

# State of New Mexico Court of Appeals



## Financial Statements

**June 30, 2017**

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**OFFICIAL ROSTER**  
**June 30, 2017**

**JUDGES**

Honorable Linda M. Vanzi	Chief Judge
Honorable James Wechsler	Sr. Judge
Honorable Julie J. Vargas	Judge
Honorable Henry M. Bohnhoff	Judge
Honorable Jonathan B. Sutin	Judge
Honorable Stephen G. French	Judge
Honorable Michael E. Vigil	Judge
Honorable Timothy L. Garcia	Judge
Honorable M. Monica Zamora	Judge
Honorable J. Miles Hanisee	Judge

**ADMINISTRATIVE OFFICIALS**

Mark Reynolds	Chief Attorney-Clerk
Paul G. Fyfe	Chief Staff Attorney
Ken H. Wells	Chief Financial Officer

## Independent Auditor's Report

Tim Keller, New Mexico State Auditor  
and  
Honorable Linda M. Vanzi, Chief Judge  
New Mexico Court of Appeals  
Santa Fe, New Mexico

### Report on 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 Court of Appeals (Court), as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise the Court'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 Court'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 Court'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.

### **Opinions**

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 Court, 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 5 to 8, 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 information*

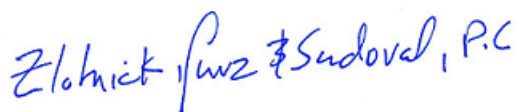
Our audit was conducted for the purpose of forming opinions on the Court's financial statements, and the budgetary comparison. The supplementary information listed on the table of contents, required by Section 2.2.2 NMAC, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other

additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the supplementary information required by Section 2.2.2 NMAC is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2017 on our consideration of the Court'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 Court's internal control over financial reporting and compliance.



Zlotnick, Laws & Sandoval, PC  
October 25, 2017

## Management's Discussion and Analysis

June 30, 2017

The New Mexico Court of Appeals' (Court) discussion and analysis provides an overview of the objectives and programs of the New Mexico Court of Appeals. This discussion helps the reader understand the Court of Appeals' operation in terms of financial planning and expenditure of the annual budget.

### Agency Overview

The New Mexico Court of Appeals is the intermediate appellate court between district courts and certain administrative agencies below, and the New Mexico Supreme Court above. The Court resolves cases brought up on appeal, which may involve conflicting interpretations of specific legal issues or broad questions of public policy. It does this by published opinions, unpublished opinions, and orders. The primary beneficiaries of the Court's work are litigants, the public of the State of New Mexico, attorneys, district courts, and administrative agencies. The Court's goal is to decide cases fairly and as expeditiously as possible. The Court's objectives are to produce a body of decisions that help litigants and the public know their rights and obligations, decrease delay in disposing of cases, disseminate information on opinions and operations of the Court, maintain archived copies of case materials, and make them publicly available. These goals and objectives focus on the needs of court users; resolving civil and criminal disputes in a just, speedy, and inexpensive manner; protecting the interests of litigants and the public; making the law clear; and providing the public with information needed to use the court system. The Court has a clerk's office which manages the case-flow, budgetary, personnel, and administrative matters of the Court. The Prehearing Division consists of permanent staff attorneys who assist the judges with legal research and writing. Each of the ten judges' chambers includes a law clerk and legal assistant. The Court's appellate mediation office conducts mandatory mediation conferences to encourage and facilitate the settlement and resolution of civil appeals assigned to a non-summary calendar. The office was created as a pilot program in September 1998. Because the Court believes the program is successful, it has extended it indefinitely by court order. Most conferences are held by telephone to minimize the expense to the parties. All discussions are confidential whether or not the cases settle.

### USING THIS ANNUAL REPORT

#### Management's 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 Court. Information compares this fiscal year with the prior fiscal year.

#### Financial Statements Overview

The financial statements are for the purpose of presenting to the reader the financial position and financial changes that occur on the Court of Appeals' account books. The financial statements are not intended to report the financial position of the State of New Mexico as a whole. The Court of Appeals is one of many agencies in the State that contribute to the financial position of the State of New Mexico. The Court of Appeals has one fund, the General Fund which is a reverting fund.

