

# State of New Mexico Court of Appeals



## Financial Statements

**June 30, 2018**

**TABLE OF CONTENTS**

**INTRODUCTORY SECTION**

	Page
Official Roster .....	1

**FINANCIAL SECTION**

Independent Auditors' Report .....	2-4
Management's Discussion and Analysis (Unaudited).....	5-8

**BASIC FINANCIAL STATEMENTS**

Government-Wide Financial Statements

Statement of Net Position .....	9
Statement of Activities.....	10

Governmental Funds Financial Statements

Balance Sheet - Governmental Funds .....	11
Reconciliation of the Balance Sheet – Government Funds – to the Statement of Net Position .....	12
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	13
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities – Governmental Funds .....	14
Statement of Revenues and Expenditures – Budget and Actual – General Fund15	

Notes to Financial Statements .....	16-26
-------------------------------------	-------

**SUPPLEMENTARY INFORMATION**

Schedule of Operating Transfers .....	27
---------------------------------------	----

**TABLE OF CONTENTS – CONTINUED**

Independent Auditors’ Report on Internal Control Over Financial Reporting, and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	28-29
Schedule of Findings and Responses .....	30-33
Exit Conference .....	34

State of New Mexico Court of Appeals

**OFFICIAL ROSTER**

June 30, 2018

**JUDGES**

Honorable Linda M. Vanzi	Chief Judge
Honorable Michael E. Vigil	Sr. Judge
Honorable M. Monica Zamora	Judge
Honorable J. Miles Hanisee	Judge
Honorable Julie J. Vargas	Judge
Honorable Stephen G. French	Judge
Honorable Henry M. Bohnhoff	Judge
Honorable Emil J. Kiehne	Judge
Honorable Daniel J. Gallegos	Judge
Honorable Jennifer L. Attrep	Judge

**ADMINISTRATIVE OFFICIALS**

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

## INDEPENDENT AUDITORS' REPORT

Honorable Linda M. Vanzi, Chief Judge  
State of New Mexico Court of Appeals  
and  
Mr. Wayne Johnson  
New Mexico State Auditor  
Santa Fe, New Mexico

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the general fund, and the budgetary comparison for the general fund of the State of New Mexico Court of Appeals (the Court) as of and for the year ended June 30, 2018, 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 misstatement, whether due to fraud or error.

### Auditors' 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 from 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 auditors' 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 entity'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, 2018, and the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Emphasis of Matters**

As discussed in Note A1, the financial statements of the Court are intended to present the financial position and changes in financial position of only that portion of the governmental activities, major funds and aggregate remaining fund information of the State of New Mexico that is attributable to the transactions of the Court. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2018, and the changes in financial position and budgetary comparisons for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified for this matter.

As discussed in Note G, the State of New Mexico, as a single employer, follows Governmental Accounting Standards Board (GASB) Standard No. 68, *Accounting and Financial Reporting for Pensions*, in the June 30, 2018 Comprehensive Annual Financial Report (CAFR). Accordingly, there is no allocation of the proportional share of the net pension liability to individual agencies or to the Court's financial statements. All other required footnotes and other disclosures required by GASB are included in the State of New Mexico CAFR for June 30, 2018. Our opinion is not modified with respect to this matter.

As discussed in Note H, the State of New Mexico, as a single employer, has implemented GASB Standard No. 75 *Accounting and Financial Reporting for Post-Employment Benefits Other than Pensions* (OPEB), in the June 30, 2018, CAFR. Accordingly, there is no allocation of the proportional share of the net OPEB liability to individual agencies or to the Court's financial statements. All other required footnotes and other disclosures required by the GASB are included in the State of New Mexico CAFR for June 30, 2018. Our opinion is not modified with respect to this matter.

## **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 through 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 financial statements that collectively comprise the Court's basic financial statements, the combining and individual fund 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 was derived from and relates 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 November 1, 2018, 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 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.

ATKINSON & CO., LTD

**Atkinson & Co., Ltd.**

Albuquerque, New Mexico  
November 1, 2018

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

June 30, 2018

**INTRODUCTION**

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.

