

State of New Mexico Court of Appeals



Financial Statements

June 30, 2016

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OFFICIAL ROSTER
June 30, 2016

JUDGES

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

ADMINISTRATIVE OFFICIALS

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

Independent Auditor's Report

Tim Keller, New Mexico State Auditor
and
Honorable Michael E. Vigil, 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, the general fund, 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, 2016 and the related notes to the financial statements, which collectively comprise the Court's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material 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, and the general fund of the Court, as of June 30, 2016, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, on pages 5 to 8, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other information

Our audit was conducted for the purpose of forming opinions on the Court's financial statements, and the budgetary comparison. The supplementary information listed on the table of contents, required by Section 2.2.2 NMAC, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

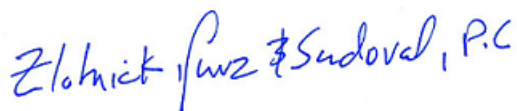
The supplementary information is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other

additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the supplementary information required by Section 2.2.2 NMAC is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The accompanying *Schedule of Vendor Information* has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2016 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
November 29, 2016

Management's Discussion and Analysis

June 30, 2016

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

Agency Overview

The New Mexico Court of Appeals is the intermediate appellate court between district courts and certain administrative agencies below, and the New Mexico Supreme Court above. The Court resolves cases brought up on appeal, which may involve conflicting interpretations of specific legal issues or broad questions of public policy. It does this by published opinions, unpublished opinions, and orders. The primary beneficiaries of the Court's work are litigants, the public of the State of New Mexico, attorneys, district courts, and administrative agencies. The Court's goal is to decide cases fairly and as expeditiously as possible. The Court's objectives are to produce a body of decisions that help litigants and the public know their rights and obligations, decrease delay in disposing of cases, disseminate information on opinions and operations of the Court, maintain archived copies of case materials, and make them publicly available. These goals and objectives focus on the needs of court users; resolving civil and criminal disputes in a just, speedy, and inexpensive manner; protecting the interests of litigants and the public; making the law clear; and providing the public with information needed to use the court system. The Court has a clerk's office which manages the case-flow, budgetary, personnel, and administrative matters of the Court. The Prehearing Division consists of permanent staff attorneys who assist the judges with legal research and writing. Each of the ten judges' chambers includes a law clerk and legal assistant. The Court's appellate mediation office conducts mandatory mediation conferences to encourage and facilitate the settlement and resolution of civil appeals assigned to a non-summary calendar. The office was created as a pilot program in September 1998. Because the Court believes the program is successful, it has extended it indefinitely by court order. Most conferences are held by telephone to minimize the expense to the parties. All discussions are confidential whether or not the cases settle.

USING THIS ANNUAL REPORT

Management's Discussion and Analysis (MD&A)

This section includes information on the use of the annual report, and management's analysis of the financial position and results of operations for the Court. Information compares this fiscal year with the prior fiscal year.

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 one fund, the General Fund which is a reverting fund.

Management’s Discussion and Analysis

June 30, 2016

Government - Wide Financial Statements

The government-wide financial statements are designed to be corporate-like in that all governmental activities are consolidated into one column. The Court of Appeals has no business type activities. The focus of the Statement of Net Position (the “Unrestricted Net Position”) is designed to be similar to a bottom line for the Court and its governmental activities. This statement combines and consolidates governmental fund’s current financial resources (short-term spendable resources with capital assets and long term liabilities).

The Statement of Activities is focused on the cost of various activities which are provided by the Court’s general revenues. This is intended to summarize and simplify the users’ analysis of the cost of services. The Governmental Activities reflect the Court’s basic services of resolving cases brought up on appeal.

Fund Financial Statements

The Court of Appeals only has one such fund: The general fund. The Governmental Fund presentation is presented on a sources and uses of liquid resources basis.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets

	Government Activities	
	2016	2015
Current Assets	\$ 321,316	\$ 260,028
Capital Assets, net	11,763,279	12,136,679
Total Assets	<u>\$ 12,084,595</u>	<u>\$ 12,396,707</u>
Liabilities	<u>399,461</u>	<u>318,690</u>
Net Position:		
Invested in capital assets	11,763,279	12,136,679
Unrestricted(deficit)	<u>(78,145)</u>	<u>(58,662)</u>
Total Net Position	<u>\$ 11,685,134</u>	<u>\$ 12,078,017</u>

Financial Highlights

The change in net position largely was the result of capital asset activity or more particularly to the depreciation of capital assets.