**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 Court of Appeals 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 Court 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 the cost of various activities which are provided by the Court’s general revenues. This is intended to summarize and simplify the users’ analysis of the cost of services. The Governmental Activities reflect the Court’s basic services of resolving cases brought up on appeal.

**Fund Financial Statements**

The Court of Appeals only has one such fund: The general fund. The Governmental Fund presentation is presented on a sources and uses of liquid resources basis.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Statement of Net Assets**

	<b>Government Activities</b>	
	<b>2017</b>	<b>2016</b>
Current Assets	\$ 334,424	\$ 321,316
Capital Assets, net	11,428,495	11,763,279
<b>Total Assets</b>	<b>\$ 11,762,919</b>	<b>\$ 12,084,595</b>
Liabilities	447,539	399,461
Net Position:		
Invested in capital assets	<b>11,428,495</b>	11,763,279
Unrestricted(deficit)	<b>(113,115)</b>	(78,145)
<b>Total Net Position</b>	<b>\$ 11,315,380</b>	<b>\$ 11,685,134</b>

**Financial Highlights**

The Court of Appeals’ total net position for the fiscal year 2017 was \$11,315,380. Net position in fiscal year 2016 was \$11,685,134. The \$369,754 decrease is a continuing depreciation on the Court of Appeals Building which was substantially completed in FY 2012.



Management's Discussion and Analysis

June 30, 2017

Statement of Activities

The following schedule represents the revenues and expenses for the current and prior year.

	Government Activities	
	2017	2016
Charges for services	\$ 748	\$ 612
State General Fund Appropriations	5,661,900	5,900,000
Other State Funds	21,054	-0-
Loss on Disposal of Capital Asset	-0-	(4,828)
Transfers to Other State Agencies:		
Reversions to State General Fund	(33,932)	(13,804)
<b>Total Revenues</b>	<b>5,649,700</b>	<b>5,881,980</b>
Program Expenses	6,019,524	6,274,863
Change in net position	(369,754)	(392,883)
Net position, beginning of year	11,685,134	12,078,017
<b>Net position, end of year</b>	<b>\$ 11,315,380</b>	<b>\$ 11,685,134</b>

The Court of Appeals' total revenues for fiscal year 2017 were \$5,649,700. The revenues in fiscal year 2016 were \$5,881,980. Revenues decreased in 2017 by \$(232,210) substantially due to the New Mexico Legislature cutting general funding for the Court of Appeals by \$238,100.

The Court of Appeals' total expenses for fiscal year 2017 were \$6,019,524. The expenses in fiscal year 2016 were \$6,274,863. Expenditures decreased in fiscal year 2017 by \$255,339. This was due to two main factors; first the Court received a smaller State appropriation as well as the Court of Appeals had a large judge/employee turnover that left a large vacancy savings.

**BUDGETARY HIGHLIGHTS**

In total, there were budget adjustments in the amount of \$51,593 during 2017. The budget adjustment increased the other operating category, decreasing the personal services/employee benefits category by that same amount \$51,593, and increasing contractual services category by \$7,193 and the other category by \$44,400. This action was needed to avoid over spending in the other category.

**CAPITAL ASSETS**

The Court purchased five copiers at the tail end of the fiscal year in the amount of \$32,868.

**Management's Discussion and Analysis**

**June 30, 2017**

**ANTICIPATED CHANGES**

The Court is part of a judiciary-wide workforce investment plan that seeks to increase the compensation of most judiciary employees, with a focus on the court clerk job classification. If the Court of Appeals total requested appropriation for fiscal year 2019 budget is approved, then the Court will see an increase of \$411,900 over the current fiscal year 2018 operating budget.

**CONTACTING THE COURT'S FINANCIAL MANAGEMENT**

The Court's financial statements are designed to provide a general overview of this agency's finances and to demonstrate the agency's accountability for the funds it receives. If you have any questions about this report or need additional financial information, contact the Chief Appellate Court Clerk, New Mexico Court of Appeals at P.O. Box 2008, Santa Fe, New Mexico 87504-2008.

