

# State of New Mexico Court of Appeals



## Financial Statements

June 30, 2013

**TABLE OF CONTENTS**

**INTRODUCTORY SECTION**

Official Roster..... 1

**FINANCIAL SECTION**

Independent Auditor’s Report..... 2

Management’s Discussion and Analysis ..... 4

**BASIC FINANCIAL STATEMENTS**

**Government-Wide Financial Statements**

Statement of Net Position ..... 8

Statement of Activities..... 9

**Fund Financial Statements**

Balance Sheet – Governmental Funds..... 10

Reconciliation of the Balance Sheet to the Statement of Net  
Position ..... 11

Statement of Revenues, Expenditures and Changes in Fund  
Balance – Governmental Funds..... 12

Reconciliation of the Statement of Revenues, Expenditures,  
and Changes in Fund Balances to the Statement of  
Activities ..... 13

Statement of Revenues and Expenditures-Budget and  
Actual-(Budgetary Basis)-Governmental Funds ..... 14

Notes to Financial Statements..... 15

**SUPPLEMENTARY INFORMATION**

Statement of Revenues and Expenditures-Budget and Actual-  
(Budgetary Basis)-Capital Projects Fund..... 29

Schedule of Operating Transfers ..... 30

**COMPLIANCE SECTION**

Independent Auditor’s Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in  
Accordance With *Government Auditing Standards*..... 31

Schedule of Findings and Responses ..... 33

Other Disclosures ..... 34

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**OFFICIAL ROSTER**  
**June 30, 2013**

**JUDGES**

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

**ADMINISTRATIVE OFFICIALS**

Wendy F. Jones	Chief Attorney-Clerk
Paul G. Fyfe	Chief Staff Attorney
Ken H. Wells	Chief Financial Officer

## Independent Auditor's Report

Hector H. Balderas  
New Mexico State Auditor  
and  
Honorable Roderick T. Kennedy – Chief Judge  
New Mexico Court of Appeals  
Santa Fe, New Mexico

### Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons for the general fund of the State of New Mexico Court of Appeals (Court), as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise the Court's basic financial statements as listed in the table of contents. We have also audited the budgetary comparison for the capital projects fund presented as supplementary information, as defined by the Government Accounting Standards Board as of and for the year ended June 30, 2013, as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Court's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Court's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Court, as of June 30, 2013, and the respective changes in financial position thereof and the respective budgetary comparisons for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion the financial statements referred to above, present fairly, in all material respects the budgetary comparison for the capital projects fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Other Information*

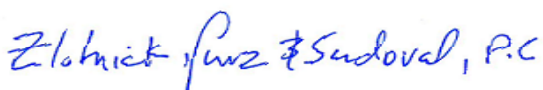
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental 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 Court's financial statements, the combining and individual fund financial statements, and the budgetary comparison. The additional schedules listed as "supplementary information" in the table of contents, which includes schedules required by 2.2.2.NMAC, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The additional schedules listed as "supplementary information" in the table of contents, which includes schedules required by 2.2.2.NMAC, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such 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 basic financial statements or to the basic 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.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2013 on our consideration of the Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Court's internal control over financial reporting and compliance.



Zlotnick, Laws & Sandoval, PC

December 6, 2013

**Management's Discussion and Analysis**  
**June 30, 2013**

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

**Agency Overview**

The New Mexico Court of Appeals is the intermediate appellate court between district courts and certain administrative agencies below, and the New Mexico Supreme Court above. The Court resolves cases brought up on appeal, which may involve conflicting interpretations of specific legal issues or broad questions of public policy. It does this by published opinions, unpublished opinions, and orders. The primary beneficiaries of the Court's work are litigants, the public of the State of New Mexico, attorneys, district courts, and administrative agencies. The Court's goal is to decide cases fairly and as expeditiously as possible. The Court's objectives are to produce a body of decisions that help litigants and the public know their rights and obligations, decrease delay in disposing of cases, disseminate information on opinions and operations of the Court, maintain archived copies of case materials, and make them publicly available. These goals and objectives focus on the needs of court users; resolving civil and criminal disputes in a just, speedy, and inexpensive manner; protecting the interests of litigants and the public; making the law clear; and providing the public with information needed to use the court system. The Court has a clerk's office which manages the case-flow, budgetary, personnel, and administrative matters of the Court. The Prehearing Division consists of permanent staff attorneys who assist the judges with legal research and writing. Each of the ten judges' chambers includes a law clerk and legal assistant. The Court's appellate mediation office conducts mandatory mediation conferences to encourage and facilitate the settlement and resolution of civil appeals assigned to a non-summary calendar. The office was created as a pilot program in September 1998. Because the Court believes the program is successful, it has extended it indefinitely by court order. Most conferences are held by telephone to minimize the expense to the parties. All discussions are confidential whether 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, 2013**

