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**STATE OF NEW MEXICO
COURT OF APPEALS**

**FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

June 30, 2019

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CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

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State of New Mexico Court of Appeals

OFFICIAL ROSTER

June 30, 2019

JUDGES

Honorable M. Monica Zamora	Chief Judge
Honorable Linda M. Vanzi	Judge
Honorable J. Miles Hanisee	Judge
Honorable Julie J. Vargas	Judge
Honorable Jennifer L. Attrep	Judge
Honorable Kristina Bogardus	Judge
Honorable Jacqueline R. Medina	Judge
Honorable Megan P. Duffy	Judge
Honorable Briana H. Zamora	Judge
Honorable Zachary A. Ives	Judge

ADMINISTRATIVE OFFICIALS

Mark H. Reynolds	Attorney-Clerk
Michelle Haubert	Interim-Chief Staff Attorney
Wendy Loomis	Interim-Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

Honorable M. Monica Zamora, Chief Judge
State of New Mexico Court of Appeals
and
Mr. Brian Colón
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, 2019, 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, 2019, 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, 2019, 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, 2019, 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, 2019. Our opinion is not modified with respect to this matter.

As discussed in Note H, the State of New Mexico, as a single employer, follows GASB Standard No. 75 *Accounting and Financial Reporting for Post-Employment Benefits Other than Pensions* (OPEB), in the June 30, 2019, 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, 2019. 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 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 October 31, 2019, 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
October 31, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2019

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, 2019

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	
	2019	2018
Current assets	\$ 301,621	\$ 322,668
Capital assets, net	<u>10,675,054</u>	<u>11,051,691</u>
Total assets	<u>\$ 10,976,675</u>	<u>\$ 11,374,359</u>
Liabilities	<u>417,734</u>	<u>455,316</u>
Net Position:		
Invested in capital assets	10,675,054	11,051,691
Unrestricted (deficit)	<u>(116,113)</u>	<u>(132,648)</u>
Total net position	<u>\$ 10,558,941</u>	<u>\$ 10,919,043</u>

Financial Highlights

The Court of Appeals’ total net position for the fiscal year 2019 was \$10,558,941. Net position in fiscal year 2018 was \$10,919,043. The \$360,102 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, 2019

Statement of Activities

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

	Government Activities	
	2019	2018
Charges for services	\$ 117	\$ 366
State General Fund appropriations	5,852,700	5,718,500
Other state funds	297,362	11
Loss on disposal of capital asset	-	-
Transfers to other state agencies:		
Reversions to State General Fund	<u>(13,174)</u>	<u>(31,053)</u>
Total revenues	6,137,005	5,687,824
Program expenses	<u>(6,498,666)</u>	<u>(6,079,462)</u>
Change in net position	(361,661)	(391,638)
Net position, beginning of year	10,919,043	11,315,381
Increase (decrease) in inventory	<u>1,559</u>	<u>(4,700)</u>
Net position, end of year	<u>\$ 10,558,941</u>	<u>\$ 10,919,043</u>

The Court of Appeals' total revenues for fiscal year 2019 were \$6,137,005. The revenues in fiscal year 2018 were \$5,687,824. Revenues increased in 2019 by \$449,181, substantially due to a slightly larger appropriation from the New Mexico Legislature and \$290,400 in other state funds for Compensation Appropriations providing \$63,500 for all judicial permanent employees in budgeted positions whom have completed a satisfactory probation period with an average salary increase of 2%, \$128,100 additional salary increase for judicial permanent employees for an average of 2.5%, and \$98,800 for a 4.5% average salary increase for judges.

The Court of Appeals' total expenses for fiscal year 2019 were \$6,498,666. The expenses in fiscal year 2018 were \$6,079,462. Expenditures increased in fiscal year 2019 by \$419,204. This was mostly due to an increase in payroll costs.

BUDGETARY HIGHLIGHTS

In total, there was one budget adjustment in the amount of \$11,200 during 2019. The budget adjustment decreased the other operating category by increasing the personal services/employee benefits category by \$11,200. This action was needed to avoid over spending in the personal services/employee benefits category.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

June 30, 2019

CAPITAL ASSETS

The Court received a transfer of assets in the amount of \$6,962 from the Supreme Court.