**STATEMENT OF NET POSITION**  
**June 30, 2017**

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Investment in State General Fund Investment Pool	\$ 289,982
Supplies	44,442
Capital Assets, net	11,428,495
	11,428,495
New Mexico Court of Appeals	\$ 11,762,919
 <b>LIABILITIES</b>	
Accounts Payable	\$ 90,428
Payroll Benefits Payable	62,576
Payroll Taxes Payable	41,147
Accrued Payroll	92,533
Other Liabilities	318
Due to State General Fund (Note 7)	5,448
Compensated Absences:	
Due Within One Year	142,120
Due After One Year	12,969
	447,539
Total Liabilities	447,539
 <b>NET POSITION</b>	
Net Investment in Capital Assets	11,428,495
Unrestricted	(113,115)
	11,315,380
Total Net Position	11,315,380
Total Liabilities and Net Position	\$ 11,762,919

*See Notes to Financial Statements.*

**STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2017**

	<b>Governmental Activities</b>
<b>Expenses:</b>	
Judicial:	
Administrative Services	\$ 5,651,872
Depreciation	367,652
	6,019,524
 <b>Program Revenues:</b>	
Court Fees	748
	(6,018,776)
 <b>General Revenues and Transfers</b>	
State General Fund Appropriations	5,661,900
Other State funds	21,054
FY 2015 Reversion (Note 8)	(2,468)
FY 2017 Reversion	(31,464)
	(369,754)
Change in Net Position	(369,754)
Net Position, Beginning	11,685,134
	\$ 11,315,380

*See Notes to Financial Statements.*

**BALANCE SHEET - GOVERNMENTAL FUND**  
**June 30, 2017**

	<b>General Fund</b>
	<b>13700</b>
<b>ASSETS</b>	
Investment in State Gen. Fund Investment Pool	\$ 289,982
Supplies	44,442
	\$ 334,424
<b>LIABILITIES</b>	
Accounts Payable	\$ 90,428
Payroll Benefits Payable	62,576
Payroll Taxes Payable	41,147
Accrued Payroll	92,533
Other Liabilities	318
Due to State General Fund (Note 7)	5,448
	292,450
<b>FUND BALANCES</b>	
Nonspendable - Inventory	44,442
Unassigned	(2,468)
	41,974
Total Liabilities and Fund Balances	\$ 334,424

*See Notes to Financial Statements.*

**RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUND TO THE STATEMENT OF NET POSITION**

**June 30, 2017**

Total fund balances for governmental fund \$ 41,974

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

Capital assets reported in the governmental activities are not financial resources and, therefore, are not reported in the governmental funds statement. These assets consist of the following:

Capital assets, net 11,428,495

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of the following:

Compensated absences (155,089)

Net Position per Statement of Net Position \$ 11,315,380

*See Notes to Financial Statements.*

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2017**

	<b>General Fund 13700</b>
<b>REVENUES</b>	
Court Fees	\$ 748
<b>EXPENDITURES</b>	
Judicial:	
Current:	
Personal Services and Benefits	5,162,083
Contract Services	25,293
Other Costs	431,994
Capital Outlay	32,868
Total Expenditures	5,652,238
Excess (Deficiency) of Revenues Over Expenditures	(5,651,490)
<b>OTHER FINANCING SOURCES (Uses)</b>	
Transfer In:	
State General Fund Appropriations	5,661,900
Other State funds	21,054
Transfer Out:	
FY 2015 Reversion (Note 8)	(2,468)
FY 2017 Reversion	(31,464)
Total Other Financing Sources (Uses)	5,649,022
Net Change in Fund Balances	(2,468)
Fund Balances, beginning	76,703
Change in Supplies Inventory	(32,261)
Fund Balances, ending	\$ 41,974

*See Notes to Financial Statements.*

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2017**

Net change in fund balance	\$	(2,468)
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Amounts reported in the Statement of Activities are different because:

Certain outlays are reported as expenditures in governmental funds. However, in the statement of activities, these costs are expensed as they are consumed or allocated over their estimated useful lives. In the current period these amounts are:

Depreciation expenditures		(367,652)
Capital Outlay		32,868

Expenses recognized in the Statement of Activities, not reported in governmental funds:

Decrease in prepaid expenses		(8,040)
Change in supplies inventory		(32,261)
Change in compensated absences		<u>7,799</u>
Changes in net position of governmental activities	\$	<u><u>(369,754)</u></u>

*See Notes to Financial Statements.*



**STATEMENT OF REVENUES AND EXPENDITURES BUDGET AND ACTUAL (BUDGETARY BASIS) –  
GENERAL FUND  
For the Year Ended June 30, 2017**

	Budget		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Court Fees	\$ 1,000	1,000	748	(252)
General Fund Appropriation	5,661,900	5,661,900	5,661,900	-
Other Financing Sources	-	21,054	21,054	-
<b>Total Revenues</b>	<b>5,662,900</b>	<b>5,683,954</b>	<b>5,683,702</b>	<b>(252)</b>
<b>EXPENDITURES</b>				
Administrative Services:				
Personal Services	\$ 5,217,800	5,187,261	5,162,083	25,178
Contractual Services	18,100	25,293	25,293	-
Other	427,000	471,400	464,862	6,538
<b>Total Expenditures</b>	<b>\$ 5,662,900</b>	<b>5,683,954</b>	<b>5,652,238</b>	<b>31,716</b>

*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, Court of Appeals (Court of Appeals) 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 Court of Appeals' accounting policies are described below:

**A. Reporting Entity**

Court of Appeals

The State of New Mexico, Court of Appeals was established April 1, 1966 to ease the appellate backlog of the Supreme Court. It serves as an intermediate appellate court between the State's thirteen judicial district courts, certain administrative agencies, and the Supreme Court.

The Court of Appeals is a component unit of the Judicial Branch and these financial statements include all funds and activities over which the Court has oversight responsibility. The Court has decision-making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters. The Court is part of the primary government of the State of New Mexico and its 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 Court has no component units that are required to be reported in its financial statements.

**B. Basic Financial Statements**

The basic financial statements include both government-wide (based on the Court of Appeals as a whole) and fund financial statements. Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The Court of Appeals is a single-purpose government entity and has no business type activities. In the government-wide Statement of Net Position, the governmental activities are presented on a consolidated basis and are reflected on the full accrual, economic resource basis, which incorporates long-term assets and deferred outflows of resources, as well as long-term debt and deferred inflows of resources.

Government-wide financial statements exclude information about fiduciary funds and component units that are fiduciary in nature.

The government-wide Statement of Position reflects both the gross and net cost per functional category, which are otherwise being supported by general government revenues. The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. The program revenues must be directly associated with the function and consist of fees. The net cost by function is normally covered by general revenue. Since the Court of Appeals only has one program, it does not employ direct cost allocation in the financial statements.

The fund financial statements differ from the government-wide financial statements. Emphasis is on the major funds of the governmental category. Non-major funds are summarized into a single column. The Court of Appeals' only fund is the General Fund which is considered a major fund.

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**Notes to the Financial Statements****June 30, 2017**

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

The financial transactions of the Court of Appeals are recorded in individual funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, deferred outflows and inflows of resources, 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 the spending activities are controlled.

The following fund types are used by the Court of Appeals:

*Governmental Fund Types*

Governmental fund types are used to account for all of the Court of Appeals' activities. The General Fund is the primary operating fund of the Court of Appeals. SHARE fund 13700. The General Fund is a reverting fund.

**C. Basis of Accounting**

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

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic assets used. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities and deferred inflows of resources resulting from exchange transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities and deferred inflows of resources resulting from non-exchange transactions are recognized in accordance with requirements of GASB 33.

The General Fund utilizes the modified accrual basis of accounting. Under this method, revenues and other governmental fund financial resource increments are recognized in the accounting period in which they become susceptible to accrual that is, when they become both measurable and available to finance expenditures of the current fiscal period; available meaning collectible within the current period or soon enough thereafter (60 days) to be used to pay liabilities of the

**Notes to the Financial Statements**

**June 30, 2017**

current period.

Expenditures are recorded as liabilities when incurred. An exception to this general rule is that accumulated unpaid annual, compensatory and certain sick leave are not accrued as current liabilities but as non-current liabilities.