Management's Discussion and Analysis

June 30, 2016

Statement of Activities

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

	Government Activities	
	2016	2015
Charges for services	\$ 612	\$ 720
State General Fund Appropriations	5,900,000	5,853,800
Bond Proceeds Appropriation	-0-	90,000
Loss on Disposal of Assets	(4,828)	-0-
Transfers to Other State Agencies:		
Reversions to State General Fund	(13,804)	-0-
Total Revenues	5,881,980	5,944,520
Program Expenses	6,274,863	6,350,562
Change in net position	(392,883)	(406,042)
Net position, beginning of year	12,078,017	12,484,059
Net position, end of year	\$ 11,685,134	\$ 12,078,017

Revenues decreased in 2016 by \$62,540 largely due to the bond proceeds appropriation that was received in 2015.

Expenditures decreased in fiscal year 2016 by \$75,699. This was due to the fact that the Court received less appropriation amounts.

BUDGETARY HIGHLIGHTS

There was one budget adjustment in the amount of \$35,500 during 2016. The budget adjustment was part of a statewide general fund budget decrease allotment.

CAPITAL ASSETS

The court had a small capital outlay during the year to help purchase software used to track capital assets.

ANTICIPATED CHANGES

Due to statewide budget constraints the Court anticipates that appropriation amounts will continue to decrease.

Management's Discussion and Analysis

June 30, 2016

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, 2016

	Governmental Activities
ASSETS	
Investment in State General Fund Investment Pool	\$ 236,573
Due from Other State Agencies	-
Inventory	76,703
Prepaid Expenses	8,040
Capital Assets, net	11,763,279
Court of Appeals	\$ 12,084,595
 LIABILITIES	
Accounts Payable	\$ 41,673
Payroll Benefits Payable	61,357
Payroll Taxes Payable	38,046
Accrued Payroll	83,843
Other Liabilities	318
Due to State General Fund	11,336
Compensated Absences:	
Due Within One Year	145,636
Due After One Year	17,252
Total Liabilities	399,461
 NET POSITION	
Net Investment in Capital Assets	11,763,279
Unrestricted	(78,145)
Total Net Position	11,685,134
Total Liabilities and Net Position	\$ 12,084,595

See Notes to Financial Statements.

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

	Governmental Activities
Expenses:	
Judicial:	
Administrative Services	\$ 5,906,291
Depreciation	368,572
	6,274,863
Program Revenues:	
Court Fees	612
	(6,274,251)
General Revenues and Transfers	
State General Fund Appropriations	5,900,000
Loss on the Disposal of Assets	(4,828)
FY 2016 Reversion	(13,804)
	(392,883)
Change in Net Position	(392,883)
Net Position, Beginning	12,078,017
	\$ 11,685,134
Net Position, Ending	\$ 11,685,134

See Notes to Financial Statements.

BALANCE SHEET - GOVERNMENTAL FUND
June 30, 2016

		<u>General Fund</u>
ASSETS		
Investment in State Gen. Fund Investment Pool	\$	236,573
Inventory		76,703
		<hr/>
Total Assets	\$	<u><u>313,276</u></u>
 LIABILITIES		
Accounts Payable	\$	41,673
Payroll Benefits Payable		61,357
Payroll Taxes Payable		38,046
Accrued Payroll		83,843
Other Liabilities		318
Due to State General Fund		11,336
		<hr/>
Total Liabilities		<u>236,573</u>
 FUND BALANCES		
Nonspendable - Inventory		76,703
Unassigned		-
		<hr/>
Total Fund Balances		<u>76,703</u>
		<hr/>
Total Liabilities and Fund Balances	\$	<u><u>313,276</u></u>

See Notes to Financial Statements.

RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUND TO THE STATEMENT OF NET POSITION

June 30, 2016

Total fund balances for governmental fund \$ 76,703

Amounts reported for governmental activities in the statement of net position are different because:

Prepaid expenses are not considered expendable financial resources 8,040

Capital assets reported in the governmental activities are not financial resources and, therefore, are not reported in the governmental funds statement. These assets consist of the following:

Capital assets, net 11,763,279

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 (162,888)

Net Position per Statement of Net Position \$ 11,685,134

See Notes to Financial Statements.

