

State of New Mexico Court of Appeals



Financial Statements

June 30, 2012

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OFFICIAL ROSTER
June 30, 2012

JUDGES

Honorable Celia Foy Castillo	Chief Judge
Honorable James Wechsler	Sr. Judge
Honorable Michael D. Bustamante	Judge
Honorable Jonathan B Sutin	Judge
Honorable Cynthia A. Fry	Judge
Honorable Roderick Kennedy	Judge
Honorable Michael E. Vigil	Judge
Honorable Linda M. Vanzi	Judge
Honorable Timothy Garcia	Judge
Honorable J. Miles Hanisee	Judge

ADMINISTRATIVE OFFICIALS

Wendy F. Jones	Chief Attorney-Clerk
Bridget Gavahan	Chief Staff Attorney
Lorraine Abeyta	Chief Financial Officer

To the Honorable Celia Foy Castillo
New Mexico Court of Appeals
And
Hector Balderas
New Mexico State Auditor

We have audited the accompanying financial statements of the governmental activities, each major fund, the aggregate remaining fund information and the budgetary comparisons for the general fund and capital projects fund of the State of New Mexico Court of Appeals (Court), as of and for the year ended June 30, 2012 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.

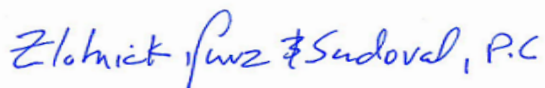
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Court as of June 30, 2012, and the respective changes in financial position thereof and the budgetary comparisons for the general fund, and capital projects fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 28, 2012 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 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.

Our audit was conducted for the purpose of forming opinions on the basic financial statements, the combining and individual fund financial statements, and the budgetary comparisons. The additional schedules listed as "other supplemental information" in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Zlotnick, Laws & Sandoval, P.C.

November 28, 2012

**Management's Discussion and Analysis
June 30, 2012**

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.

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 two funds, the General Fund which is a reverting fund and a Capital Projects Fund, which is a multi-year fund funded through bond proceeds. The Court's General Fund revenues are from the State General Fund and revert to the State General Fund after the end of the

**Management’s Discussion and Analysis
June 30, 2012**

fiscal year. The Court’s Capital Projects Fund revenues are from bond proceeds and are multi-year funds. The balance of these funds will revert at the end of fiscal year 2014, if not expended.

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 two such funds: the general fund and the capital projects 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	
	2012	2011
Current Assets	\$ 267,860	234,052
Capital Assets, net	<u>13,273,621</u>	<u>13,696,626</u>
Total Assets	<u>\$ 13,541,481</u>	<u>13,903,678</u>
Liabilities	<u>422,234</u>	<u>478,634</u>
Net Assets:		
Invested in capital assets	13,273,621	13,696,626
Unrestricted(deficit)	<u>(154,374)</u>	<u>(180,347)</u>
Total Net Assets	<u>\$ 13,541,481</u>	<u>13,425,044</u>

For more detailed information, see the Statement of Net Assets. The 2011 numbers have been presented as restated (see Note 11 in the Notes to the Financial Statements).

Management's Discussion and Analysis
June 30, 2012

Financial Highlights

The Court of Appeals' total net assets for the fiscal year 2012 were \$13,119,247 versus net assets in fiscal year 2011 of \$13,425,044 after restatement. The change is largely attributable to budget cuts implemented by the State Legislature for all government agencies, as well as the completion and occupancy of the Albuquerque Court building.

The major expenditures relating to fixed assets occurred during the construction phase of the Albuquerque Court building, which was completed and occupied in fiscal year 2010. The total net asset amount for fiscal year 2011 was restated and increased from the amount reported in the fiscal year 2011 financial statements (see Note 11 in the Notes to the Financial Statements). The amount reported was \$12,570,624, and the restated amount was \$13,425,044. The \$854,420 increase was largely due to some material purchases that were expensed but not capitalized. The error occurred when the Court failed to apply criteria for the capitalization of fixed assets as set forth by GASB 34 and state audit rules.