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 Position (the "Unrestricted Net Position") is designed to be similar to a bottom line for the Court and its governmental activities. This statement combines and consolidates governmental fund's current financial resources (short-term spendable resources with capital assets and long term liabilities).

The Statement of Activities is focused on the cost of various activities which are provided by the Court's general revenues. This is intended to summarize and simplify the users' analysis of the cost of services.

The Governmental Activities reflect the Court's basic services of resolving cases brought up on appeal.

**Fund Financial Statements**

The Court of Appeals 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**

	<b>Government Activities</b>	
	<b>2013</b>	<b>2012</b>
Current Assets	\$ 379,258	372,476
Capital Assets, net	<b>12,885,313</b>	13,273,621
Total Assets	<b>\$ 13,264,571</b>	13,646,097
Liabilities	<b>399,691</b>	422,234
Net Position:		
Invested in capital assets	<b>12,885,313</b>	13,273,621
Unrestricted(deficit)	<b>(20,433)</b>	(49,758)
Total Net Position	<b>\$ 12,864,880</b>	13,223,863

For more detailed information, see the Statement of Net Assets. The 2012 numbers have been presented as restated (see Note 11 in the Notes to the Financial Statements).



**Management's Discussion and Analysis**  
**June 30, 2013**

**Financial Highlights**

The Court of Appeals' total net position for the fiscal year 2013 was \$12,864,880 versus net position in fiscal year 2012 of \$13,223,863 after restatement. The \$358,983 decrease was largely due to depreciation on the new Court of Appeals Building which was substantially complete in FY 2012. Although some capital expenditures were made in FY 2013 annual depreciation on the completed building were greater than the additional capital expenditures.

**Statement of Activities**

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

	<b>Government Activities</b>	
	<b>2013</b>	<b>2012</b>
Charges for services	\$ 613	1,218
State General Fund Appropriations	5,514,300	5,339,400
Bond Proceeds Appropriation	25,247	151,690
Transfers to Other State Agencies:		
Reversions to State General Fund	(62,915)	(10,991)
<b>Total Revenues</b>	<b>5,477,245</b>	<b>5,481,317</b>
Program Expenses	5,836,228	5,787,114
Change in net position	(358,983)	(305,797)
Net position, beginning of year	13,223,863	13,529,660
<b>Net position, end of year</b>	<b>\$ 12,864,880</b>	<b>13,223,863</b>

For more detailed information, see the Statement of Activities. The 2012 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 2013 were \$5,477,245 versus the revenues in fiscal year 2012, which were \$5,481,317. Revenues decreased in 2013 by \$4,072. Although the State appropriation was greater in FY 2013 the capital projects bond proceeds revenue was less, because the Albuquerque building was completed.

The Court of Appeals' total expenses for fiscal year 2013 were \$5,886,328 versus the expenses in fiscal year 2012, which were \$5,787,114. Expenditures increased in fiscal year 2013 by \$49,114. This was due to the fact that the Court received a larger State appropriation and had larger operating expenditures. There were fewer major capital expenditures after the completion and occupancy of the new building and depreciation expense was essentially the same as the prior year. 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.



**Management's Discussion and Analysis  
June 30, 2013**

**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 adjustment during 2013. The budget adjustment increased the other costs budget category by \$100,000 and decreased the Personal Services budget category by \$65,000 and the Contract Services budget category by \$35,000.

