



**STATE OF NEW MEXICO
COURT OF APPEALS**

FINANCIAL STATEMENTS

JUNE 30, 2010

MOSS ADAMS_{LLP}

Certified Public Accountants | Business Consultants

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STATE OF NEW MEXICO
NEW MEXICO COURT OF APPEALS

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**STATE OF NEW MEXICO
COURT OF APPEALS**

Official Roster

June 30, 2010

JUDGES

Name	Title
Honorable Cynthia A. Fry	Chief Judge
Honorable James Wechsler	Sr. Judge
Honorable Michael D. Bustamante	Judge
Honorable Celia Foy Castillo	Judge
Honorable Roderick Kennedy	Judge
Honorable Michael E. Vigil	Judge
Honorable Linda M. Vanzi	Judge
Honorable Robert E. Robles	Judge
Honorable Timothy Garcia	Judge

ADMINISTRATIVE OFFICIALS

Gina M. Maestas	Attorney-Clerk
Bridget Gavahan	Chief Staff Attorney

Independent Auditors' Report

Honorable Cynthia A. Fry, Chief Judge
Court of Appeals
and
Mr. Hector H. Balderas
New Mexico State Auditor

We have audited the accompanying financial statements of the governmental activities and the major fund, including the budgetary comparison, of the State of New Mexico, Court of Appeals (Court) as of and for the year ended June 30, 2010, which collectively comprise the Court's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Court's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Court's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, 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 and major fund 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, 2010, and the changes in financial position, and budgetary comparison for the year then ended in, conformity with accounting principles generally accepted in the United States of America.

Honorable Cynthia A. Fry, Chief Judge
Court of Appeals
and
Mr. Hector H. Balderas
New Mexico State Auditor

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the major fund of the Court as of June 30, 2010, and the changes in financial position, and the budgetary comparison for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 13, 2010 on our consideration of the Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was made for the purpose of forming opinions on the basic financial statements. The accompanying financial information listed as other supplemental information in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Mess Adams LLP

Albuquerque, New Mexico
December 13, 2010

**STATE OF NEW MEXICO
COURT OF APPEALS
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2010**

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 Courts' 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 the cases settle or not.

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.

**STATE OF NEW MEXICO
COURT OF APPEALS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Year Ended June 30, 2010**

Financial Statements Overview

The financial statements are for the purpose of presenting to the reader the financial position and financial changes that occur on the Court of Appeals' account books. The financial statements are not intended to report the financial position of the State of New Mexico as a whole. The Court of Appeals is one of many agencies in the State that contribute to the financial position of the State of New Mexico. The Court of Appeals has only one fund and is a reverting agency. The Court's funds revert to the State General Fund after the end of the fiscal year. The Court's revenues are from the State General Fund.

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 Assets (the "Unrestricted Net Assets") 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 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 has only one such fund: the general fund. The Governmental Fund presentation is presented on a sources and uses of liquid resources basis.

STATE OF NEW MEXICO
 COURT OF APPEALS
 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
 Year Ended June 30, 2010

Capital and Infrastructure Assets

The Court does not own any infrastructure assets, but does own other capital assets.

Budgetary Comparison:

Budgetary comparison schedules for the general fund are presented with the basic financial statements. The budgetary comparison schedules present both the original and the final appropriated budgets for the reporting period as well as the actual inflows, outflows, and balances, as stated on the government's budgetary basis.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets

	Government Activities	
	<u>2010</u>	<u>2009</u>
Current Assets	\$ 442,243	2,160,562
Capital Assets, net	<u>13,175,504</u>	10,306,159
Total Assets	<u>13,617,747</u>	<u>12,466,721</u>
Liabilities	<u>618,819</u>	2,345,268
Net Assets:		
Invested in capital assets	13,175,504	10,306,159
Unrestricted (deficit)	<u>(176,646)</u>	(184,706)
Total Net Assets	<u>\$ 12,998,858</u>	<u>10,121,453</u>

STATE OF NEW MEXICO
 COURT OF APPEALS
 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
 Year Ended June 30, 2010

Financial Highlights

The Court of Appeals' total net assets for the fiscal year 2010 was \$12,998,858 versus fiscal year 2009 net assets of \$10,121,453. The change is attributable to bond proceed appropriations related to the construction of the new building.