In applying the “susceptible to accrual” concept to intergovernmental revenues pursuant to Governmental Accounting Standards Board Statement No. 33 (GASB 33), *Accounting and Financial Reporting for Nonexchange Transactions*, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenues when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met, under most circumstances, should be reported as advances by the provider and unearned revenue by the recipient.

**D. Supplies Inventory**

Supplies inventory consists of non-resale paper, postage, and office supplies. Supplies inventory is stated on the consumption method in the government-wide statements to be consistent with the accrual basis of accounting. The purchases method is used on the fund financial statements and inventory balances are reported as assets in the governmental fund balance sheet. The supplies inventory is offset by the nonspendable fund balance classification on the fund financial statements, which indicates they are unavailable for appropriation even though they are a component of reported assets. The inventory is valued at cost.

**E. Prepaid Expenses**

In FY 2012 the Court of Appeals paid \$40,200 to the University of New Mexico for 5 years of network connection internet access for the Court of Appeals building in Albuquerque. This cost is being amortized over the life of the agreement in the government-wide financial statements. FY 2017 was the last year the amount was amortized.

**F. Capital Assets**

Property, plant, and equipment purchased or acquired at a value of \$5,000 or greater are capitalized. Assets are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value 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 when incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives with no salvage value.

Building and improvements	10-40
Information Tech Equipment	3-5
Furniture and Fixtures	5-10

Notes to the Financial Statements

June 30, 2017

**G. Compensated Absences**

Qualified employees accumulate annual leave to a maximum of 240 hours as follows:

Years of Service	Hours Earned Bi-Weekly
1 – 3 years	4.62
4 – 6 years	5.54
7 – 13 years	6.46
14 years or more	7.39

The maximum accrued annual leave may be carried forward into the beginning of the next calendar year and any excess is lost. When employees terminate, they are compensated for accumulated annual leave as of the date of termination, up to the maximum of 240 hours.

Employees who have over 600 hours of accumulated sick leave can receive payment for hours over 600, up to 120 hours, on July 1 or January 1 of each year. However, sick leave is paid at 50% of the employee's regular hourly wage. At retirement, employees can receive 50% payment for up to 400 hours of accumulated sick leave above 600 hours. Therefore, the only sick leave which has been accrued represents the hours earned at June 30th, over 600 hours. Expenditures for accumulated sick pay for hours under 600 hours will be recognized as employees take such absences.

In addition, the Court allows FLSA non-exempt employees to accumulate compensatory leave in certain approved circumstances. Compensatory leave may be carried forward into the next calendar year and any unused portion is paid at termination to non-exempt employees under the Federal Labor Standards Act.

Accrued compensated absences are recorded as liabilities and net changes are recorded as expenditures in the government-wide financial statements. The fund financial statements only recognize the compensated absences when due and payable at year end.

**H. Net Position**

The government-wide financial statements utilize a net position presentation. Net position is categorized as invested in capital assets (net of related debt), restricted and unrestricted.

*Invested in Capital Assets (net of related debt)*—is intended to reflect the portion of net position which is 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 Court does not have any related debt.

*Restricted Net Position*—is liquid assets (generated from revenues and not bond proceeds), which have third-party, legally enforceable, (statutory, bond covenant or granting agency) limitations on their use. When there is an option, the Court of Appeals spends restricted resources first.

*Unrestricted Net Position*—represents unrestricted liquid assets.

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**Notes to the Financial Statements****June 30, 2017****I. Fund Balances**

Governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those 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) legally or contractually required to be maintained intact.

**Restricted** - This classification includes amounts that are restricted to a specific purpose. Fund balances are restricted when constraints placed on the use of resources are either: (a) Externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments; (b) Enabling legislation, as the term is used authorizes the Commission to assess, levy, charge or otherwise mandate payment of resources and includes a *legally enforceable* requirement that those resources be used only for the specific purposes stipulated in the legislation.

**Committed** - This classification includes amounts that can only be used for specific purposes to constraints imposed by formal action of the Court's highest level of decision-making authority. Those committed amounts cannot be used for any other purpose unless the Court removes or changes the specific use by taking the same type of action (for example resolution, ordinance) it employed to previously commit those amounts.