Statement of Activities

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

	Government Activities	
	2012	2011
Charges for services	\$ 1,218	2,859
State General Fund Appropriations	5,339,400	5,471,200
Bond Proceeds Appropriation	151,690	218,268
Transfers from Other State Agencies:		
Reversions to State General Fund	(10,991)	(29,950)
Total Revenues	5,481,317	5,662,377
Program Expenses	5,787,114	6,090,611
Change in net assets	(305,797)	(428,234)
Net assets, beginning of year	13,425,044	13,853,278
Net assets, end of year	\$ 13,119,247	13,425,044

For more detailed information, see the Statement of Activities. The 2011 numbers have been presented as restated (see Note 11 in the Notes to the Financial Statements).

The Court of Appeals' total revenues for fiscal year 2012 were \$5,481,317 versus the revenues in fiscal year 2011, which were \$5,662,377. Revenues decreased in 2012 by \$181,060 due to the statewide budget cuts imposed by the State Legislature for all state government agencies as well as the decrease in the capital projects bond proceeds revenue once the Albuquerque building was completed.

**Management's Discussion and Analysis
June 30, 2012**

The Court of Appeals' total expenses for fiscal year 2012 were \$5,787,114 versus the expenses in fiscal year 2011, which were \$6,090,611. Expenditures decreased in fiscal year 2012 by \$303,497 due to statewide legislative budget cuts for all state agencies. Expenditures also decreased because there were fewer major capital expenditures after the completion and occupancy of the new building. The Court did not receive additional capital outlay appropriations once the construction was completed and occupied. However, the remaining balance in the appropriation was reauthorized to allow for additional purchases of furniture and equipment as needed for the new building. There were also fewer major capital expenditures after the completion of the building,

The Court of Appeals' Funds

The Court of Appeals has two governmental funds; the General Fund and the Capital Projects Fund. Analyses of its activities are outlined above.

BUDGETARY HIGHLIGHTS

There was one budget adjustments in the amount of \$30,000 during 2012. The budget adjustment decreased the personal services/employee benefits category by \$30,000 and increased the operating costs category by \$30,000.

CAPITAL ASSETS

The total net asset amount for fiscal year 11 was restated and increased from the amount reported in the fiscal year 11 financial statements. The amount reported was \$12,917,050, and the restated amount was \$13,669,626. The \$752,576 adjustment was due to some material purchases that were expensed but not capitalized in fiscal year 11. That occurred when the Court failed to apply criteria for the capitalization of fixed assets as set forth by GASB 24 and state audit rules.

The Court completed a project to build a new Courthouse for its operations in Albuquerque, New Mexico. The Court had additional expenditures of \$64,145 for installing a fire alarm and intrusion system and purchases of additional equipment. The Court contracted with UNM for an MOE data connection in place which greatly improved the speed of internet in the building. The Court completed the integration and assessment of the fire alarm and intrusion system, the installation of the LEED plaque for the building, and submitted final payment to the contract vendor for construction services. The Court also had depreciation expenses of \$396,005 and as of June 30, 2012, \$14,260,069 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.

Statement of Net Assets
June 30, 2012

	Governmental Activities
ASSETS	
Current Assets:	
Investment in State General Fund Investment Pool	\$ 225,596
Prepaid Expenses	40,200
Due From Other Agencies	2,064
Total Current Assets	267,860
Capital Assets, net	13,273,621
TOTAL ASSETS	\$ 13,541,481
LIABILITIES	
Current Liabilities:	
Accounts Payable	\$ 22,635
Accrued Payroll	194,034
Due to State General Fund	10,991
Compensated Absences - current	166,838
Total Current Liabilities	394,498
Noncurrent Liabilities:	
Compensated Absences	27,736
TOTAL LIABILITIES	422,234
NET ASSETS	
Invested in Capital Assets	13,273,621
Unrestricted (deficit)	(154,374)
TOTAL NET ASSETS	13,119,247
TOTAL LIABILITIES AND NET ASSETS	\$ 13,541,481

See Notes to Financial Statements.