Statement of Activities

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

	Government Activities	
	<u>2010</u>	<u>2009</u>
Charges for services	\$ 1,389	-
State General Fund Appropriations	5,578,500	5,607,500
Bond Proceeds Appropriation	3,622,197	9,803,869
Transfers from Other State Agencies	-	114,400
Reversion to State General Fund	<u>(21,197)</u>	<u>(10,301)</u>
Total Revenues	9,180,889	15,515,468
 Program Expenses	 <u>6,303,484</u>	 <u>6,337,992</u>
 Change in net assets	 2,877,405	 9,177,476
 Net assets, beginning of year	 <u>10,121,453</u>	 <u>943,977</u>
 Net assets, end of year	 <u>\$ 12,998,858</u>	 <u>10,121,453</u>

The Court of Appeals' total expenses for fiscal year 2010 were \$6,303,484 versus fiscal year 2009 which were \$6,337,992. Expenditures decreased in 2010 by \$34,508 due to decreases in personal services, employee benefits and contractual services.

**STATE OF NEW MEXICO
COURT OF APPEALS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Year Ended June 30, 2010**

The Court of Appeals' total revenues for fiscal year 2010 were \$9,180,889 versus fiscal year 2009 which were \$15,515,468. Revenues decreased in 2010 by \$6,334,579 due to a decrease in the amount received for the construction of the new building.

The Court of Appeals' Funds

The Court of Appeals has only one governmental fund; the General Fund. Analysis of its activities are outlined above.

BUDGETARY HIGHLIGHTS

There was one budget adjustment in the amount of \$61,000 during 2010. The budget adjustment decreased the contractual services category by \$4,000 and decreased the operating costs category by \$57,000 and increased the personal services category by \$61,000 in order to meet other cost requirements.

CAPITAL ASSETS

The Court completed a project to build a new Courthouse for its operations in Albuquerque, New Mexico. As of June 30, 2010, \$13,233,484 in costs had been capitalized.

ANTICIPATED CHANGES

No significant changes are anticipated.

CONTACTING THE COURT'S FINANCIAL MANAGEMENT

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

STATE OF NEW MEXICO
 COURT OF APPEALS
 STATEMENT OF NET ASSETS
 June 30, 2010

	Governmental Activities
ASSETS	
Interest in State General Fund Investment Pool	\$ 276,283
Due from other state agencies	165,960
Capital assets	<u>13,175,504</u>
Total assets	<u><u>\$ 13,617,747</u></u>
LIABILITIES	
Accounts payable	\$ 40,083
Accrued wages and payroll taxes payable	232,661
Due to other state agencies	148,302
Due to State General Fund	21,197
Compensated absences	<u>176,646</u>
Total liabilities	<u>618,889</u>
NET ASSETS	
Invested in capital assets	13,175,504
Unrestricted (deficit)	<u>(176,646)</u>
Total net assets	<u><u>\$ 12,998,858</u></u>

See Notes to Financial Statements

STATE OF NEW MEXICO
 COURT OF APPEALS
 STATEMENT OF ACTIVITIES
 Year Ended June 30, 2010

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Capital Grants and Contributions	Governmental Activities
Governmental Activities				
Court operations	\$ 6,303,484	1,389	-	(6,302,095)
Total governmental activities	<u>6,303,484</u>	<u>1,389</u>	<u>-</u>	<u>(6,302,095)</u>
General Revenues				
Transfers - State General Fund appropriation				\$ 5,578,500
Transfers - bond proceeds appropriation				3,622,197
Reversion to State General Fund - 2010				(21,197)
Total general revenues				<u>9,179,500</u>
Changes in net assets				2,877,405
Net assets, beginning of year				<u>10,121,453</u>
Net assets, end of year				<u><u>\$ 12,998,858</u></u>

See Notes to Financial Statements.