**CAPITAL ASSETS**

During FY 2012 the Court completed a project to build a new Courthouse for its operations in Albuquerque, New Mexico. The Court had additional expenditures of \$7,813 in FY 2013 to purchase a computer server for the new building. Other expenditures made from severance tax bond proceeds did not meet the criteria for capitalization. FY 2013 annual depreciation expense was \$396,121 and as of June 30, 2013, \$14,267,882 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 Position  
June 30, 2013**

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Current Assets:	
Investment in State General Fund Investment Pool	\$ 215,482
Supplies Inventory	131,616
Prepaid Expenses	32,160
Due From Other Agencies	23
Total Current Assets	379,281
Capital Assets, net	12,885,313
<b>TOTAL ASSETS</b>	<b>\$ 13,264,594</b>
<b>LIABILITIES</b>	
Current Liabilities:	
Deficit Cash Balance	\$ 23
Accounts Payable	58,357
Accrued Payroll	94,209
Due to State General Fund	62,916
Compensated Absences - current	160,864
Total Current Liabilities	376,369
Noncurrent Liabilities:	
Compensated Absences	23,345
<b>TOTAL LIABILITIES</b>	<b>399,714</b>
<b>NET POSITION</b>	
Invested in Capital Assets	12,885,313
Unrestricted (deficit)	(20,433)
<b>TOTAL NET POSITION</b>	<b>12,864,880</b>
<b>TOTAL LIABILITIES AND NET POSTION</b>	<b>\$ 13,264,594</b>

*See Notes to Financial Statements.*

**Statement of Activities  
For the Year Ended June 30, 2013**

	<b>Governmental Activities</b>
Expenses:	
Judicial:	
Administrative Services	\$ 5,440,107
Depreciation Expense	396,121
Total Expenses	5,836,228
 Program Revenues:	
Court Fees	613
Total Program Revenues	613
 <b>Net Program Expenses</b>	<b>(5,835,615)</b>
 General Revenues and Transfers	
State General Fund Appropriations	5,514,300
Severance Tax Bond Proceeds Appropriation	25,247
2013 State General Fund Reversion	(62,915)
Total General Revenues and Transfers	5,476,632
 <b>Change in Net Position</b>	<b>(358,983)</b>
 Net Position, beginning of year	13,119,247
Restatement of Net Position (Note 11)	104,616
Beginning Net Position as Restated	13,223,863
 <b>Net Position, end of year</b>	<b>\$ 12,864,880</b>

*See Notes to Financial Statements.*

**Balance Sheet - Governmental Funds  
June 30, 2013**

	General Fund	Capital Projects Fund	Total
<b>ASSETS</b>			
Current Assets:			
Investment in State Gen. Fund Investment Pool	\$ 215,482	-	\$ 215,482
Supplies Inventory	131,616	-	131,616
Due From Other Agencies	-	23	23
<b>TOTAL ASSETS</b>	<b>\$ 347,098</b>	<b>23</b>	<b>\$ 347,121</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Current Liabilities:			
Deficit Cash Balance	\$ -	23	\$ 23
Accounts Payable	58,357	-	58,357
Accrued Payroll	94,209	-	94,209
Due to State General Fund	62,916	-	62,916
<b>TOTAL LIABILITIES</b>	<b>215,482</b>	<b>23</b>	<b>215,505</b>
<b>FUND BALANCES</b>			
Non Spendable (Supplies Inventory)	131,616		131,616
Unassigned	-	-	-
<b>TOTAL FUND BALANCES</b>	<b>131,616</b>	<b>-</b>	<b>131,616</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 347,098</b>	<b>23</b>	<b>\$ 347,121</b>

*See Notes to Financial Statements.*

**Reconciliation of the Governmental Funds Balance Sheet  
to the Statement of Net Poition  
June 30, 2013**

Total fund balances for governmental funds	\$	131,616
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Prepaid expenses are not considered expendable financial resources.		32,160
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Capital assets used in governmental activities are not financial resources, and therefore are not reported in the funds. These assets consist of the following:

Capital assets, net		12,885,313
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Some liabilities are not due and payable in the current period, and therefore are not reported in the funds. Those liabilities consist of the following:

Compensated absences		<u>(184,209)</u>
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<b>Net Position of Governmental Activities</b>		<b><u><u>\$ 12,864,880</u></u></b>
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*See Notes to Financial Statements.*

**Statement of Revenues, Expenditures and  
Changes in Fund Balance - Governmental Funds  
For the Year Ended June 30, 2013**

	General Fund	Capital Projects Fund	Total
<b>REVENUES</b>			
Court Fees	\$ 613	-	\$ 613
<b>Total Revenues</b>	<u>613</u>	<u>-</u>	<u>613</u>
<b>EXPENDITURES</b>			
Current:			
Judicial:			
Administrative Services:			
Personal Services and Benefits	4,931,754	-	4,931,754
Contract Services	39,696	1,319	41,015
Other Costs	480,548	16,115	496,663
Capital Outlay	-	7,813	7,813
<b>Total Expenditures</b>	<u>5,451,998</u>	<u>25,247</u>	<u>5,477,245</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(5,451,385)</u>	<u>(25,247)</u>	<u>(5,476,632)</u>
<b>OTHER FINANCING SOURCES (Uses)</b>			
<b>Transfers In:</b>			
General Fund Appropriation	5,514,300	-	5,514,300
Severance Tax Bond Proceeds Appropriation	-	25,247	25,247
<b>Transfers Out:</b>			
2013 Reversions to the State General Fund	<u>(62,915)</u>	<u>-</u>	<u>(62,915)</u>
<b>Total Other Financing Sources (Uses)</b>	<u>5,451,385</u>	<u>25,247</u>	<u>5,476,632</u>
<b>Net Change in Fund Balances</b>	-	-	-
Fund Balances, Beginning	-	-	-
Retatement of Fund Balance (Note 11)	104,616	-	104,616
Fund Balances, beginning as restated	<u>104,616</u>	<u>-</u>	<u>104,616</u>
Increases in Supplies Inventory	<u>27,000</u>	<u>-</u>	<u>27,000</u>
<b>Fund Balances, ending</b>	<u>\$ 131,616</u>	<u>\$ -</u>	<u>\$ 131,616</u>

See Notes to Financial Statements.

**Reconciliation of the Changes in Fund Balance  
of Governmental Funds to the Statement of Activities  
For the Year Ended June 30, 2013**

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	7,813	
Depreciation expense	<u>(396,121)</u>	
Excess of capital outlay over depreciation expense		(388,308)
Decrease in prepaid expenses		(8,040)
Increase in supplies inventory		27,000

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

Change in compensated absences (increase)		<u>10,365</u>
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**Change in Net Position of Governmental Activities \$ (358,983)**

*See Notes to Financial Statements.*



**Statement of Revenues and Expenditures  
Budget and Actual (Budgetary Basis) - General Fund  
For the Year Ended June 30, 2013**

	Budget		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
General Fund Appropriation	\$ 5,514,300	5,514,300	5,514,300	-
Court Fees	1,000	1,000	613	(387)
Total Revenues	<u>5,515,300</u>	<u>5,515,300</u>	<u>5,514,913</u>	<u>(387)</u>
Fund Balance	-	-		
<b>Total Revenues and Fund Balance</b>	<u>\$ 5,515,300</u>	<u>5,515,300</u>		
<b>EXPENDITURES</b>				
Administrative Services:				
Personal Services	\$ 5,051,000	4,986,000	4,931,754	54,246
Contractual Services	75,800	40,800	39,696	1,104
Other	388,500	488,500	480,548	7,952
<b>Total Expenditures</b>	<u>\$ 5,515,300</u>	<u>5,515,300</u>	<u>5,451,998</u>	<u>63,302</u>

*See Notes to Financial Statements.*

**Notes to the Financial Statements  
June 30, 2013**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

Court of Appeals

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

The Court of Appeals is a component unit of the Judicial Branch and these financial statements include all funds and activities over which the Court has oversight responsibility. The Court has decision-making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters. The court is part of the primary government of the State of New Mexico and its financial data should be included with the financial data of the state. However, New Mexico does not at present issue an audited Comprehensive Annual Financial Report inclusive of all agencies of the primary government. The Court has no component units that are required to be reported in its financial statements.