**Statement of Activities
For the Year Ended June 30, 2012**

	Governmental Activities
Expenses:	
Judicial:	
Administrative Services	\$ 5,391,109
Depreciation Expense	396,005
Total Expenses	5,787,114
 Program Revenues:	
Court Fees	1,218
Total Program Revenues	1,218
 Net Program Expenses	(5,785,896)
 General Revenues and Transfers	
State General Fund Appropriations	5,339,400
Severance Tax Bond Proceeds Appropriation	151,690
2012 State General Fund Reversion	(10,991)
Total General Revenues and Transfers	5,480,099
 Change in Net Assets	(305,797)
 Net Assets, beginning of year	12,570,624
Adjustment to Net Assets (Note 11)	854,420
Net Assets, beginning of year - as restated	13,425,044
 Net Assets, end of year	\$ 13,119,247

See Notes to Financial Statements.

**Balance Sheet - Governmental Funds
June 30, 2012**

	General Fund	Capital Projects Fund	Total
ASSETS			
Current Assets:			
Investment in State Gen. Fund Investment Pool	\$ 225,269	327	\$ 225,596
Due From Other Agencies	-	2,064	2,064
TOTAL ASSETS	\$ 225,269	2,391	\$ 227,660
LIABILITIES AND FUND BALANCES			
Current Liabilities:			
Accounts Payable	\$ 20,244	2,391	\$ 22,635
Accrued Payroll	194,034	-	194,034
Due to State General Fund	10,991	-	10,991
TOTAL LIABILITIES	225,269	2,391	227,660
FUND BALANCES			
Unassigned	-	-	-
TOTAL FUND BALANCES	-	-	-
TOTAL LIABILITIES AND FUND BALANCES	\$ 225,269	2,391	\$ 227,660

See Notes to Financial Statements.

**Reconciliation of the Balance Sheet
to the Statement of Net Assets
June 30, 2012**

Total fund balances for governmental funds	\$	-
<p>Amounts reported for governmental activities in the Statement of Net Assets are different because:</p>		
Prepaid expenses are not considered expendable financial resources.		40,200
<p>Capital assets used in governmental activities are not financial resources, and therefore are not reported in the funds. These assets consist of the following:</p>		
Capital assets, net		13,273,621
<p>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:</p>		
Compensated absences		<u>(194,574)</u>
Net Assets of Governmental Activities		<u><u>\$ 13,119,247</u></u>

See Notes to Financial Statements.

**Statement of Revenues, Expenditures and
Changes in Fund Balance - Governmental Funds
For the Year Ended June 30, 2012**

	General Fund	Capital Projects Fund	Total
REVENUES			
Court Fees	\$ 1,218	-	\$ 1,218
Total Revenues	1,218	-	1,218
EXPENDITURES			
Current:			
Judicial:			
Administrative Services:			
Personal Services and Benefits	4,887,435	-	4,887,435
Contract Services	26,712	34,917	61,629
Other Costs	415,480	116,773	532,253
Capital Outlay	-	-	-
Total Expenditures	5,329,627	151,690	5,481,317
Excess (Deficiency) of Revenues Over Expenditures	(5,328,409)	(151,690)	(5,480,099)
OTHER FINANCING SOURCES (Uses)			
Transfers In:			
General Fund Appropriation	5,339,400	-	5,339,400
Severance Tax Bond Proceeds Appropriation	-	151,690	151,690
Transfers Out:			
2012 Reversions to the State General Fund	(10,991)	-	(10,991)
Total Other Financing Sources (Uses)	5,328,409	151,690	5,480,099
Net Change in Fund Balances	-	-	-
Fund Balances, beginning	-	-	-
Fund Balances, ending	\$ -	-	\$ -

See Notes to Financial Statements.

**Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balance of to the Statement of Activities
For the Year Ended June 30, 2012**

Net change in fund balances - total governmental funds \$ -

Amounts reported for governmental activities 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 are allocated over their estimated useful lives. In the current period these amounts are:

Capital outlay	-	
Depreciation expense	<u>(396,005)</u>	
Excess of capital outlay over depreciation expense		(396,005)
Prepaid expenses		40,200
Payments of capital outlay accounts payable		64,145

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

Change in compensated absences (increase)		<u>(14,137)</u>
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Change in Net Assets of Governmental Activities \$ (305,797)

See Notes to Financial Statements.