**OVERVIEW OF THE BASIC FINANCIAL STATEMENTS**

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 (UNAUDITED) – CONTINUED**

June 30, 2018

**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**

	Government Activities	
	2018	2017
Current assets	\$ 322,668	\$ 334,424
Capital assets, net	<u>11,051,691</u>	<u>11,428,495</u>
<b>Total assets</b>	<b><u>\$ 11,374,359</u></b>	<b><u>\$ 11,762,919</u></b>
Liabilities	<u>455,317</u>	<u>447,539</u>
Net Position:		
Invested in capital assets	11,051,691	11,428,495
Unrestricted (deficit)	<u>(132,649)</u>	<u>(113,115)</u>
<b>Total net position</b>	<b><u>\$ 10,919,042</u></b>	<b><u>\$ 11,315,380</u></b>

**Financial Highlights**

The Court of Appeals’ total net position for the fiscal year 2018 was \$10,919,042. Net position in fiscal year 2017 was \$11,315,380. The \$396,338 increase is a continuing depreciation on the Court of Appeals Building which was substantially completed in FY 2012.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED**

June 30, 2018

**Statement of Activities**

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

	Government Activities	
	<u>2018</u>	<u>2017</u>
Charges for services	\$ 366	\$ 748
State General Fund appropriations	5,718,500	5,661,900
Other state funds	11	21,054
Loss on disposal of capital asset	-	-
Transfers to other state agencies:		
Reversions to State General Fund	<u>(31,053)</u>	<u>(33,932)</u>
Total revenues	\$ 5,687,824	\$ 5,649,770
Program expenses	<u>(6,079,462)</u>	<u>(6,019,524)</u>
Change in net position	(391,638)	(369,754)
Net position, beginning of year	11,315,380	11,685,134
Increase (decrease) in inventory	<u>(4,700)</u>	<u>-</u>
Net position, end of year	<u>\$ 10,919,042</u>	<u>\$ 11,315,380</u>

The Court of Appeals' total revenues for fiscal year 2018 were \$5,687,824. The revenues in fiscal year 2017 were \$5,649,770. Revenues increased in 2018 by \$38,054, substantially due to a slightly larger appropriation from the New Mexico Legislature.

The Court of Appeals' total expenses for fiscal year 2018 were \$6,079,462. The expenses in fiscal year 2017 were \$6,019,524. Expenditures increased in fiscal year 2018 by \$59,938. This was mostly due to an increase in payroll costs.

**BUDGETARY HIGHLIGHTS**

In total, there were two budget adjustments in the amount of \$8,790 and \$81,000 totaling \$89,790 during 2018. The budget adjustment increased the contractual and other operating categories by decreasing the personal services/employee benefits category by \$81,000 and increasing contractual services category by \$54,790 and the other category by \$26,210. This action was needed to avoid over spending in the other category.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED**

June 30, 2018

**CAPITAL ASSETS**

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

**ANTICIPATED CHANGES**

The Court is seeking a fiscal year 2020 budget of \$6,365,400. If the Court receives the total requested appropriation, it will be a \$217,300 (3.53%) increase over the current fiscal year 2019 operating budget. The requested increase is to fund a new FTE called the "Reporter of Decisions" and to help offset the cost of filling a vacant position.

**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  
P.O. Box 2008  
Santa Fe, New Mexico 87504-2008.

**Notes to the Financial Statements**

The notes to the financial statements, supplementary information and other supplementary information sections provide information that is essential to a user's understanding of the basic financial statements.

State of New Mexico Court of Appeals

**STATEMENT OF NET POSITION**

June 30, 2018

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Investment in State General Fund Investment Pool	\$ 282,926
Inventory	39,742
Capital assets, net	11,051,691
	<hr/>
Total assets	<u>\$ 11,374,359</u>
<b>LIABILITIES</b>	
Accounts payable	\$ 76,093
Payroll benefits payable	64,726
Payroll taxes payable	39,845
Accrued payroll	98,604
Due to State General Fund	5,749
Compensated absences:	
Due within one year	144,755
Due after one year	25,545
	<hr/>
Total liabilities	<u>455,317</u>
<b>NET POSITION</b>	
Net investment in capital assets	11,051,691
Unrestricted (deficit)	(132,649)
	<hr/>
Total net position	<u>10,919,042</u>
	<hr/>
Total liabilities and net position	<u>\$ 11,374,359</u>

The accompanying notes are an integral part of this financial statement.

State of New Mexico Court of Appeals

**STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2018

	<u>Governmental Activities</u>
EXPENSES	
Judicial:	
Administrative Services	\$ 5,702,658
Depreciation	376,804
	<hr/>
Total expenses	6,079,462
PROGRAM REVENUES	
Court fees	366
	<hr/>
Deficiency of revenue over expenses	(6,079,096)
GENERAL REVENUES AND TRANSFERS	
State General Fund appropriations	5,718,500
Other state funds	11
Current year reversion	(31,053)
	<hr/>
CHANGE IN NET POSITION	(391,638)
NET POSITION, beginning	11,315,380
Increase (decrease) in inventory	(4,700)
	<hr/>
NET POSITION, Ending	<u>\$ 10,919,042</u>

The accompanying notes are an integral part of this financial statement.