ANTICIPATED CHANGES

The Court is seeking a fiscal year 2021 budget of \$6,825,700. If the Court receives the total requested appropriation, it will be a \$209,500 (3.17%) increase over the current fiscal year 2019 operating budget. The requested increase is to bring the salaries of staff attorneys more into alignment with the market rate, fund a new "Law Clerk Senior" job classification, and pay for a partial information technology refresh.

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, 2019

	<u>Governmental Activities</u>
ASSETS	
Investment in State General Fund Investment Pool	\$ 260,320
Inventory	41,301
Capital assets, net	<u>10,675,054</u>
 Total assets	 <u>\$ 10,976,675</u>
LIABILITIES	
Accounts payable	\$ 52,434
Payroll benefits payable	66,717
Payroll taxes payable	43,057
Accrued payroll	100,202
Compensated absences:	
Due within one year	132,026
Due after one year	<u>23,298</u>
 Total liabilities	 <u>417,734</u>
NET POSITION	
Net investment in capital assets	10,675,054
Unrestricted (deficit)	<u>(116,113)</u>
 Total net position	 <u>10,558,941</u>
 Total liabilities and net position	 <u>\$ 10,976,675</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, 2019

	<u>Governmental Activities</u>
EXPENSES	
Judicial:	
Administrative Services	\$ 6,115,067
Depreciation	<u>383,599</u>
Total expenses	6,498,666
PROGRAM REVENUES	
Court fees	<u>117</u>
Deficiency of revenue over expenses	(6,498,549)
GENERAL REVENUES AND TRANSFERS	
State General Fund appropriations	5,852,700
Other state funds	297,362
Current year reversion	<u>(13,174)</u>
CHANGE IN NET POSITION	(361,661)
NET POSITION, beginning	10,919,043
Increase (decrease) in inventory	<u>1,559</u>
NET POSITION, Ending	<u>\$ 10,558,941</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, 2019

	General Fund 13700
	<u> </u>
ASSETS	
Interest in State General Fund Investment Pool	\$ 260,320
Supplies	<u>41,301</u>
Total Assets	<u>\$ 301,621</u>
LIABILITIES	
Accounts payable	\$ 52,434
Payroll benefits payable	66,717
Payroll taxes payable	43,057
Accrued payroll	<u>100,202</u>
Total liabilities	<u>262,410</u>
FUND BALANCES	
Nonspendable - inventory	41,301
Unassigned	<u>(2,090)</u>
Total fund balances	<u>39,211</u>
Total liabilities and fund balances	<u>\$ 301,621</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, 2019

Total fund balances – Governmental Funds (Governmental Fund Balance Sheet)	\$ 39,211
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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	\$ 14,288,552	
Accumulated depreciation	<u>(3,613,498)</u>	
Capital assets, net		10,675,054

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>(155,324)</u>
Net position of governmental activities (Statement of Net Position)	<u>\$ 10,558,941</u>

State of New Mexico Court of Appeals

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

Year Ended June 30, 2019

	General Fund 13700
REVENUES	
Court fees	\$ 117
EXPENDITURES	
Judicial:	
Current:	
Personal services and benefits	5,654,127
Contract services	23,668
Other costs	452,248
Capital outlay	-
Total expenditures	<u>6,130,043</u>
Deficiency of revenues over expenditures	(6,129,926)
OTHER FINANCING SOURCES (USES)	
Transfer In:	
State General Fund Appropriations	5,852,700
Other State funds	290,400
Transfer Out:	
Current year reversion	<u>(13,174)</u>
Total other financing sources	<u>6,129,926</u>
NET CHANGE IN FUND BALANCES	-
FUND BALANCE, beginning	37,652
Change in supplies inventory	<u>1,559</u>
FUND BALANCE, ending	<u>\$ 39,211</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, 2019

Net change in fund balance \$ -

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	(383,599)
Capital Outlay	6,962

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

Change in compensated absences	<u>14,976</u>
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Changes in net position of governmental activities	<u>\$ (361,661)</u>
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The accompanying notes are an integral part of this financial statement.