**B. Basic Financial Statements**

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

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

The government-wide Statement of Position reflects both the gross and net cost per functional category, which are otherwise being supported by general government revenues. The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. The program revenues must be directly associated with the function and consist of fees.

**Notes to the Financial Statements  
June 30, 2013**

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. The fund is a reverting fund.

**Notes to the Financial Statements**  
**June 30, 2013**

**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 Position.

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

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

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

In applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to Governmental Accounting Standards Board Statement No. 33 (GASB 33), *Accounting and Financial Reporting for Nonexchange Transactions*, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenues when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met, under most circumstances, should be reported as advances by the provider and unearned revenue by the recipient. 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, 2013**

**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. Supplies Inventory**

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

**G. Prepaid Expenses**

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

**H. 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

**Notes to the Financial Statements  
June 30, 2013**

**I. 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.

**J. Net Position**

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

*Invested in Capital Assets (net of related debt)*—is intended to reflect the portion of net position which is associated with non-liquid, capital assets less outstanding capital asset related debt. The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost. The Court does not have any related debt.

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

*Unrestricted Net Position*—represents unrestricted liquid assets.

**K. 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;

**Notes to the Financial Statements**  
**June 30, 2013**

(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.

**L. 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.

**M. 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.

**N. Budgets**

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

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

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



**Notes to the Financial Statements  
June 30, 2013**

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

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

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

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

The budget for the General Fund is adopted on the modified accrual basis of accounting except for accounts payable accrued at the end of the fiscal year that do not get paid by the statutory deadline (Section 6-10-4 NMSA 1978), that must be paid out of next year’s budget. A reconciliation of budgetary basis to GAAP basis will be necessary if all accounts payable at the end of the fiscal year are not paid by the statutory deadline. No reconciliation was necessary as of June 30, 2013.

**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, 2013 the Court had the following invested in the General Fund Investment Pool:

	Share Fund #	Maturity	Account Balance	Fair Value
General Fund	137	1 day	\$ 215,482	\$ 215,482
Capital Projects Fund	892	1 day	(23)	(23)
Total Governmental Funds			215,459	215,459

Interest Rate Risk - The New Mexico State Treasurer’s Office has an investment policy that limits investment maturities to five years or less on allowable investments. This policy is a means of managing exposure to fair value losses arising from increasing interest rates. This policy is reviewed and approved annually by the New Mexico State Board of Finance.

**Notes to the Financial Statements  
June 30, 2013**

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, 2013.

**General Fund Investment Pool Not Reconciled**

For cash management and investment purposes, funds of various state agencies are deposited in the State General Fund Investment Pool (the Pool), which is managed by the office of the New Mexico State Treasurer. Claims on the Pool are reported as assets by the various agencies investing in the Pool.

In June 2012 an independent diagnostic report revealed that the State of New Mexico's General Fund Investment Pool has not been reconciled since the implementation of the Statewide Human resources, Accounting, and management Reporting system (SHARE) in July of 2006. The Department of Finance and Administration (DFA) has commissioned two reports that address statewide cash reconciliation issues. They are (1) *Current State of Diagnostic of Cash Controls*, dated June 20, 2012 prepared by Deloitte Consulting, LLP and (2) *Cash Management Plan and Business Processes*, dated October 11, 2012, also prepared by Deloitte Consulting, LLP. The Diagnostic reports are available in the Resources section of the Cash Control page of the New Mexico Department of Finance & Administration's website at: [http://www.nmdfa.state.nm.us/Cash\\_Control.aspx](http://www.nmdfa.state.nm.us/Cash_Control.aspx).

By state statute, DFA is responsible for the performance of monthly reconciliations with the balances and accounts kept by the State Treasurer. Therefore, 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) undertook 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. DFA has or is in process of implementing all recommendations resulting from the Remediation Project and has made changes to the State's current SHARE system configuration, cash accounting policies and procedures, business practices, and banking structure. This has enabled DFA to complete timely and accurate reconciliation of bank to book balances at the State and Business Unit level on a post-implementation basis, however it did not resolve historical reconciliation items. Additional changes recommended by the Project continue to be cascaded through DFA and state agencies to support the Business Unit by Fund accounting requirements.