STATE OF NEW MEXICO
 COURT OF APPEALS
 BALANCE SHEET - GENERAL FUND
 June 30, 2010

ASSETS

Interest in State General Fund Investment Pool	\$ 276,283
Due from other state agencies	<u>165,960</u>
Total assets	<u>\$ 442,243</u>

LIABILITIES AND FUND BALANCES

Liabilities	
Accounts payable	\$ 40,083
Accrued wages and payroll taxes payable	232,661
Due to other State Agencies	148,302
Due to State General Fund	<u>21,197</u>
Total liabilities	<u>442,243</u>
 Fund balances	
Unreserved	<u>-</u>
Total liabilities and fund balances	<u>\$ 442,243</u>

See Notes to Financial Statements.

STATE OF NEW MEXICO
COURT OF APPEALS
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
Year Ended June 30, 2010

Fund balances - Governmental Fund	\$	-
Capital assets are not included in the fund financial statements		13,175,504
Liabilities are not due and payable in the current period and therefore are not reported in the governmental funds - compensated absences		<u>(176,646)</u>
Net assets of governmental activities	\$	<u>12,998,858</u>

See Notes to Financial Statements.

STATE OF NEW MEXICO
COURT OF APPEALS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES -
GENERAL FUND
Year Ended June 30, 2010

Expenditures		
Judicial		
Current		
Personal services	\$	3,947,379
Employee benefits		1,263,495
Operating costs		375,618
Contract services		25,905
Supplies		452,674
Maintenance and repairs		36,660
Travel		1,676
Other costs		8,903
Capital outlay		<u>3,068,579</u>
Total expenditures		<u>9,180,889</u>
Excess (deficiency) of revenues over expenditures		<u>(9,180,889)</u>
Other Financing Sources (Uses)		
Transfers - State General Fund appropriation		5,578,500
Transfers - severance tax bond proceeds appropriation		3,622,197
Miscellaneous revenues		1,389
Reversion to State General Fund - 2010		<u>(21,197)</u>
		<u>9,180,889</u>
Net change in fund balances		<u>-</u>
Fund balances, beginning of year		<u>-</u>
Fund balances, end of year	\$	<u><u>-</u></u>

See Notes to Financial Statements.

STATE OF NEW MEXICO
 COURT OF APPEALS
 RECONCILIATION OF THE STATEMENT OF REVENUES,
 EXPENDITURES, AND CHANGES IN FUND BALANCES
 OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 Year Ended June 30, 2010

Net change in fund balances - governmental fund	\$ -
<p>Amounts reported for governmental activities in the Statement of Activities are different because some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds</p>	
Capital outlay	3,068,579
Depreciation expense	(199,234)
Change in compensated absence liability	<u>8,060</u>
Change in net assets of governmental activities	<u>\$ 2,877,405</u>

See Notes to Financial Statements.

STATE OF NEW MEXICO
 COURT OF APPEALS
 STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
 GENERAL FUND
 Year Ended June 30, 2010

	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Annual Appropriations				
Revenues				
State General Fund appropriations	\$ 5,692,400	5,578,500	5,578,500	-
Reversion to State General Fund	-	-	(21,197)	(21,197)
Miscellaneous revenue	1,000	1,000	1,389	389
Other financing sources	-	-	-	-
Total revenues	5,693,400	5,579,500	5,558,692	(20,808)
Expenditures				
Personal services	5,157,600	5,218,600	5,210,874	7,726
Contractual services	67,700	23,700	23,223	477
Other costs	468,100	337,200	324,595	12,605
Total expenditures	5,693,400	5,579,500	5,558,692	20,808
Excess (deficiency) of revenues over expenditures	\$ -	-	-	-

Note Special Appropriations, bond proceeds, revenue and related expenditures are presented in the Multi-Year Appropriation schedule.

See Notes to Financial Statements.

