u>	-	<u>(6,094)</u>
Total accumulated depreciation	<u>(28,532)</u>	<u>(6,303)</u>	-	<u>(34,835)</u>
Total capital assets, net	<u>\$ 22,834</u>	<u>(6,303)</u>	-	<u>16,531</u>

Depreciation expense for the year ended June 30, 2008 was \$6,303. All of the depreciation expense relates to the general government function.

8. PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

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

Funding Policy: Plan members are required to contribute 7.42% of their gross salary. The Commission is required to contribute 16.59% of the gross covered salary. The contribution requirements of plan members and the Commission are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Commission’s contributions to PERA for the fiscal years ending June 30, 2008, 2007 and 2006 were \$71,467, \$62,000, and \$55,476, respectively, which equal the amount of the required contributions for each fiscal year.

9. 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

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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 the event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

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

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

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. The statute requires each participating employer to contribute 1.3% of each participating employee's annual salary; each participating employee is required to contribute .65% of their salary. Employers joining the program after 1/1/98 are also required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

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

The Commission's contributions to the RHCA for the years ended June 30, 2008, 2007 and 2006 were \$5,601, \$4,858 and \$4,747, respectively, which equal the required contributions for each year.

10. COMMITMENTS - OPERATING LEASES

The Commission entered into a lease beginning July 1, 2004 for office space. The initial term of the lease is for a five-year period with one five-year option and then with five one-year options. All leases may be terminated at any time with sixty days notice if the New Mexico Legislature does not grant sufficient appropriation for the lease or if the Commission decides that termination is necessary to protect the best interests of the State of New Mexico. Rental expenditures for the year ended June 30, 2008 under this lease were \$42,443 for the office space and \$4,201 for the copier. For the office space, rate increases will be three percent per year for the first five-year lease period and for the one five-year option period. The five one-year options would increase at the same rate as the last year of the five-year option period

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FOR THE YEAR ENDED JUNE 30, 2008**

beginning with \$4,223 per month.

The Commission entered into a 45 month lease agreement for a photocopier expiring June 30, 2010. Minimum lease payments, on an annual basis, are as follows under equipment for the year ended June 30:

Rental expenditures for the years included in the original five-year period are as follows:

Year Ending June 30	Amounts	
	Facilities	Copier
2009 \$	43,717	4,201
2010	-	4,201
Total \$	<u>43,717</u>	<u>8,402</u>

If the lease was renewed for all ten option years for the facilities, rental expenditures would be as follows:

	Facilities
2010 \$	45,028
2011	46,379
2012	47,770
2013	49,204
2014	50,680
Total \$	<u>239,061</u>
Thereafter	
2015-2019	<u>253,398</u>
Total \$	<u>492,459</u>

The Commission during the five-year option period of 2010 through 2014 has a \$10,000 credit that can be used for capital improvements (for instance new carpeting) at its discretion during this period.

11. RECONCILIATION OF BUDGETARY BASIS TO GAAP BASIS

There were no differences between the budgetary basis and the modified GAAP basis for the General Fund for the year ended June 30, 2008.

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12. INTER-AGENCY TRANSFERS

The agency received appropriations from DFA. There were no operating transfers in the current year.

	<u>SHARE Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>	<u>Total</u>
Commission Fund				
General Fund	13500 \$	802,162	-	802,162
DFA Fund				
State General Fund	34100	-	(802,162)	(802,162)
	\$	<u>802,162</u>	<u>(802,162)</u>	<u>-</u>

13. LITIGATION

The Commissioners are currently subject to a suit challenging the federal constitutionality of the confidentiality provisions of the New Mexico state constitution that govern Commission operations. The determined affects are unknown and these legal proceedings are not likely to have a material adverse impact on the affected funds of the Commission.