**Statement of Revenues and Expenditures
Budget and Actual (Budgetary Basis) - General Fund
For the Year Ended June 30, 2012**

	Budget		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
General Fund Appropriation	\$ 5,339,400	5,339,400	5,339,400	-
Court Fees	1,000	1,000	1,218	218
Total Revenues	5,340,400	5,340,400	5,340,618	218
Fund Balance	-	-		
Total Revenues and Fund Balance	\$ 5,340,400	5,340,400		
EXPENDITURES				
Administrative Services:				
Personal Services	\$ 4,924,900	4,894,900	4,887,435	7,465
Contractual Services	27,000	27,000	26,712	288
Other	388,500	418,500	415,480	3,020
Total Expenditures	\$ 5,340,400	5,340,400	5,329,627	10,773

See Notes to Financial Statements.

Notes to the Financial Statements
June 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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.

The Court of Appeals has no component units.

B. Basic Financial Statements

The basic financial statements include both government-wide (based on the Court of Appeals as a whole) and fund financial statements. Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The Court of Appeals is a single-purpose government entity and has no business type activities. In the government-wide Statement of Net 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.

**Notes to the Financial Statements
June 30, 2012**

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 model. Emphasis is on the major funds of the governmental category. Non-major funds are summarized into a single column.

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. SHARE fund 13700. The General Fund is a reverting fund.

CAPITAL PROJECTS FUND TYPES

Capital Project funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. Capital project funding is comprised of Severance Tax Bond proceeds and other funding specified for capital projects. SHARE Fund 89200

**Notes to the Financial Statements
June 30, 2012**

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.

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.

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. The Court 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 exchange 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.

**Notes to the Financial Statements
June 30, 2012**

E. Encumbrances

Encumbrances follow the modified accrual basis of accounting. Outstanding valid encumbrances are classified as accounts payable if they are normally paid before 30 days after the end of the fiscal year. After this deadline, the agency may still make the expenditure for a prior year accounts payable; however, they must first obtain DFA’s permission to pay prior year bills. “Permission to pay prior year bills” is a penalty under law for not paying bills timely. It penalizes an agency by mandating that they charge an expenditure of one fiscal year to the subsequent fiscal year’s budget.

F. Capital Assets

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

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

G. Compensated Absences

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

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

The maximum accrued annual leave may be carried forward into the beginning of the next calendar year and any excess is lost. When employees terminate, they are compensated for accumulated unpaid annual leave as of the date of termination. Accrued annual leave is recorded as a liability and net changes are recorded as expenditures in the government-wide financial statements. The fund financial statements and budgetary comparison reports only recognize the compensated absences when payments are made to employees.

Notes to the Financial Statements
June 30, 2012

H. 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.

I. Fund Balances

Governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable - This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

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

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

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

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

**Notes to the Financial Statements
June 30, 2012**

J. 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.

K. 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.

L. Budgets

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

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

Appropriation request hearings are scheduled by the DFA. Budget hearings are scheduled before the New Mexico House Appropriations and Senate Finance Committees. The final outcomes of these hearings are incorporated into the General Appropriations Act. The Act is signed into law by the Governor of the State of New Mexico within the legally prescribed time limit.

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

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

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 year 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

**Notes to the Financial Statements
June 30, 2012**

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, 2012.

NOTE 2: STATE TREASURER GENERAL FUND INVESTMENT POOL

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

At June 30, 2012 the Court had the following invested in the General Fund Investment Pool:

	Share Fund #	Maturity	Account Balance	Fair Value
General Fund	137	1 day	\$ 225,269	\$ 225,269
Capital Projects Fund	892	1 day	<u>327</u>	<u>327</u>
Total Governmental Funds			<u>\$ 225,596</u>	<u>\$ 225,596</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 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, 2012.

General Fund Investment Pool Not Reconciled

The General Fund Investment Pool is the State of New Mexico’s main operating account. State revenues such as income taxes, sales taxes, rents and royalties, and other recurring revenues are credited to the General Fund Investment Pool. The fund also comprises numerous State agency accounts whose assets, by statute (Section 8-6-3 NMSA 1978), must be held at the State Treasury.