STATE OF NEW MEXICO
 COURT OF APPEALS
 STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
 GENERAL FUND (CONTINUED)
 Year Ended June 30, 2010

	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Multi-Year Appropriations				
Laws of 2008, Chapter 92,				
Fund Balance	\$ 3,227,446	3,227,446	3,227,446	-
Expenditures	3,227,446	3,227,446	3,227,446	-
	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
Laws of 2009, Section 8,				
Bond Proceeds	\$ 400,000	400,000	394,751	5,249
Expenditures	400,000	400,000	394,751	5,249
	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>

See Notes to Financial Statements.

STATE OF NEW MEXICO
COURT OF APPEALS
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

In evaluating how to define the Court of Appeals, for financial reporting purposes, management has considered all potential component units in the reporting entity by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether government is able to exercise oversight responsibilities. Based upon the application of these criteria, the following is a brief review of the entities included and excluded in these financial statements.

Included within the 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.

Excluded from reporting entity:

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

The Court of Appeals has no component units.

STATE OF NEW MEXICO
COURT OF APPEALS
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

B. Basic Financial Statements

The basic financial statements include both government-wide (based on the Court of Appeals as a whole) and fund financial statements. While the previous model emphasized fund types (the total of all funds of a particular type), the new model focuses on either the Court of Appeals as a whole or major individual funds (within the fund financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type. The Court of Appeals is a single-purpose government entity and has no business type activities. In the government-wide Statement of Net Assets, 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 receivables, as well as long-term debt and obligations.

The government-wide Statement of Activities 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. Historically, the previous model did not summarize or present net cost by function or activity. Since the Court of Appeals only has one program, it does not employ direct cost allocation in the financial statements.

The fund financial statements are very similar to the financial statements presented in the previous mode. 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 its General Fund which is considered a major fund.

STATE OF NEW MEXICO
COURT OF APPEALS
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

B. Basic Financial Statements (Continued)

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, 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.

C. Non-Current Governmental Assets/Liabilities

Non-current assets and liabilities are not presented in the fund financial statements, but rather incorporated only in the government-wide Statement of Net Assets.

STATE OF NEW MEXICO
COURT OF APPEALS
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

D. 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.

Accrual Basis. The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. The Department has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989. 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 and liabilities resulting from exchanged transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with 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.

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

In applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to Governmental Accounting Standards Board Statement No. 33 (GASB 33), *Accounting and Financial Reporting for Nonexchange Transactions*, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenues when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met, under most circumstances, should be reported as advances by the provider and deferred revenue by the recipient. The Severance Tax Bond Proceeds appropriations are recognized in an amount equivalent to the related capital and other expenditures.

STATE OF NEW MEXICO
 COURT OF APPEALS
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2010

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
 (CONTINUED)**

E. Interest in State General Fund Investment Pool

All funds allotted to the Court of Appeals are held by the New Mexico State Treasurer. Deposits are non-interest bearing. Money deposited by the Court of Appeals with the State Treasurer is pooled and invested by the State Treasurer. The State Treasurer deposits public monies with New Mexico financial institutions in denominations which generally are in excess of the \$250,000 in insurance coverage provided by federal agencies. Accordingly, the State Treasurer requires that depository financial institutions provide additional collateral for such investments. The collateral generally is in the form of marketable debt securities and is required in amounts ranging from 50% to 102% of the par value of the investment dependent upon the institutions operating results and capital. Collateral for the fiscal account is required in amounts equal to 50% of the average investment balance. Separate financial statements of the State Treasurer indicate collateral categories of risk and market value of purchased investments. All collateral is held in third-party safekeeping.

At June 30, 2010, the Court had the following in pooled cash which had no reconciling items:

Interest in State General Fund Investment Pool	<u>\$ 276,283</u>
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F. Capital Assets

Property, plant, and equipment purchased or acquired at a value of \$5,000 or greater are capitalized. Assets are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed when incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives with no salvage value.