OTHER REPORT

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Mr. James A. Noel, Executive Director
State of New Mexico
Judicial Standards Commission
Albuquerque, New Mexico
and
Mr. Hector Balderas, State Auditor
Santa Fe, New Mexico

We have audited the financial statements of the governmental activities, the major fund and the respective budgetary comparison of the General Fund of the State of New Mexico, Judicial Standards Commission (Commission) as of and for the year ended June 30, 2008, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated November 14, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in the internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Commission's financial statements that is more than inconsequential will not be prevented or detected by the Commission's internal control. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting. 08-01.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Commission's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency 08-01 described above is not a material weakness.

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 disclosed an instance of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and responses as item 08-01.

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

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

A handwritten signature in black ink that reads "Hinkle & Landers, P.C." in a cursive, flowing script.

Hinkle & Landers P.C.
November, 14, 2008

**STATE OF NEW MEXICO
JUDICIAL STANDARDS COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2008**

Summary Schedule of Current and Prior Audit Findings

<u>Finding</u>	<u>Current and Prior Year Findings</u>
07-01 Controls Over Maintaining The General Ledger	Resolved
08-01 Reversions Not Made Timely To State General Fund	Current

08-01—\$40 REVERSION NOT MADE TIMELY TO STATE GENERAL FUND

Statement of Condition:

The Commission took the proper steps to revert the fiscal year’s 2007 amount due to the State General Fund in the amount of \$40 per the 2007 audit report. The final step of executing an operating transfer was not done and therefore the reversion was not transferred to DFA as of the date of our finalization of the 2008 audit engagement fieldwork in September, 2008.

Criteria

Per the State Auditor Rule 2.2.2.12 A. Pertaining To Audits Of State Agencies Section (6) Reversions To The State General Fund “Section 6-5-10, NMSA 1978 requires “all unreserved, undesignated fund balances in reverting funds and accounts as reflected in SHARE as of June 30, shall revert as of September 30, to the State General Fund. The Commission may adjust the reversion within forty-five days of release of the audit report for that fiscal year.” Failure to transfer reverting funds in compliance with the statute requires an audit finding.”

Effect

The Commission is not in compliance with the State Statute and State Auditor Rule.

Cause

The Commission understood it needed to make the reversion and submitted the correct information to DFA, but the Commission did not know that an operating transfer procedure was required to finalize the reversion of funds to DFA.

Recommendation

The Commission now understands the correct procedure to revert funds to DFA and we recommend they follow that procedure and review the SHARE financial information to ensure the transfer was completed.

Management Response

The agency took the steps necessary to revert \$40.43 of FY 07 funds that were neither expended nor encumbered as of close of business, June 30, 2007, during the first quarter of FY 08.

The agency timely submitted its notice of reversion to the state controller and timely submitted its journal entry to transfer the reverted funds to the “due to state general fund” account. However, the agency did not timely submit an operating transfer to ensure the funds went from the “due to state general fund” account to the state “general fund.”

The agency sought guidance from DFA as to the steps necessary to complete the agency’s FY 07 reversion, and received incomplete guidance. In fact when the agency sought confirmation that it had completed all the necessary paperwork and steps to complete the reversion, DFA confirmed it had.

**STATE OF NEW MEXICO
JUDICIAL STANDARDS COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2008**

In the future, the agency will take all necessary steps, including submitting an operating transfer and a closing entry, to ensure reversions are completed as required by state audit rules and SHARE procedures.

**STATE OF NEW MEXICO
JUDICIAL STANDARDS COMMISSION
EXIT CONFERENCE
FOR THE YEAR ENDED JUNE 30, 2008**

An exit conference was held in a closed conference on November 14th , 2008.

Attending were the following:

State of New Mexico, Judicial Standards Commission

Mr. David S. Smoak, Chairman

Mr. James Noel, Executive Director/General Counsel

Ms. Krista Gianes, Financial Analyst

Hinkle & Landers P.C.

Farley Vener, CPA, CFE

FINANCIAL STATEMENT PREPARATION

The financial statements were primarily prepared from the original books and records of the Commission as of June 30, 2008 by Hinkle & Landers PC. The financial statements are the responsibility of management.