State of New Mexico Court of Appeals

**BALANCE SHEET – GOVERNMENTAL FUNDS**

June 30, 2018

	General Fund 13700
	<hr/>
<b>ASSETS</b>	
Interest in State General Fund Investment Pool	\$ 282,926
Supplies	39,742
	<hr/>
Total Assets	<u>\$ 322,668</u>
<b>LIABILITIES</b>	
Accounts payable	\$ 76,093
Payroll benefits payable	64,726
Payroll taxes payable	39,845
Accrued payroll	98,604
Due to State General Fund	5,749
	<hr/>
Total liabilities	<u>285,017</u>
<b>FUND BALANCES</b>	
Nonspendable - inventory	39,742
Unassigned	(2,091)
	<hr/>
Total fund balances	<u>37,651</u>
Total liabilities and fund balances	<u>\$ 322,668</u>

The accompanying notes are an integral part of this financial statement.

**RECONCILIATION OF BALANCE SHEET – GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION**

June 30, 2018

Total fund balances – Governmental Funds (Governmental Fund Balance Sheet)	\$ 37,651
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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:

Total cost of capital assets	\$ 14,281,590	
Accumulated depreciation	<u>(3,229,899)</u>	
Capital assets, net		11,051,691

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	<u>(170,300)</u>
Net position of governmental activities (Statement of Net Position)	<u>\$ 10,919,042</u>

State of New Mexico Court of Appeals

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –  
GOVERNMENTAL FUNDS**

Year Ended June 30, 2018

	General Fund 13700
REVENUES	
Court fees	\$ 366
EXPENDITURES	
Judicial:	
Current:	
Personal services and benefits	5,160,875
Contract services	71,849
Other costs	454,723
Capital outlay	-
Total expenditures	<u>5,687,447</u>
Deficiency of revenues over expenditures	(5,687,081)
OTHER FINANCING SOURCES (USES)	
Transfer In:	
State General Fund Appropriations	5,718,500
Other State funds	11
Transfer Out:	
Current year reversion	<u>(31,053)</u>
Total other financing sources	<u>5,687,458</u>
NET CHANGE IN FUND BALANCES	377
FUND BALANCE, beginning	41,974
Change in supplies inventory	<u>(4,700)</u>
FUND BALANCE, ending	<u><u>\$ 37,651</u></u>

The accompanying notes are an integral part of this financial statement.



State of New Mexico Court of Appeals

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF  
ACTIVITIES – GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2018

Net change in fund balance \$ 377

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 expense	(376,804)
Capital Outlay	-

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

Change in compensated absences	<u>(15,211)</u>
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Changes in net position of governmental activities	<u><u>\$ (391,638)</u></u>
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*See Notes to Financial Statements.*

State of New Mexico Court of Appeals

**STATEMENT OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL –  
GENERAL FUND**

For the Year Ended June 30, 2018

	Budget		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Court Fees	\$ 1,000	\$ 1,000	\$ 366	\$ (634)
General Fund Appropriation	5,718,500	5,718,500	5,718,500	-
Other Financing Sources	-	-	11	11
<b>Total Revenues</b>	<b>\$ 5,719,500</b>	<b>\$ 5,719,500</b>	<b>\$ 5,718,877</b>	<b>\$ (623)</b>
<b>EXPENDITURES</b>				
Administrative Services:				
Personnel Services	\$ 5,258,800	\$ 5,177,800	\$ 5,160,875	\$ 16,925
Contractual Services	17,900	72,690	71,849	841
Other	442,800	469,010	454,723	14,287
<b>Total Expenditures</b>	<b>\$ 5,719,500</b>	<b>\$ 5,719,500</b>	<b>5,687,447</b>	<b>\$ 32,053</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FUNDING SOURCES (USES)</b>			31,430	
<b>NON-BUDGETED RECONCILING ITEMS</b>				
Current year reversions			(31,053)	
Increase (decrease) in inventory			(4,700)	
<b>NET CHANGE IN FUND BALANCE</b>			(4,323)	
<b>FUND BALANCE, beginning of year,</b>			41,974	
<b>FUND BALANCE, end of year</b>			<b>\$ 37,651</b>	

The accompanying notes are an integral part of this financial statement.