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2016**

	General Fund
REVENUES	
Court Fees	\$ 612
EXPENDITURES	
Judicial:	
Current:	
Personal Services and Benefits	5,398,539
Contract Services	7,434
Other Costs	477,141
Capital Outlay	2,367
Total Expenditures	5,885,481
Excess (Deficiency) of Revenues Over Expenditures	(5,884,869)
OTHER FINANCING SOURCES (Uses)	
Transfer In:	
State General Fund Appropriations	5,900,000
Other State funds	-
Transfer Out:	
FY2016 Reversion	(13,804)
Total Other Financing Sources (Uses)	5,886,196
Net Change in Fund Balances	1,327
Fund Balances, beginning	102,283
Change in Supplies Inventory	(26,907)
Fund Balances, ending	\$ 76,703

See Notes to Financial Statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES - GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016**

Net change in fund balance \$ 1,327

Amounts reported in the Statement of Activities are different because:

Certain outlays are reported as expenditures in governmental funds. However, in the statement of activities, these costs are expensed as they are consumed or allocated over their estimated useful lives. In the current period these amounts are:

Depreciation expenditures	(368,572)
Loss on disposal of capital assets	(4,828)

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

Decrease in prepaid expenses	(8,040)
Change in supplies inventory	(26,907)
Change in compensated absences	<u>14,137</u>
Changes in net position of governmental activities	<u>\$ (392,883)</u>

See Notes to Financial Statements.

**STATEMENT OF REVENUES AND EXPENDITURES BUDGET AND ACTUAL (BUDGETARY BASIS) –
GENERAL FUND
For the Year Ended June 30, 2016**

	Budget		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Court Fees	\$ 1,000	1,000	612	(388)
General Fund Appropriation	5,935,500	5,900,000	5,900,000	-
Other Financing Sources	3,400	3,400	0	(3,400)
Total Revenues	5,939,900	5,904,400	5,900,612	(3,788)
 EXPENDITURES				
Administrative Services:				
Personal Services	\$ 5,432,100	5,400,100	5,398,539	1,561
Contractual Services	33,900	7,435	7,434	1
Other	473,900	496,865	484,173	12,692
Total Expenditures	\$ 5,939,900	5,904,400	5,890,146	14,254
Budgeted amounts used to pay prior year's accounts payables			(4,665)	
Total expenditures per statement of revenues, expenditures and changes in fund balance (GAAP Basis)			5,885,481	

See Notes to Financial Statements.

Notes to the Financial Statements

June 30, 2016

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. The net cost by function is normally covered by general revenue. Since the Court of Appeals only has one program, it does not employ direct cost allocation in the financial statements.

The fund financial statements differ from the government-wide financial statements. Emphasis is on the major funds of the governmental category. Non-major funds are summarized into a single

Notes to the Financial Statements

June 30, 2016

column. The Court of Appeals' only fund is the General Fund which is considered a major fund.

The governmental funds in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is deemed more appropriate to demonstrate legal and covenant compliance, to demonstrate the source and use of liquid resources and to demonstrate how the Court of Appeals' actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements governmental column, a reconciliation is presented on the page following each statement, which briefly explains the adjustment necessary to transform the fund based financial statements into the governmental column of the government-wide presentation.

The financial transactions of the Court of Appeals are recorded in individual funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, deferred outflows and inflows of resources, fund balance, revenues, expenditures or expenses and other financing sources or uses. Government resources are allocated to, and accounted for, in individual funds based upon the purpose for which they are to be spent and the means by which the spending activities are controlled.

The following fund types are used by the Court of Appeals:

Governmental Fund Types

Governmental fund types are used to account for all of the Court of Appeals' activities. The General Fund is the primary operating fund of the Court of Appeals. SHARE fund 13700. The General Fund is a reverting fund.

C. 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

Notes to the Financial Statements

June 30, 2016

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.

D. 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 nonspendable fund balance classification on the fund financial statements, which indicates they are unavailable for appropriation even though they are a component of reported assets. The inventory is valued at cost.