	Years
Building and improvements	10-40
Furniture/fixtures	10
Data processing equipment and software	3-5
Equipment	5
Vehicles	5

STATE OF NEW MEXICO
COURT OF APPEALS
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

G. Net Assets

The government-wide financial statements utilize a net asset presentation. Net assets are 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 assets 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 Assets—are liquid assets (generated from revenues and not bond proceeds), which have third-party, legally enforceable, (statutory, bond covenant or granting agency) limitations on their use. When there is an option, the Court of Appeals spends restricted resources first.

Unrestricted Assets—represent unrestricted liquid assets.

H. Compensated Absences

Vested or accumulated vacation leave and vested sick leave are reported in the entity-wide financial statements, since they are not expected to be liquidated with expendable available financial resources. No current expenditures are reported in the General Fund financial statements for these amounts.

I. Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a liability of the General Fund. The remaining portion of such obligations is reported in the entity-wide financial statements.

NOTE 2. 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.

STATE OF NEW MEXICO
COURT OF APPEALS
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 2. BUDGETS (CONTINUED)

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.

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 are consistent with this budgeting methodology.

The a 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 years 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, 2010.

STATE OF NEW MEXICO
 COURT OF APPEALS
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 June 30, 2010

NOTE 3. DUE TO STATE GENERAL FUND

The Court of Appeals accrued a liability for reversion to the State General Fund for its unexpended general appropriations for the fiscal year ended June 30, 2010. The following is a summary of reversion activity for the fiscal year.

Budget year 2010 reversion	\$ 21,197
Due to State General Fund	<u>\$ 21,197</u>

NOTE 4. CAPITAL ASSETS

A summary of changes in capital assets follows:

	Balance 7/1/09	Additions	Deletions	Balance 6/30/10
Cost				
Construction in progress	\$ 10,306,159	-	(10,306,159)	-
Buildings & improvements	-	13,233,484	-	13,233,484
Furniture, fixtures & equipment	-	129,603	-	129,603
Data processing equipment	-	11,651	-	11,651
Cost	<u>10,306,159</u>	<u>13,374,738</u>	<u>(10,306,159)</u>	<u>13,374,738</u>
Accumulated Depreciation				
Buildings & improvements	\$ -	192,991	-	192,991
Furniture, fixtures & equipment	-	4,625	-	4,625
Data processing equipment	-	1,618	-	1,618
Net accumulated depreciation	<u>-</u>	<u>199,234</u>	<u>-</u>	<u>199,234</u>
Net capital assets	<u>\$ 10,306,159</u>	<u>13,175,504</u>	<u>(10,306,159)</u>	<u>13,175,504</u>

The Court of Appeals does not have any debt related to capital assets. Certain costs charged to the special appropriations did not qualify for capitalization. Depreciation expense of \$199,234 was included in court operations expense.

STATE OF NEW MEXICO
 COURT OF APPEALS
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2010

NOTE 5. COMPENSATED ABSENCES

During the year ended June 30, 2010, the following changes occurred in compensated absence liabilities:

	Balance			Balance
	7/1/09	Additions	Deletions	6/30/10
Compensated absences	\$ 184,706	250,523	(258,583)	<u>176,646</u>

Management estimates that compensated absences are due within one year. Substantially all of the compensated absences balances have been paid by the General Fund in prior years. The amount of compensated absences is calculated by multiplying the vested hours by the pay rate at year-end plus applicable payroll taxes.

The Court of Appeals' policy is to permit employees to accumulate earned but unused vacation and sick pay benefits.

Qualified employees accumulate maximum annual leave as follows:

Years of Service	Hours earned Per Month	Days earned Per Month	Days of Maximum Accrual
1 month – 3 years	4.62	1¼	30
Over 3 – 7 years	5.54	1½	30
Over 7 – 14 years	6.46	1¾	30
Over 14/beyond	7.39	2	30

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 unpaid annual leave as of the date of termination, up to the above maximums.

Accrued Sick Leave. Employees who have over 600 hours of accumulated sick leave can receive payment for the hours over 600 up to 120 hours on July 1 or January 1 of each year. However, the sick leave will be paid at 50% of the employee's regular hourly wage.