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2018

**NOTE A – 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:

1. 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. The Court has no component units that are required to be reported in its financial statements.

2. 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.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2018

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

2. Basic Financial Statements – Continued

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.

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.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2018

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

3. 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 current period.

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.

4. Supplies Inventory

Supplies inventory consists of non-resale paper, postage, and office supplies and are recorded using the purchase (or expenditure) method. Under the purchase method, the purchases of inventory are recorded as expenditures and at year-end, the balance of inventories is recorded as nonspendable fund balance adjusted. 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 lower of cost of net realizable value.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2018

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

5. 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 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

6. Compensated Absences

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

<u>Years of Service</u>	<u>Hours Earned Bi-Weekly</u>
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.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2018

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

6. Compensated Absences – Continued

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.

7. 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, 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.

8. 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.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2018

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

8. Fund Balances – Continued

*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.

9. 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.

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.



**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2018

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

9. Budgets – Continued

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, 2018.

10. 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.

11. Subsequent Events

Subsequent events have been evaluated through November 1, 2018, the date which the financial statements were available to be issued, to determine whether such events should be recorded or disclosed in the financial statements for the year ended June 30, 2018. Management believes no material subsequent events have arisen that would require adjustment or disclosure.

**NOTE B – 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, 2018, the Court had the following invested in the General Fund Investment Pool:

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2018

**NOTE B – STATE TREASURER GENERAL FUND INVESTMENT POOL – CONTINUED**

	<u>Share Fund</u>	<u>Maturity</u>	<u>Account Balance</u>	<u>Fair Value</u>
General Fund	13700	1 day	<u>\$ 282,926</u>	<u>\$ 282,926</u>

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, 2018.

**NOTE C – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2018 was as follows:

	<u>Balance 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2018</u>
Capital assets depreciated:				
Building and improvements	\$ 14,008,877	\$ -	\$ -	\$ 14,008,877
Information tech equipment	118,125	-	-	118,125
Furniture and fixtures	<u>154,588</u>	<u>-</u>	<u>-</u>	<u>154,588</u>
Total capital assets depreciated	<u>14,281,590</u>	<u>-</u>	<u>-</u>	<u>14,281,590</u>
Less accumulated depreciation for:				
Building and improvements	2,655,850	350,222	-	3,006,072
Information tech equipment	85,430	11,124	-	96,554
Furniture and fixtures	<u>111,815</u>	<u>15,458</u>	<u>-</u>	<u>127,273</u>
Total accumulated depreciation	<u>2,853,095</u>	<u>376,804</u>	<u>-</u>	<u>3,229,899</u>
Total capital assets, net	<u>\$ 11,428,495</u>	<u>\$ (376,804)</u>	<u>\$ -</u>	<u>\$ 11,051,691</u>

Current depreciation expense is \$376,804.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2018

**NOTE D – COMPENSATED ABSENCES**

The following is a summary of changes in compensated absences:

	<u>Balance</u> <u>June 30, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2018</u>	<u>Due Within</u> <u>One Year</u>
Annual Leave	\$ 155,089	\$ 345,019	\$ (329,808)	\$ 170,300	\$ 144,755

Compensated absences are paid by the General Fund as an operating item.

**NOTE E – REVERSIONS TO STATE GENERAL FUND**

Current year reversions for the State General Fund as of June 30, 2018 were as follows:

<u>Appropriation</u> <u>Year</u>	<u>Fund Type</u>	<u>SHARE</u> <u>System Fund</u>	<u>Reversion</u>
Laws of 2017	General Fund	13700	\$31,053

In accordance with statute Section 6-5-10(A) NMSA 1978, all unreserved, undesignated fund balances in reverting funds and accounts as reflected in the central accounting system as of June 30 shall revert.

**NOTE F – 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 2018 was \$54,770.

**NOTE G – PENSION PLANS – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION AND JRA RETIREMENT PLANS**

Compliant with the requirements of Government Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions, the State of New Mexico follows the standard for the fiscal year ending June 30, 2018.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2018

**NOTE G – PENSION PLANS – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION AND JRA RETIREMENT PLANS – CONTINUED**

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 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 requirements for governmental funds apply to the primary government as a whole, and as such, this information will be presented in the 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.

The Court of Appeals contributions to the PERA for the years ended June 30, 2018, 2017 and 2016 were \$623,768, \$621,379 and \$646,255, respectively, which equal the required contributions for each year.

**NOTE H – POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN**

Compliant with the requirements of Government Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, the State of New Mexico has implemented this standard for the fiscal year ended June 30, 2018.