As of June 30, 2012, the General Fund Investment Pool has not been reconciled at the business unit/fund level. Essentially, independent, third-party verification/confirmation of the balances at the business unit/fund level is not possible. Section 6-5-2.1 (J) NMSA 1978 requires DFA to complete on a

**Notes to the Financial Statements
June 30, 2012**

monthly basis, reconciliations with the balances and accounts kept by the State Treasurer and adopt and promulgate rules regarding reconciliation for state agencies.

Under the direction of the State Controller/Financial Control Division Director, the Financial Control Division of the New Mexico Department of Finance & Administration (DFA/FCD) is taking aggressive action to resolve this serious problem. DFA/FCD has commenced the Cash Management Remediation Project (Remediation Project) in partnership with the New Mexico State Treasurer's Office, the New Mexico Department of Information Technology, and a contracted third party PeopleSoft Treasury expert.

The purpose of the Remediation Project is to design and implement the changes necessary to reconcile the General Fund Investment Pool in a manner that is complete, accurate, and timely. The Remediation Project will make changes to the State's current SHARE system configuration, cash accounting policies and procedures, business practices, and banking structure. The scheduled implementation date for the changes associated with the Remediation Project is February 1, 2013. An approach and plan to address the population of historical reconciling items will be developed during the Remediation Project, but a separate initiative will be undertaken to resolve the historical reconciling items.

The initial phase of the Remediation Project, completed on October 11, 2012, focused on developing a project plan and documenting current statewide business processes. The work product of the initial phase of the Remediation Project is a document entitled Cash Management Plan and Business Processes. This document is available on the Cash Control page of the New Mexico Department of Finance & Administration's website at: http://www.nmdfa.state.nm.us/Cash_Control.aspx.

The cash transactions processed by Court flow through the state general fund investment pool. Since SHARE was implemented, we recognized the statewide cash reconciliation issue and in response, developed internal reconciliation procedures to ensure that cash receipts and disbursements recorded in the SHARE system are in fact transactions that have been initiated by the Court.

The reconciliation occurs each month and any required adjustments are forwarded to the Financial Control Division at DFA for correction. Monthly reconciliation procedures throughout the fiscal year, include, but are not limited to validation of: allotments, deposits, expenditures, all general entries, operating transfers, payroll expenditures/payroll liabilities, and review of outstanding warrants within the court's statewide case management system. The Court reports the timely completion of the reconciliation process to Court management monthly and conducts monthly management budget reviews to ensure that all cash deposits and financial transactions are accurately recorded and posted to the SHARE system.

This monthly internal reconciliation of cash receipts and disbursements flowing through Court's share of the state general fund investment pool provides management assurance that the balance reflected in State General Fund Investment Pool account is accurate as of the end of the reporting period. In addition, Court reconciles other asset and liability accounts on the balance sheet of each fund type. This process also provides additional assurance that transactions affecting the Court's share in the State General Fund Investment Pool account are accurate.

**Notes to the Financial Statements
June 30, 2012**

NOTE 3: DUE FROM OTHER AGENCIES

As of June 30, 2012, \$2,064 was due from the State of New Mexico Board of Finance (SHARE fund 34103).

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 was as follows:

	*Balance 6/30/11	Additions	Deletions	Balance 6/30/12
Capital Assets:				
Buildings & Improvements	\$ 14,008,877	-	-	\$ 14,008,877
Furniture & Equipment	162,636	-	-	162,636
Data Processing	88,556	-	-	88,556
Total Capital Assets	<u>14,260,069</u>	<u>-</u>	<u>-</u>	<u>14,260,069</u>
Accumulated Depreciation:				
Buildings & Improvements	554,518	350,222	-	904,740
Furniture & Equipment	19,235	16,264	-	35,499
Data Processing	16,690	29,519	-	46,209
Total Accumulated Depreciation	<u>590,443</u>	<u>396,005</u>	<u>-</u>	<u>986,448</u>
Net Capital Assets	<u>\$ 13,636,299</u>	<u>(396,005)</u>	<u>-</u>	<u>\$ 13,273,621</u>

Current depreciation expense is \$396,005.