**Assigned** - This classification includes amounts that are constrained by the Court's *intent* to be used for specific purposes, but are neither restricted nor committed. Intent should be expressed by (a) the governing body itself or (b) a body or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes.

**Unassigned** - This classification is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount.

**J. Budgets**

The Court of Appeals follows these procedures in establishing the budgetary data reflected in the financial statements:

No later than September 1, the Court of Appeals submits to the Judicial Budget Office (JBO), the Legislative Finance Committee (LFC), and the Department of Finance and Administration (DFA) an appropriation request for the fiscal year commencing the following July 1. The appropriation request includes proposed expenditures and the means of financing them.

Appropriation request hearings are scheduled by the DFA. 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. The Act is signed into law by the Governor of the State of New Mexico within the legally prescribed time limit.

**Notes to the Financial Statements**

**June 30, 2017**

The Court of Appeals submits to the DFA, no later than May 1, an annual operating budget by category and line item based upon the appropriation made by the Legislature. The DFA – Budget Division reviews and approves the operating budget which becomes effective on July 1. All subsequent budget adjustments must be approved by the State of New Mexico, Administrative Office of the Courts and the director of the DFA - Budget Division and the LFC. The current year budget was adjusted in a legal manner.

Legal budget control for expenditures is by category of line item. Formal budgetary integration is employed as a management control device during the fiscal year for the General Fund.

Appropriations lapse at the end of the fiscal year except for multi-year special appropriations. All amounts within the General Fund revert annually to the State General Fund, with the exception of unspent multi-year special appropriations.

Each year the Legislature approves multiple year appropriations, which the State considers as continuing appropriations. The Legislature authorizes these appropriations for two to five years; however, it does not identify the authorized amount by fiscal year. Consequently, the appropriation is budgeted in its entirety the first year the Legislature authorizes it. The unexpended portion of the budget is carried forward as the next year's beginning budget balance until either the project period has expired or the appropriation has been fully expended. The budget presentation in these financial statements is consistent with this budgeting methodology.

The budget for the General Fund 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 (Section 6-10-4 NMSA 1978), that must be paid out of next year's budget. A reconciliation of budgetary basis to GAAP basis will be necessary if all accounts payable at the end of the fiscal year are not paid by the statutory deadline. No reconciliation was necessary as of June 30, 2017.

**K. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Notes to the Financial Statements

June 30, 2017

**NOTE 2: STATE TREASURER GENERAL FUND INVESTMENT POOL**

State law (Section 8-6-3 NMSA 1978) requires the Court’s cash be managed by the New Mexico State Treasurer’s Office. Accordingly, the investments of the Court consist of an interest in the General Fund Investment Pool managed by the New Mexico State Treasurer’s Office. At June 30, 2017 the Court had the following invested in the General Fund Investment Pool:

	Share Fund #	Maturity	Account Balance	Value
General Fund	13700	1 day	\$ 289,982	\$ 289,982

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.

**NOTE 3: CAPITAL ASSETS**

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

	Balance 2016	Additions	Deletions	Balance 2017
Capital assets depreciated:				
Building and improvements	\$ 14,008,877	-	-	\$ 14,008,877
Information Tech Equipment	102,619	32,868	17,362	118,125
Furniture and fixtures	154,588	-	-	154,588
Total Capital assets depreciated	14,266,084	32,868	17,362	14,281,590
Less accumulated depreciation for:				
Building and improvements	2,305,628	350,222	-	2,655,850
Information tech equipment	100,648	2,144	17,362	85,430
Furniture and fixtures	96,529	15,286	-	111,815
Total accumulated Depreciation	2,502,805	367,652	17,362	2,853,095
Total capital assets, net	\$ 11,763,279	(334,784)	-	\$ 11,428,495

Current depreciation expense is \$367,652.



Notes to the Financial Statements

June 30, 2017

**NOTE 4: COMPENSATED ABSENCES**

The following is a summary of changes in compensated absences:

	<u>Balance 6/30/16</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/17</u>	<u>Due within One Year</u>
Annual Leave	\$ 162,888	213,055	220,854	\$ 155,089	\$ 142,120

**NOTE 5: DUE TO STATE GENERAL FUND**

The Due to State General Fund in the Statement of Net Position includes \$5,448 for a remaining portion of the fiscal year 2016 reversion that will be remitted to the State General Fund (Fund 85300).