The Court, as part of the primary government of the State of New Mexico, is a contributing employer to a cost-sharing multiple-employer defined benefit postemployment health care plan that provides comprehensive group health insurance for persons who have retired from certain public service positions in New Mexico. The other postemployment benefits (OPEB) Plan is administered by the Retiree Health Care Authority of the State of New Mexico. Overall, total OPEB liability exceeds OPEB Plan net position resulting in a net OPEB liability. The State has determined the State's share of the net OPEB liability to be a liability of the State as a whole, rather than any agency or department of the State and the liability will not be reported in the department or agency level financial statements of the State. All required disclosures will be presented in the Comprehensive Annual Financial Report (CAFR) of the State of New Mexico.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2018

**NOTE H – POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN – CONTINUED**

Information concerning the net liability, benefit expense, and benefit-related deferred inflows and deferred outflows of resources of the primary government will be contained in the State of New Mexico Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2018, and will be available, when issued, from the Office of the State Controller, Room 166, Bataan Memorial Building, 407 Galisteo Street, Santa Fe, New Mexico, 87501.

The Court of Appeals contributions to the RHCA for the years ended June 30, 2018, 2017 and 2016 were \$82,288, \$81,866 and \$85,164, respectively, which equal the required contributions for each year.

**NOTE I – 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. Any claims against the Court have not exceeded available coverage. However, the Court would not be liable for more than the annual premiums.

**NOTE J – DUE TO STATE GENERAL FUND**

Due to other state agencies as of June 30, 2018, are as follows:

<u>Due To Other State Agencies</u>	<u>Agency Number</u>	<u>Amount</u>	<u>Due To Agency/Purpose</u>	<u>Fund Number</u>	<u>Amount</u>
Department of Finance & Administration	34100	\$5,749	FY2015 Reversions	13700	\$5,749
Total all funds		<u>\$5,749</u>			<u>\$5,749</u>

No amounts were due from other agencies as of June 30, 2018.

The purpose of this interagency payable is related to amounts related to FY2015 reversions.

**SUPPLEMENTARY INFORMATION**

State of New Mexico Court of Appeals

**SCHEDULE OF OPERATING TRANSFERS**

For the Year Ended June 30, 2018

See independent auditor's report.

	SHARE FUND	TITLE	TRANSFER	
			In	Out
(1)	62000	Department of Finance & Administration	\$5,718,500	\$ -
(2)	62000	Department of Finance & Administration	11	-
(3)	14900	FY 2018 Reversion	-	31,053
			<u>\$5,718,511</u>	<u>\$ 31,053</u>

(1) Laws 2017, 53rd Legislature, 1st Session Chapter 135, Section 4

(2) Miscellaneous revenue from overpayment of employee benefits

(3) Fiscal year 2018 reversion to State General Fund

**INDEPENDENT AUDITORS' 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**

Honorable Linda M. Vanzi, Chief Judge  
State of New Mexico Court of Appeals  
and  
Mr. Wayne Johnson  
New Mexico State Auditor  
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 comparison for the general fund of the State of New Mexico Court of Appeals (the Court), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Court's basic financial statements, and have issued our report thereon dated November 1, 2018.

**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 Court'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. 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 basic 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 matter that are required to be reported under *Government Auditing Standards* and 2.2.2 NMAC, which is described in the accompanying schedule of findings and questioned costs as items 2018-001 and 2018-002.

### **Court's Responses to Findings**

The Court's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Court's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **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 Court'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.

ATKINSON & CO., LTD

**Atkinson & Co., Ltd.**

Albuquerque, New Mexico  
November 1, 2018

**SCHEDULE OF FINDINGS AND RESPONSES**

June 30, 2018

**Current Year Findings Description**

*Findings – Financial Statement Audit*

None

*Findings in Accordance with 2.2.2 NMAC (State Audit Rule)*

2018-001 (2017-001) Reversion (Other Noncompliance)

2018-002 Compensated Absences (Control Deficiency)

*Prior Year Findings Description*

2017-001 Reversion (Other Noncompliance) – Modified and Repeated

2017-002 Capital Asset Dispositions – Resolved

**SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED**

June 30, 2018

**FINDINGS IN ACCORDANCE WITH 2.2.2 NMAC (STATE AUDIT RULE)**

**FINDING 2018-001 (2017-001) REVERSION (Other Noncompliance) – Modified and Repeated**

CONDITION

The amounts reverted in fiscal years 2016 and 2018 were incorrect and the necessary steps to correct the issue have not been made in a timely manner. The amount reverted during the 2018 fiscal year should have been \$31,464, which was the intent of the Court of Appeals. However, only \$25,715 was reverted as posted by DFA for a difference of \$5,749. During 2016, no reversion amount should have been made, however, an over reversion of \$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 of Appeals' 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 DFA erroneously reduced the amount of funds given by the over reverted amount rather than increasing the amount. As a result, the Court of Appeals was still left without the funds to pay the appropriate reversion amount and the issue perpetuated into fiscal year 2018. As of the issuance of these financial statements, the Court of Appeals still needs to take steps to remedy the resulting negative fund balance.