At retirement, employees may receive 50% payment for up to 400 hours for the hours over 600 of accumulated sick leave. Therefore, the only sick leave which has been accrued represents the hours earned at June 30, 2010, over 600. Expenditures for accumulated sick pay for hours under 600 will be recognized as employees take such absences. At June 30, 2010, accrued sick leave in excess of 600 hours amounted to \$3,819.

**STATE OF NEW MEXICO
COURT OF APPEALS
NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

NOTE 6. LEASES

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

NOTE 7. SPECIAL APPROPRIATIONS

Under the Laws of 2008, Chapter 92, Section 6, the Court of Appeals received a multi-year special appropriation of \$6,000,000 from bond proceeds to be expended in fiscal years 2007 through 2011 to plan, design, and construct a Court of Appeals adjacent to the UNM Law School in Albuquerque. During the year ended June 30, 2010, an additional \$3,227,465 was expended and recognized as revenue.

Additionally, under the Laws of 2009, Chapter 92, Section 8, the Court of Appeals received a multi-year special appropriation of \$400,000 from bond proceeds to purchase and install furniture, fixtures, and equipment at the Pamela B. Minzner Court of Appeals law center in Albuquerque. As of June 30, 2010, \$394,751 has been recognized as revenue as it had been expended during the year.

Revenue for these special appropriations is recognized when all eligibility requirements are met which is generally when the funds are expended.

NOTE 8. RETIREMENT PLANS

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

STATE OF NEW MEXICO
COURT OF APPEALS
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 8. RETIREMENT PLANS (CONTINUED)

Funding Policy. Plan members are required to contribute 8.92% of their gross salary. The Court of Appeals is required to contribute 15.09% of the gross covered salary. The contribution requirements of plan members and Court of Appeals are established under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The Court of Appeals contributions to PERA for the years ended June 30, 2010, 2009 and 2008 were \$426,520, \$458,461 and \$434,124, respectively, equal to the amount of the required contributions for each year.

Judicial Retirement Plan

Plan Description. Substantially all of the Judges of the Court of Appeals participate in a defined benefit contributory retirement plan through the Judicial Retirement Act (Chapter 10, Article 12B, NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to PERA, PO Box 2123, Santa Fe, NM 87504-2123.

Funding Policy. Plan members are required to contribute 3.5% of their gross salary if they participate in the plan existing prior to June 30, 1980, or 10.00% if they participate in the plan after June 30, 1980. The Court of Appeals is required to contribute 10.50% of the Judge's gross covered salary. The contribution requirements of plan members and the Court of Appeals are established under Chapter 10, Article 12B, NMSA 1978. The requirements may be amended by acts of the legislature. The Court of Appeals' contributions to Judicial Retirement Act for the years ending June 30, 2010, 2009 and 2008 were \$118,827, \$129,283 and \$137,677, respectively, equal to the amount of the required contributions for each year.

NOTE 9. POST-EMPLOYMENT BENEFITS - STATE RETIREE HEALTH CARE PLAN

Plan Description. The Court of Appeals contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit post employment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree

STATE OF NEW MEXICO
COURT OF APPEALS
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

**NOTE 9. POST-EMPLOYMENT BENEFITS - STATE RETIREE HEALTH
CARE PLAN (CONTINUED)**

Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf unless that person retires before the employer's RHCA effective date, in which the event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

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

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

STATE OF NEW MEXICO
 COURT OF APPEALS
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2010

NOTE 9. POST-EMPLOYMENT BENEFITS - STATE RETIREE HEALTH CARE PLAN (CONTINUED)

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. During the fiscal year ended June 30, 2010, the statute required each participating employer to contribute 1.3% of each participating employee's annual salary; each participating employee was required to contribute .65% of their salary. In the fiscal years ending June 30, 2011 through June 30, 2013 the contribution rates for employees and employers will rise as follows:

For employees who are not members of an enhanced retirement plan the contribution rates will be:

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
FY11	1.666%	.833%
FY12	1.834%	.917%
FY13	2.000%	1.000%