**NOTE 6: NEGATIVE FUND BALANCE AND REVERSIONS**

The negative fund balance reported on the balance sheet for the general fund is the result of the Court paying an amount in excess of the required amount of the fiscal year 2015 reversion. During fiscal year 2016 the Court made a good faith effort to remedy the issue, but was unsuccessful and as a result recognized the excess amount, or the amount that has not been recovered as of yet as an expenditure attributable to the fiscal year 2015 reversion. The overall result being a negative fund balance of \$2,468.

**NOTE 6: LEASES**

The Court of Appeals is leasing land from the University of New Mexico, Center for Civic Values. The land is used for the newly constructed Court of Appeals building. The term of the lease is for a period of fifty years at an annual cost of \$50,000. The University shall calculate an increase in the fee based on the Consumer Price Index. The University shall calculate the increase in the CPI over the immediately preceding sixty month period which ended on May 31 of such year. The fee shall be increased effective August 1, 2013 and every five years thereafter by a percentage which is the same as the applicable percentage increase in the CPI. Lease expense for fiscal year 2017 was \$54,959.

**NOTE 7: PERA AND JRA RETIREMENT 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 Court of Appeals, 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.

The Court of Appeals also has a single employer defined benefit pension plan for appellate judges (Judicial Retirement) administered by the Public Employees Retirement Association (PERA). Disclosure

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**Notes to the Financial Statements****June 30, 2017**

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 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 8: POST-EMPLOYMENT BENEFITS - STATE RETIREE HEALTH CARE PLAN**

*Plan Description.* The Court of Appeals contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit post-employment 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 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 post-employment 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](http://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

**Notes to the Financial Statements**

**June 30, 2017**

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.

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 fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2016, 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, 2016, 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 10-7C-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 Court of Appeals contributions to the RHCA for the years ended June 30, 2017, 2016 and 2015 were \$81,866, \$85,164 and \$87,291, respectively, which equal the required contributions for each year.

**NOTE 9: RISK MANAGEMENT**

The Court of Appeals is exposed to various risk of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees or others; or acts of God. The Court is insured through Risk Management Division of the General Services Department, which is accounted for as an internal service fund of the State of New Mexico. In general, Risk Management Division responds to suits against the state and state agencies; manages fund to provide unemployment compensation, tort liability insurance, workman's compensation, and general and property insurance, and attempts to reduce the number of suits against the state and state agencies through the risk management process. The actuarial gains and losses of Risk Management Division were not available and are not included in this report. However, the Court would not be liable for more than the annual premiums.

**NOTE 10: SUBSEQUENT EVENTS**

The Court has evaluated subsequent events through October 25, 2017, which is the date the financial statements were available to be issued.

**SCHEDULE OF OPERATING TRANSFERS**  
**For the Year Ended June 30, 2016**

	SHARE FUND	TITLE	TRANSFER	
			In	Out
(1)	62000	Department of Finance & Administration	\$ 5,661,900	-
(2)	62000	Department of Finance & Administration	21,054	-
(1)	14900	Department of Finance & Administration	-	31,464
			<u>\$ 5,682,954</u>	<u>31,464</u>

(1) Laws 2016, 52nd Legislature, 2nd Session Chapter II, Section 4

(2) Laws 2016, 52nd Legislature, 2nd Session Chapter II, Section 4

*See independent auditor's report.*

**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 Linda M. Vanzi, Chief Judge  
New Mexico Court of Appeals  
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 Court of Appeals (Court), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Court's basic financial statements, and have issued our report thereon dated October 25, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Court'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 Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Court'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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

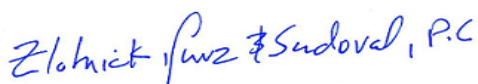
As part of obtaining reasonable assurance about whether the Court's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 2017-001 and 2017-002.

### **The Court's Response to Finding**

The Court's response to the finding identified in our audit are described in the accompanying *Schedule of Findings and Responses*. The Court's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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 Court's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Zlotnick, Laws & Sandoval, P.C.