A plan to address historical reconciliation items is being assessed and a separate initiative will need to be undertaken to resolve the historical reconciliation items. DFA Management considers it unlikely that this separate initiative will be successful in allocating all historical reconciling items to the State entities invested in the Pool. As a result, any remaining differences post specific allocation to Pool participants will be reported in the State General Fund.

**Notes to the Financial Statements  
June 30, 2013**

The Court of Appeals has provided copies of the referenced diagnostic reports to the IPA. The Court of Appeals has also explained and provided copies to the IPA what policies and procedures are in place that ensures that the cash balances in SHARE are correct to the extent that the Court of Appeals has control (i.e. collection, depositing, reconciling, bank statement validation, and documentation of outstanding reconciling items) of the cash it receipts and transfers to the state general fund and other state agencies pursuant to state statute.

The bank account for the Court of Appeals is a sub-account under the oversight of the State Treasurer's Office. To the extent possible the Court of Appeals reconciles all fees, transfers, and fines that come into its possession including receipts that are statutorily mandated to be sent to the state general fund. The Court of Appeals receives and deposits docket fees. Docket fees are deposited into the Court Automation Fund and the Court Facilities Fund accounts. These funds are managed by the Administrative Office of the Court (AOC). The Court of Appeals records and reconciles these transactions monthly and gives copies of all transactions to the AOC. The Court of Appeals also collects and deposits copy fees. These fees are included in our budget and deposited into the Court Costs General Fund account. This fund is reconciled monthly. Copy fees exceeding the budgeted revenue amount are included in the Court's annual reversion to the state's general fund account.

The cash transactions processed by Court of Appeals 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 of Appeals. 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 of Appeals 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 the State General Fund Investment Pool account is accurate as of the end of the reporting period. In addition, Court of Appeals 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.

**NOTE 3: DUE FROM OTHER AGENCIES**

As of June 30, 2013, \$23 was due from the State of New Mexico Board of Finance (SHARE fund 34103) for reimbursement of capital project expenditures.

**Notes to the Financial Statements  
June 30, 2013**

**NOTE 4: CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2013 was as follows:

	<u>Furn. &amp; Equip.</u>	<u>Bldg. &amp; Struc.</u>	<u>DP Equipment</u>	<u>Total</u>
Beg. Bal. 7/1/12	\$ 162,636	\$14,008,877	\$88,556	\$14,260,069
Deletions	-	-	-	-
Additions	<u>-</u>	<u>-</u>	<u>\$7,813</u>	<u>\$7,813</u>
End Bal. 6/30/13	\$162,636	\$14,008,877	\$96,369	\$14,267,882

*Accumulated Depreciation*

	<u>Furn. &amp; Equip.</u>	<u>Bldg. &amp; Struc.</u>	<u>DP Equipment</u>	<u>Total</u>
Beg. Bal. 7/1/12	\$35,500	\$904,739	\$46,209	\$986,448
Deletions	-	-	-	-
Additions	<u>\$16,262</u>	<u>\$350,222</u>	<u>\$29,637</u>	<u>\$396,121</u>
End Bal. 6/30/13	\$51,762	\$1,254,961	\$75,846	\$1,382,569

Current depreciation expense is \$396,121.

**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, 2013. The following is a summary of reversion activity for the fiscal year.

Budget year 2013 reversion	<u>\$ 62,916</u>
Due to State General Fund	\$ 62,916

**NOTE 6. COMPENSATED ABSENCES**

The following is a summary of changes in compensated absences:

<u>Balance 6/30/12</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/13</u>	<u>Due within One Year</u>
<u>\$194,574</u>	<u>202,695</u>	<u>213,060</u>	<u>\$184,209</u>	<u>\$160,864</u>

**Notes to the Financial Statements**  
**June 30, 2013**

**Compensated Absences**

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.

**NOTE 7: 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 8: 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, 2013, \$27,637 of the reauthorization was expended and recognized as revenue. Balance remaining of the reauthorization is \$228,101.