State of New Mexico Court of Appeals

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

For the Year Ended June 30, 2019

	Budget		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Court Fees	\$ 1,000	\$ 1,000	\$ 117	\$ (883)
General Fund Appropriation	5,852,700	5,852,700	5,852,700	-
Other Financing Sources	290,400	290,400	290,400	-
Total Revenues	\$ 6,144,100	\$ 6,144,100	\$ 6,143,217	\$ (883)
EXPENDITURES				
Administrative Services:				
Personnel Services	\$ 5,653,800	\$ 5,665,000	\$ 5,654,127	\$ 10,873
Contractual Services	25,300	25,300	23,668	1,632
Other	465,000	453,800	452,248	1,552
Total Expenditures	\$ 6,144,100	\$ 6,144,100	6,130,043	\$ 14,057
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FUNDING SOURCES (USES)			13,174	
NON-BUDGETED RECONCILING ITEMS				
Current year reversions			(13,174)	
Increase (decrease) in inventory			1,559	
NET CHANGE IN FUND BALANCE			1,559	
FUND BALANCE, beginning of year,			37,652	
FUND BALANCE, end of year			\$ 39,211	

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

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 state agency as part 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, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2. Basic Financial Statements – Continued

The government-wide Statement of Net 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, 2019

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 or net realizable value.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2019

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, 2019

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, 2019

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 State's highest level of decision-making authority. Those committed amounts cannot be used for any other purpose unless the State 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 appropriation level. 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, 2019

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, 2019.

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 October 31, 2019, 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, 2019. 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, 2019, the Court had the following invested in the General Fund Investment Pool:

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2019

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>\$ 260,320</u>	<u>\$ 260,320</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, 2019.

NOTE C – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2019, was as follows:

	<u>Balance 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2019</u>
Capital assets depreciated:				
Building and improvements	\$ 14,008,877	\$ -	\$ -	\$ 14,008,877
Information tech equipment	118,125	-	-	118,125
Furniture and fixtures	154,588	6,962	-	161,550
Total capital assets depreciated	<u>14,281,590</u>	<u>6,962</u>	<u>-</u>	<u>14,288,552</u>
Less accumulated depreciation for:				
Building and improvements	3,006,072	350,222	-	3,356,294
Information tech equipment	96,554	10,956	-	107,510
Furniture and fixtures	127,273	22,421	-	149,694
Total accumulated depreciation	<u>3,229,899</u>	<u>383,599</u>	<u>-</u>	<u>3,613,498</u>
Total capital assets, net	<u>\$ 11,051,691</u>	<u>\$ (376,637)</u>	<u>\$ -</u>	<u>\$ 10,675,054</u>

Current depreciation expense is \$383,599.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2019

NOTE D – COMPENSATED ABSENCES

The following is a summary of changes in compensated absences:

	<u>Balance</u> <u>June 30, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2019</u>	<u>Due Within</u> <u>One Year</u>
Annual Leave	\$ 170,300	\$ 320,540	\$ (335,516)	\$ 155,324	\$ 132,026

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, 2019, 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 2018	General Fund	13700	\$13,174

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 2019 was \$57,194.

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, 2019.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2019

**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, 2019, 2018 and 2017 were \$686,321, \$623,768 and \$621,379, 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, 2019.

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, 2019

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, 2019, 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, 2019, 2018 and 2017 were \$90,367, \$82,288 and \$81,866, 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. Claims incurred have not exceeded insurance coverage.

NEW ACCOUNTING STANDARD

GASB 87

GASB Statement No. 87, *Leases* (GASB 87) establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

GASB 87 increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. GASB 87 is effective for periods beginning after December 15, 2019 (FY 21) with earlier application encouraged. This statement may have some impact on the assets and liabilities of the Court.