*See Note 11

NOTE 5: 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, 2012. The following is a summary of reversion activity for the fiscal year.

Budget year 2012 reversion	<u>\$ 10,991</u>
Due to State General Fund	<u>\$ 10,991</u>

**Notes to the Financial Statements
June 30, 2012**

NOTE 5. COMPENSATED ABSENCES

The following is a summary of changes in compensated absences:

	*Balance 6/30/11	Additions	Deletions	Balance 6/30/12	Due within One Year
Compensated Absences	\$180,437	206,875	192,738	\$194,574	\$166,838

Compensated absences are liquidated with available financial resources out of the general fund. The State of NM does not budget in the current year, funds to pay any portion of the compensated absence liability at the end of the year; therefore, the current portion of compensated absences is not recorded in the fund financial statements. The Court has no other debt.

*See Note 11

NOTE 6: LEASES

The Court of Appeals is leasing land from the University of New Mexico. 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. As of June 30, 2010 the total expended was \$5,376,150. The balance of \$623,850 was reauthorized in laws of 2010, HB5, Chapter 4 through the fiscal period ending June 30, 2014. During the year ended June 30, 2012, \$146,441 of the reauthorization 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. During the year ended June 30, 2012 \$5,249 was expended and recognized as revenue. As of June 30, 2012, \$400,000 in total had been used.

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

Notes to the Financial Statements
June 30, 2012

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.

Funding Policy. Plan members are required to contribute 10.67% of their gross salary. The Court of Appeals is required to contribute 13.34% 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, 2012, 2011 and 2010 were \$329,920, \$382,646 and \$426,520, 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 the Judicial Retirement Act for the years ending June 30, 2012, 2011 and 2010 were \$117,004, \$123,154 and \$118,827, respectively, equal to the amount of the required contributions for each year.

**Notes to the Financial Statements
June 30, 2012**

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 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.

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, 2012, the statute required each participating employer to contribute 1.834% of each participating employee’s annual salary; each participating employee was required to contribute 0.917% of their salary. In the fiscal years ending June 30, 2013 through June 30, 2014 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 Employer</u>	<u>Contribution Rate</u>	<u>Contribution Rate</u>
fiscal year13	2.000%	1.000%

**Notes to the Financial Statements
June 30, 2012**

For employees who are members of an enhanced retirement plan, during the fiscal year ended June 30, 2012, the statute required each participating employer to contribute 2.292% of each participating employee’s annual salary, and each participating employee was required to contribute 1.146% of their salary. In the fiscal year ending June 30, 2013 the contribution rates for both employees and employers will rise as follows:

<u>Fiscal Year Employer</u>	<u>Contribution Rate</u>	<u>Contribution Rate</u>
fiscal year13	2.500%	1.250%

Also, employers joining the program after January 1, 1998 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, 2012, 2011 and 2010 were \$73,783, \$65,849, and \$51,219, respectively, which equal the required contributions for each year.

NOTE 10: RISK MANAGEMENT

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

Notes to the Financial Statements
June 30, 2012

NOTE 11: RESTATEMENT OF NET ASSETS

In 2012 the Court determined that costs associated with the construction of a building should have been capitalized in accordance with GASBS 34. The Court also noted that the date used to depreciate certain assets was incorrect. In addition the Court noted that the prior year's compensated absences balance had been reported incorrectly. The following is a summary of the changes made to beginning net assets:

Net assets as of June 30, 2011 as previously reported	\$12,570,624
Increase in net capital assets	752,576
Increase in capital outlay accounts payable	(64,145)
Decrease in compensated absences	<u>165,989</u>
Net assets as of June 30, 2011 as restated	<u><u>13,425,044</u></u>

**Statement of Revenues and Expenditures
Budget and Actual (Budgetary Basis) - Capital Projects Fund
For the Year Ended June 30, 2012**

	Budget		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Laws of 2008, Chapter 92, Section 6 Revenue	\$ 623,850	623,850	370,502	(253,348)
Expenditures	623,850	623,850	370,502	253,348
Laws of 2009, Chapter 92, Section 8 Revenue	\$ 400,000	400,000	400,000	-
Expenditures	400,000	400,000	400,000	-

See Notes to Financial Statements.