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

**NOTE 9: 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 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, 2013, 2012 and 2011 were \$380,107, \$329,920, and \$382,646, respectively, equal to the amount of the required contributions for each year.

**Notes to the Financial Statements**  
**June 30, 2013**

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 9.00% 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, 2013, 2012 and 2011 were \$126,280, \$117,004, and \$123,154, respectively, equal to the amount of the required contributions for each year.

**NOTE 10: 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.

**Notes to the Financial Statements**  
**June 30, 2013**

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

The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that choose to become participating employers after January 1, 1998, are required to make contributions to the RHCA fund in the amount determined to be appropriate by the board.

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2013, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary.

For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2013, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The Court of Appeals contributions to the RHCA for the years ended June 30, 2013, 2012 and 2011 were \$79,833, \$73,783, and \$65,849, respectively, which equal the required contributions for each year.



**Notes to the Financial Statements  
June 30, 2013**

**NOTE 11: 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. In FY 13 the COA contributed a total of \$10,344 to these annual premiums.

**NOTE 12: RESTATEMENT OF FUND BALANCE**

In 2013 the Court determined that inventories associated with supplies should have been recorded in accordance with GASB 34. The following is a summary of the changes to beginning fund balance.

Fund Balances as of June 30, 2012 - as previously reported	\$ -
Existing supplies inventory at June 30, 2012	<u>\$ 104,616</u>
Restated Fund Balances - at June 30, 2012	<u>\$ 104,616</u>

**Statement of Revenues and Expenditures  
Budget and Actual (Budgetary Basis) - Capital Projects Fund  
For the Year Ended June 30, 2013**

	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	395,749	(228,101)
Expenditures	<u>623,850</u>	<u>623,850</u>	395,749	<u>228,101</u>
Expended and Revenue received - prior years			<u>(370,502)</u>	
Expended and Revenue received - current year			<u>25,247</u>	

See Independent Auditor's Report and note 8 to the financial statements

**Schedule of Operating Transfers  
For the Year Ended June 30, 2013**

	<b>SHARE FUND</b>	<b>TITLE</b>	<b>TRANSFER</b>	
			<b>In</b>	<b>Out</b>
(1)	85300	Department of Finance & Administration	\$ 5,514,300	\$ -
(2)	13900	Administrative Office of the Courts	25,247	-
(1)	14900	FY 2013 Reversion	-	62,915
	<b>Total</b>		<u>\$ 5,539,547</u>	<u>\$ 62,915</u>

(1) General Fund Appropriation, Laws of 2012, Chapter 19, Section 4

(2) Severance Tax Bond Proceed Appropriation

**Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards**

Hector H. Balderas  
New Mexico State Auditor  
and  
Honorable Roderick T. Kennedy – Chief Judge  
New Mexico Court of Appeals  
Santa Fe, New Mexico

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons for the general fund of the New Mexico Court of Appeals (Court), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the New Mexico Court of Appeals basic financial statements and have issued our report thereon dated December 6, 2013.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Court's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Court's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Court's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet is important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Court's financial statements are free from 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 are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Court's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Zlotnick, Lawz & Sandoval, P.C.*

Zlotnick, Laws & Sandoval, P.C.

December 6, 2013

**Schedule of Findings and Responses  
June 30, 2013**

**Status of Prior Year's Findings:**

2012-01 – Proper Control over Fixed Assets	Resolved
2012-02 – Responsibility for the Financial Statements	Resolved

**Other Disclosures  
June 30, 2013**

**Preparation of the Financial Statements**

Zlotnick, Laws & Sandoval, PC assisted in the preparation of the financial statements presented in this report. Management is responsible for the financial statements. 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 December 12, 2013. The following individuals were in attendance:

New Mexico Court of Appeals

Honorable Roderick T. Kennedy

Chief Judge

Wendy F. Jones

Chief Attorney Clerk

Oscar Arevalo

Chief Financial Officer

– Administrative Office of the Courts

Ken H. Wells

Chief Financial Officer

Zlotnick, Laws & Sandoval, PC

Asa Laws

CPA