For employees who are members of an enhanced retirement plan (state police and adult correctional officer coverage plan 1; municipal police member coverage plans 3, 4 and 5; municipal fire member coverage plan 3, 4 and 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act [10-12B-1 NMSA 1978]) the contribution rates will be:

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
FY11	2.084%	1.042%
FY12	2.292%	1.146%
FY13	2.500%	1.250%

Also, employers joining the program after 1/1/98 are required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

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

The Court of Appeals contributions to the RHCA for the years ended June 30, 2010, 2009 and 2008 were \$51,219, \$49,338 and \$47,984, respectively, which equal the required contributions for each year.

**STATE OF NEW MEXICO
COURT OF APPEALS
NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

NOTE 10. RISK MANAGEMENT

The Court of Appeals is exposed to various risks of loss for which it carries insurance (Workers' Compensation, General Liability, Civil Rights, and Property) with the State of New Mexico Risk Management Division of the General Services Department.

STATE OF NEW MEXICO
 COURT OF APPEALS
 SCHEDULE OF OPERATING TRANSFERS
 Year Ended June 30, 2010

SHARE Fund	Title	Inter-Agency Operating Transfers	
		In	Out
All to/from the Court of Appeals General Fund 13700			
(1) Fund 85300	Department of Finance and Administration, 341	\$ 5,578,500	-
(2) Fund 60900	Department of Finance and Administration, 341	3,622,197	-
(3) Fund 85300	Department of Finance and Administration, 341	-	21,197
		<u>9,200,697</u>	<u>21,197</u>

- (1) For State General Fund Appropriations
- (2) Severance Tax Bond Proceed appropriation
- (3) FY 2010 Reversion

STATE OF NEW MEXICO
 COURT OF APPEALS
 SCHEDULE OF SPECIAL APPROPRIATIONS
 Year Ended June 30, 2010

	Current Year Revenue	Amount Appropriated	Current Year Expenditures	Project to Date Expenditures	Unexpended Portion
Severance Tax Bond Proceeds Appropriations					
Laws of 2008, Chapter 92,					
Section 6					
Court of Appeals Building	\$ 3,227,465	6,000,000	3,227,465	5,376,150	623,850
Laws of 2009, Chapter 92,					
Section 8					
Court of Appeals Building	394,751	400,000	394,751	394,751	5,249
	<u>\$ 3,622,216</u>	<u>6,400,000</u>	<u>3,622,216</u>	<u>5,770,901</u>	<u>629,099</u>

**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 Cynthia A. Fry, Chief Judge
Court of Appeals
and
Mr. Hector H. Balderas
New Mexico State Auditor

We have audited the financial statements of the governmental activities, the major fund, including the budgetary comparison for the general fund of the State of New Mexico, Court of Appeals (Court), as of and for the year ended June 30, 2010, and have issued our report thereon dated December 13, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Honorable Cynthia A. Fry, Chief Judge
Court of Appeals
and
Mr. Hector H. Balderas
New Mexico State Auditor

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Court's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

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

Mess Adams LLP

Albuquerque, New Mexico
December 13, 2010

**STATE OF NEW MEXICO
COURT OF APPEALS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2010**

FINDINGS – FINANCIAL STATEMENT AUDIT

09-01 – Capital Projects Fund Accounting

Resolved

**STATE OF NEW MEXICO
COURT OF APPEALS
EXIT CONFERENCE
Year Ended June 30, 2010**

We discussed the recommendations contained in this letter during the exit conference held on December 10, 2010. The exit conference was attended by the following individuals:

Court of Appeals

Honorable James Wechsler
Gina Maestas
Lydia Romero

Lorraine Abeyta

Sr. Judge
Chief Clerk
Assistant Director of Fiscal Services
– Administrative Office of the Courts
Financial Administrator

Moss Adams LLP

Larry Carmony, Partner
Maria Carrillo, Senior

The financial statements were prepared with the assistance of Moss Adams LLP from the books and records of the Court of Appeals.