**Schedule of Operating Transfers
For the Year Ended June 30, 2012**

	SHARE FUND	TITLE	TRANSFER	
			In	Out
(1)	85300	Department of Finance & Administration	\$ 5,339,400	\$ -
(2)	13900	Administrative Office of the Courts	151,690	-
(1)	14900	FY 2012 Reversion	-	10,991
	Total		<u>\$ 5,491,090</u>	<u>\$ -</u>

(1) General Fund Appropriation, Laws of 2011, Chapter 179, Section 4

(2) Severance Tax Bond Proceed Appropriation

**Schedule of Special Appropriations
For the year ended June 30, 2012**

	Current Year Revenue	Amount Appropriated	Current Year Expenditures	Project to Date Expenditures	Unexpended Portion
Severance Tax Bond Proceeds Appropriation, Laws of 2008, Chapter 92, Section 6, Court of Appeals Building	\$ 146,441	6,000,000	146,441	5,740,859	259,141
Severance Tax Bond Proceeds Appropriation, Laws of 2009, Chapter 92, Section 8, Court of Appeals Building	5,249	400,000	5,249	400,000	-
	<u>\$ 151,690</u>	<u>6,400,000</u>	<u>151,690</u>	<u>6,140,859</u>	<u>259,141</u>

See Notes to Financial Statements.

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*

To the Honorable Celia Foy Castillo
New Mexico Court of Appeals
And
Hector Balderas
New Mexico State Auditor

We have audited the accompanying financial statements of the governmental activities, each major fund, the aggregate remaining fund information and the budgetary comparisons for the general fund and capital projects fund of the State of New Mexico, Court of Appeals (Court), as of and for the year ended June 30, 2012, and have issued our report thereon dated November 28, 2012. 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

Management of the Court is responsible for establishing and maintaining effective 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 opinions 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify year all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described as item 2012-01 in the accompanying schedule of findings and responses to be a material weakness.

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. We consider the deficiencies described as item 2012-02 in the accompanying schedule of findings and responses to be a significant deficiency.

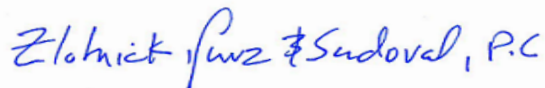
Compliance and Other Matters

As part of obtaining reasonable assurance about whether *Court's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2012-01 and 2012-02.

We also noted certain other matters that are required to be reported pursuant to Government Auditing Standards paragraphs 5.14 and 5.16, and pursuant to Section 12-6- 5, NMSA 1978, which are described in the accompanying schedule of findings and responses as items 2012-01 and 2012-02.

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

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



Zlotnick, Laws & Sandoval, PC
November 28, 2012

Schedule of Findings and Responses
June 30, 2012

Status of Prior Year's Findings

None

**Schedule of Findings and Responses
June 30, 2012**

2012-01 – Proper Control over Fixed Assets – Material Weakness

Condition: The court has an inadequate system for tracking and valuing fixed assets.

Criteria: 2.2.2.10 G. (14): 2.20.1.1 to 2.20.1.18 NMAC, Accounting and Control of Fixed Assets of State Government (updated for GASBS 34 as applicable) establishes standards for the accounting for and the controlling of the fixed assets acquired and owned by state agencies. NMSA 34-3A establishes the Court of Appeals Building Commission (Commission). The Commission has care, custody and control of the Court of Appeals building and its grounds, along with all Court of Appeals equipment, furniture and fixtures housed in the building. Additionally, NMSA 34-3A-3 requires the Commission to report and record all fixed assets as required by state audit rules.

Effect: The fiscal year 2011 financial statements were issued with material misstatements. The Court's fixed asset balance was materially misstated (see Note 11 in the Notes to the Financial Statements). Net assets were understated by \$709,249, or 5% of total assets of \$14,193,194 as of June 30, 2011.