E. Prepaid Expenses

In FY 2012 the Court of Appeals paid \$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.

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.

Notes to the Financial Statements

June 30, 2016

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 annual leave as of the date of termination, up to the maximum of 240 hours.

Employees who have over 600 hours of accumulated sick leave can receive payment for hours over 600, up to 120 hours, on July 1 or January 1 of each year. However, sick leave is paid at 50% of the employee's regular hourly wage. At retirement, employees can receive 50% payment for up to 400 hours of accumulated sick leave above 600 hours. Therefore, the only sick leave which has been accrued represents the hours earned at June 30th, over 600 hours. Expenditures for accumulated sick pay for hours under 600 hours will be recognized as employees take such absences.

In addition, the Court allows FLSA non-exempt employees to accumulate compensatory leave in certain approved circumstances. Compensatory leave may be carried forward into the next calendar year and any unused portion is paid at termination to non-exempt employees under the Federal Labor Standards Act.

Accrued compensated absences are recorded as liabilities and net changes are recorded as expenditures in the government-wide financial statements. The fund financial statements only recognize the compensated absences when due and payable at year end.

Notes to the Financial Statements**June 30, 2016****H. 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.

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

Notes to the Financial Statements

June 30, 2016

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.

J. 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 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, 2016.

Notes to the Financial Statements

June 30, 2016

K. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2: STATE GENERAL FUND INVESTMENT POOL RECONCILIATION

Compliant with statute 6-10-3 (NMSA 1978), and to optimize state cash management and investment practices, funds of various state agencies are deposited in the State General Fund Investment Pool (SGFIP). This pool is managed by the New Mexico State Treasurer's Office (STO). Claims on the SGFIP are reported as financial assets by the various agencies investing in the SGFIP.

Agency claims against the SGFIP and fiduciary resources held at STO to fulfill those claims were not reconciled from the inception of SHARE (the State's centralized accounting system), in July 2006, through January 2013, which caused uncertainty as to the validity of the claims and the ability of fiduciary resources to fulfill those claims. As a result of business process and systems configuration changes made during the Cash Management Remediation Project Phase I the Department of Finance and Administration's Financial Control division began reconciling transactional activity reported by the State's fiscal agent bank to the SHARE general ledger on a point-forward basis beginning February 1, 2013. The Financial Control Division (FCD) in collaboration with the State Treasurer's Office, implemented a comprehensive reconciliation model that compared aggregated agency claims on the State General Fund Investment Pool to the associated resources held by the State Treasurer's Office. This process now has been reviewed by the independent public accountants performing audits of the General Fund, the Department of Finance and Administration and the State of New Mexico's Comprehensive Annual Financial Report for fiscal year 2015. Each review of the process deemed it to be adequate and the findings related to Cash Reconciliation were significantly reduced or eliminated. Successfully addressing this issue allowed the Department to reinstate \$100M that had been reserved as a loss contingency. For FY 2016 the following assertions are provided:

1. The calculated difference between resources maintained by STO and the agency claims has remained stable and within a narrow and acceptable range (< \$200k standard deviation) over the last twelve months;
2. Resources are sufficient to cover claims and there is no need to adjust any specific business unit claim on the SGFIP;
3. All claims will be honored at face value.

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 cash transactions processed by Court of Appeals flow through the state general fund investment pool. Since SHARE was implemented, The Court 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.

Notes to the Financial Statements

June 30, 2016

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. 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.

NOTE 3: STATE TREASURER GENERAL FUND INVESTMENT POOL

State law (Section 8-6-3 NMSA 1978) requires the Court’s cash be managed by the New Mexico State Treasurer's Office. Accordingly, the investments of the Court consist of an interest in the General Fund Investment Pool managed by the New Mexico State Treasurer's Office. At June 30, 2016 the Court had the following invested in the General Fund Investment Pool:

	Share Fund #	Maturity	Account Balance	Value
General Fund	13700	1 day	\$ 236,573	\$ 236,573

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

Credit risk - The New Mexico State Treasurer pools are not rated.

For additional GASB 40 disclosure information regarding cash held by the New Mexico State Treasurer, the reader should see the separate audit report for the New Mexico State Treasurer's Office for the fiscal year ended June 30, 2016.