The Court of Appeals' management requested the appropriate reversion amount to be paid for fiscal year 2017, however subsequent to the request, the Department of Finance changed the entry amount in SHARE. Management did not notice this change and has not yet taken the necessary steps to correct reversion errors.

EFFECT

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

RECOMMENDATION

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

**SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED**

June 30, 2018

**FINDINGS IN ACCORDANCE WITH 2.2.2 NMAC (STATE AUDIT RULE) – CONTINUED**

**FINDING 2018-001 (2017-001) REVERSION (Other Noncompliance) – Modified and Repeated – Continued**

**VIEW OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION**

The Court will communicate with DFA about the issue and anticipates requesting a deficiency appropriation from the Legislature during the 2019 legislative session to remedy the negative fund balance. The ability of the court to remedy the situation is dependent upon actually receiving the appropriation.

**SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED**

June 30, 2018

**FINDINGS IN ACCORDANCE WITH 2.2.2 NMAC (STATE AUDIT RULE) – CONTINUED**

**2018-002 Compensated Absences (Control Deficiency)**

CONDITION

During audit testwork performed on the compensated absences, we noted that the Court of Appeals had up to 18 inactive employees from several years ago with termination pay balances totaling \$4,004. During audit testwork performed on the journal entries, we noted that the Court of Appeals had one employee that was paid for two full pay periods after retirement for a total of \$5,530. This overpayment was discovered by Central Payroll and the Court of Appeals recorded a journal entry to record the overpayment reimbursement

CRITERIA

The New Mexico State Personnel Administration determines absence and leave policies for all state entities. Per Section 1.1.7 of the New Mexico Administrative Code, annual leave balances up to 240 hours are due and payable as an obligation to the Court of Appeals to the terminated employees.

CAUSE

There was not a process in place to ensure that terminated employees were paid their compensated absences balances owed to them by the Court of Appeals. Until recently there were no reports in SHARE which identified inactive employees with compensated absences balances owed. For the one employee that was overpaid for terminal leave, the error was to management oversight.

EFFECT

The Court of Appeals was not in compliance with State of New Mexico standards for terminal leave pay and still has outstanding compensated absences owed to former employees, several of which left employment more than five years ago. The overpaid employee did remit the overpaid balance back to the Court of Appeals.

RECOMMENDATION

We recommend that management utilize the new reporting available in SHARE to improve its monitoring procedures to ensure terminated employees are paid appropriate terminal leave.

VIEW OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION

The Court believes further research into this issue is needed and doubts the accuracy of the new SHARE report. At this time, the Court denies that it was not in compliance with the State of New Mexico standards for terminal leave pay. The Chief Financial Officer and Financial Specialist will investigate the matter and then determine what, if any, action is needed by June 30, 2019. The Court notes that no former employee has claimed that they were not correctly paid for accrued leave upon termination.

State of New Mexico Court of Appeals

**EXIT CONFERENCE**

Year ended June 30, 2018

An exit conference was held on October 23, 2018. The following individuals were present:

**New Mexico Court of Appeals:**

Honorable Linda M. Vanzi  
Mark H. Reynolds  
Ken Wells  
Wendy Loomis

Chief Judge  
Chief Attorney Clerk  
Chief Financial Officer  
Financial Specialist

**Atkinson & Co., Ltd.:**

Clarke Cagle, CPA, CCIFP, CGFM  
Sarah Brack, CPA, CGFM, CGMA  
Andrea Brewer, CPA, CFE

Audit Director  
Audit Manager  
Audit Manager

**PREPARATION OF FINANCIAL STATEMENTS**

Management is responsible for ensuring that the books and records adequately support the preparation of financial statements in accordance with generally accepted accounting principles and that records are correct and in balance. The financial statements presented in this report have been prepared by the independent auditor with the assistance of the Court. Management has reviewed and approved the financial statements.