SUPPLEMENTARY INFORMATION

State of New Mexico Court of Appeals

SCHEDULE OF OPERATING TRANSFERS

For the Year Ended June 30, 2019

See independent auditor's report

	SHARE FUND	TITLE	TRANSFER	
			In	Out
(1)	62000	Department of Finance & Administration - Appropriation	\$ 5,852,700	\$ -
(2)	62000	Department of Finance & Administration - (Special) Appropriation or Compensation	290,400	-
(3)	62000	Department of Finance & Administration	6,962	-
(4)	14900	FY 2019 Reversion	-	13,174
			<u>\$ 6,150,062</u>	<u>\$ 13,174</u>

- (1) Laws 2018, 53rd Legislature, 2nd Session Chapter 73, Section 4B
- (2) Laws 2018, 53rd Legislature, 2nd Session Chapter 73, Section 8A2, 8B3, 8B4 Compensation Package
- (3) Other transfer in
- (4) Fiscal year 2019 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 M. Monica Zamora, Chief Judge
State of New Mexico Court of Appeals
and
Mr. Brian Colón
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, 2019, 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 31, 2019.

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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and 2.2.2 NMAC, which is described in the accompanying schedule of findings and responses as item 2019-001.

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 responses. 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
October 31, 2019

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2019

FINANCIAL STATEMENTS

Type of auditors' report issued: Qualified

INTERNAL CONTROL OVER FINANCIAL REPORTING

Material weakness(es) identified? Yes X No

Significant deficiency(s) identified? Yes X No

COMPLIANCE AND OTHER MATTERS

Noncompliance material to the financial statements noted? Yes X No

CURRENT YEAR FINDINGS

Findings – Financial Statement Audit

None

Findings in Accordance with 2.2.2 NMAC (State Audit Rule)

2019-001 (2017-001) Reversion (Other Noncompliance)

PRIOR YEAR FINDINGS

Findings – Financial Statement Audit

2018-001 (2017-001) Reversion (Other Noncompliance) – Modified and Repeated

2018-002 Compensated Absences (Control Deficiency) – Resolved

Findings in Accordance with 2.2.2 NMAC (State Audit Rule)

None

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2019

FINDINGS IN ACCORDANCE WITH 2.2.2 NMAC (STATE AUDIT RULE)

FINDING 2019-001 (2017-001) REVERSION (Other Noncompliance) – Modified and Repeated

CONDITION

The amount reverted in fiscal year 2016 was incorrect and the necessary steps to correct the issue have not been made in a timely manner. During 2016, no reversion amount should have been made; however, an over reversion of \$2,468 was paid. As of June 30, 2019, there is \$2,090 deficit in unassigned fund balance related to recovery of the 2016 over reverted amount.

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 2019. As of the issuance of these financial statements, the Court of Appeals still needs to take steps to remedy the resulting negative fund balance of \$2,090.

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, 2019

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

FINDING 2019-001 (2017-001) REVERSION (Other Noncompliance) – Modified and Repeated – Continued

VIEW OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION

The Court of Appeals worked with DFA to correct the reversion error from fiscal year 2017 for \$5,749, partially resolving FINDING 2018-001 from the previous year audit. The Court will continue to communicate to DFA about the fiscal year 2016 over reversion issue and anticipates requesting a deficiency appropriation from the Legislature during the 2020 legislative session to remedy the negative fund balance. The ability of the Court to remedy the situation is dependent upon actually receiving the appropriation.

State of New Mexico Court of Appeals

EXIT CONFERENCE

Year Ended June 30, 2019

An exit conference was held on October 24, 2019. The following individuals were present:

New Mexico Court of Appeals:

Honorable M. Monica Zamora
Mark H. Reynolds
Wendy Loomis

Chief Judge
Chief Attorney Clerk
Financial Specialist

Atkinson & Co., Ltd.:

Clarke Cagle, CPA, CCIFP, CGFM
Andrea Brewer, CPA, CFE
Valerie Torrez, CPA

Audit Director
Audit Manager
Audit Senior

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.

ATKINSON & CO. LTD
CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

6501 AMERICAS PARKWAY NE
SUITE 700
ALBUQUERQUE, NM 87110

T 505 843 6492
F 505 843 6817
ATKINSONCPA.COM