October 25, 2017

**Schedule of Findings and Responses**

**June 30, 2017**

**Other Noncompliance**

**2017-001**

**Reversion**

Condition:

The amounts reverted in fiscal years 2016 and 2017 were incorrect and the necessary steps to correct the issue have not been made in a timely manner. The amount reverted during the 2017 fiscal year should have been \$13,804. Only 8,356 was reverted for a difference of \$5,448. During 2016 no reversion amount should have been made; however, \$2,468 was paid.

Criteria:

NMSA 6-5-10: "...all unreserved undesignated fund balances in reverting funds and accounts as reflected in the central financial reporting and accounting system as of June 30 shall revert by September 30 to the general fund. The division may adjust the reversion within forty-five days of release of the audit report for that fiscal year."

Cause:

The Court's management failed to adequately review the financial statements and the reversion calculation when paying the amount to the state general fund for the fiscal year 2016 reversion. Additionally, during fiscal year 2016 management requested funds from the state general fund for two reasons, to make up for a budget shortfall from fiscal year 2015 and to restore the amount of funds paid in excess of the actual fiscal year 2015 reversion amount. When attempting to comply with the request the state erroneously reduced the amount of funds given by the over reverted amount rather than increasing the amount. As a result, the court was still left without the funds to pay the appropriate reversion amount and the issue perpetuated into fiscal year 2017. As of the issuance of these financial statements the Court still needs to take steps to remedy the resulting negative fund balance.

Effect:

The Court's financial statement reflect a negative fund balance.

Recommendation:

The Court needs to take the steps prescribed by DFA to remedy the issue and settle the amounts.

Management Response and Corrective Action:

The Court's management will reach out to the Department of Finance's management to explain why the Court feels that the reversion amount for fiscal year 2016 is incorrect and to possibly review and agree on the actual amount the Court needs to revert for the prior fiscal year. The amount of time to remedy the issues is not known but the Court's CFO hopes to have the matter resolved as soon as possible.

**Schedule of Findings and Responses**

**June 30, 2017**

**Other Noncompliance**

**2017-002**

**Capital Asset Dispositions**

Condition:

During fiscal year 2017 the Court disposed of two capital assets and failed to provide written notification to the state auditor.

Criteria:

NMAC 2.2.2.10 U: "At least 30 days prior to any disposition of property included on the agency inventory list described at Subsection W of 2.2.2.10 NMAC, written notification of the official finding and proposed disposition duly sworn and subscribed under oath by each member of the authority approving the action shall be sent to the state auditor."

Cause:

The Court's management assumed that because the assets had passed their useful life, (three to five years) and had been fully depreciated, that the State Auditor wouldn't have any vested interest in those copiers.

Effect:

The Court was not in compliance with NMAC 2.2.2.

Recommendation:

The Court needs to take care to consider all of the applicable rules and regulations when disposing of fixed assets.

Management Response and Corrective Action:

This was an oversight of the Court's CFO, with the CFO under the assumption that since these two capital assets, (copiers) had been fully depreciated and passed their useful life, that the State Auditor would not have to be informed.

The Court's management will take note on this finding and understands that regardless of a capital asset depreciation status, that the Court will give written notification to the state auditor that will be signed by the Chief Judge, Chief Appellate Court Clerk, and Chief Financial Officer at least 30 days prior to disposing of the Court's fixed assets listed on the Court's inventory list.

The Court will review all applicable rules and regulations regarding this matter.



Schedule of Findings and Responses

June 30, 2017

Prior Year Findings

Description

Status

2015-003: Accrued Payroll - Significant Deficiency

Resolved

**Exit Conference  
June 30, 2017**

The contents of this report were discussed on October 18, 2017. The following individuals were in attendance:

**New Mexico Court of Appeals**

Honorable Linda M. Vanzi	Chief Judge
Mark H. Reynolds	Chief Attorney Clerk
Ken Wells	Chief Financial Officer
Wendy Loomis	Financial Specialist

**Zlotnick, Laws & Sandoval, PC**

Asa Laws	Shareholder
Brian Laws	CPA

The financial statements were prepared by the auditors: Zlotnick, Laws & Sandoval, P.C. However, the financial statements are the responsibility of management.