Cause: The Court failed to reconcile and review fixed asset records and reports. As a result some material purchases were expensed and not capitalized. Additionally, the Court's system of tracking and recording fixed assets lacks important controls, including a fiscal year-end review and reconciliation, to insure the proper application of generally accepted accounting principles and adequate tracking and monitoring of fixed assets.

Auditors' Recommendation: The Court needs to reconsider the manner in which it accounts for fixed assets. We recommend that the Court purchase software specifically designed to track fixed assets, compute depreciation and create reports useful to management and to independent auditors.

Management's Response: The Court of Appeals (COA) agrees with this finding. The fixed asset balance was inadvertently misstated because there was not a review and validation of the FY11 ending balances by the CFO of the Administrative Office of the Courts (AOC). The COA and AOC conducted a multi fiscal year review of all capitalized balances since inception of expenditures for the COA building and reconciled these amounts with the trial balance of each fiscal year to validate the total amount of capitalization. Going forward the COA, with assistance from the AOC, has put in place a fiscal year-end review and reconciliation of all trial balance accounts and amounts pertaining to capitalization. The AOC will also purchase a better fixed asset tracking software to assist the COA and other judicial agencies with a more efficient standardization and accounting of all assets. In addition, the AOC will update its fixed asset policy to ensure the proper accounting and monitoring of all assets is consistent statewide.

**Schedule of Findings and Responses
June 30, 2012**

2012-02 – Responsibility for the Financial Statements – Significant Deficiency

Condition: The prior year net asset balance was restated in the current year financial statements. In addition the compensated absences balance and related footnote were misstated.

Criteria: The State Audit Rule 2.2.2.8 (J) clearly states that the Court is responsible for the content of the audited financial statements. This fact permeates Generally Accepted Auditing Standards and is formally made a part of the audit process in New Mexico with its inclusion in the State Auditors Rule. State Audit Rule 2.2.2.8(J)(4) and Statement on Auditing Standards (SAS) No 115 establishes standards and provides guidance on communicating matters related to an entity's internal control over financial reporting identified in an audit of financial statements

Effect: The fiscal year 2011 financial statements were issued with significant misstatements.

Cause: The prior year auditor erroneously reported the compensated absences balance. Management of the court did not sufficiently review the financial statements in order to catch and correct the error.

Auditors' Recommendation: The Court must assure that they have the opportunity to read the audit report before it is issued. The Chief Judge should take responsibility for verifying that the report has been read, thoroughly understood and approved by management.

Management's Response: The Court agrees that the prior year net asset balance was reported incorrectly. This is because the prior year auditors did not enter the figures for compensated absences that we provided them with. Instead they used the total number of sick leave balances rather than only the balances over 600 hours. They also failed to compute and report the annual leave balances up to 240 hours. The Financial Administrator caught the error during the preparation for the financial statements for the FY 12 audit, and informed the current auditor of the error. The Court did not catch the error in a timely manner because the auditor presented the report minutes before the exit conference, which did not allow management time to read the report and verify that it was correct. We assumed that the figures were correct because we had provided them correct amounts to use in their report. From here on, the Court will make sure that we have the opportunity to read the audit report before it is issued, and we will verify that the report was read, thoroughly understood and approved by management.

**Other Disclosures
June 30, 2012**

Preparation of the Financial Statements

Zlotnick, Laws & Sandoval, PC assisted in the preparation of the financial statements presented in this report. The Court's management has reviewed and approved the financial statements and related notes and they believe that their records adequately support the financial statements.

Exit Conference

The contents of this report were discussed on November 29, 2012. The following individuals were in attendance:

New Mexico Court of Appeals

Honorable Celia Foy Castillo

Chief Judge

Honorable Roderick Kennedy

Judge (Chief Judge beginning January 2013)

Wendy F. Jones

Chief Attorney Clerk

Oscar Arevalo

Deputy Director of Fiscal Services

– Administrative Office of the Courts

Lorraine Abeyta

Chief Financial Officer

Zlotnick, Laws & Sandoval, PC

Asa Laws, CPA

Brian Laws, CPA