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

	Balance 6/30/15	Additions	Deletions	Balance 6/30/16
Furniture and Equipment	\$ 162,636	-0-	8,048	\$ 154,588
Building and Structures	14,008,877	-0-	-0-	14,008,877
Data Processing Equipment	102,619	-0-	-0-	102,619
Total	14,274,132	-0-	-0-	14,266,084

Notes to the Financial Statements

June 30, 2016

	Balance 6/30/15	Additions	Deletions	Balance 6/30/16
Accumulated Depreciation:				
Furniture and Equipment	84,290	15,459	3,220	96,529
Building and Structures	1,955,406	350,222	-0-	2,305,628
Data Processing Equipment	97,757	2,891	-0-	100,648
	2,137,453	368,572	-0-	2,502,805
Net Capital Assets	\$ 12,136,679	368,572	-0-	11,763,279

Current depreciation expense is \$368,572. The \$2,367 capital outlay amount presented on the statement of revenues, expenditures and changes in fund balance was for a purchase related to the Santa Fe location; therefore, the amount is accounted for as a capital asset on the financial statements of the Supreme Court Building Commission per State statute.

NOTE 5: COMPENSATED ABSENCES

The following is a summary of changes in compensated absences:

	Balance 6/30/15	Additions	Deletions	Balance 6/30/16	Due within One Year
Annual Leave	\$ 177,025	209,937	224,074	162,888	145,636

NOTE 6: LEASES

The Court of Appeals is leasing land from the University of New Mexico, Center for Civic Values. The land is used for the newly constructed Court of Appeals building. The term of the lease is for a period of fifty years at an annual cost of \$50,000. The University shall calculate an increase in the fee based on the Consumer Price Index. The University shall calculate the increase in the CPI over the immediately preceding sixty month period which ended on May 31 of such year. The fee shall be increased effective August 1, 2013 and every five years thereafter by a percentage which is the same as the applicable percentage increase in the CPI. Lease expense for fiscal year 2016 was \$66,691.

NOTE 7: DUE TO STATE GENERAL FUND

The Due to State General Fund in the Statement of Net Position includes \$13,804 in fiscal year 2016 reversions that will be remitted to the State General Fund (Fund 85300). A reversion was made in September 2015 for \$2,468 leaving a balance of \$11,336.

Notes to the Financial Statements

June 30, 2016

NOTE 8: GASB 68 - FINANCIAL REPORTING AND DISCLOSURE FOR MULTIPLE-EMPLOYER COST SHARING PENSIONS AND FOR SINGLE EMPLOYER PENSIONS PLAN (JUDICIAL) BY EMPLOYERS

Compliant with the requirements of Government Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, the State of New Mexico has implemented the standard for the fiscal year ending June 30, 2015.

The Court of Appeals, as part of the primary government of the State of New Mexico, is a contributing employer to a cost-sharing multiple employer defined benefit pension plan administered by the Public Employees Retirement Association (PERA). Disclosure requirements for governmental funds apply to the primary government as a whole, and as such, this information will be presented in the Component Appropriation Funds Annual Financial Report (General Fund) and the Comprehensive Annual Financial Report (CAFR) of the State of New Mexico.

The Court of Appeals also has a single employer defined benefit pension plan for appellate judges (Judicial Retirement) administered by the Public Employees Retirement Association (PERA). Disclosure requirements for governmental funds apply to the primary government as a whole, and as such, this information will be presented in the Component Appropriation Funds Annual Financial Report (General Fund) and the Comprehensive Annual Financial Report (CAFR) of the State of New Mexico.

Information concerning the net pension liability, pension expense, and pension-related deferred inflows and outflows of resources of the primary government will be contained in the General Fund and the CAFR and will be available, when issued, from the Office of State Controller, Room 166, Bataan Memorial Building, 407 Galisteo Street, Santa Fe, New Mexico, 87501.

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.

Notes to the Financial Statements

June 30, 2016

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 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, 2016, 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, 2016, 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, 2016, 2015 and 2014 were \$85,164, \$87,291, and \$82,094, respectively, which equal the required contributions for each year.

Notes to the Financial Statements

June 30, 2016

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.

SCHEDULE OF OPERATING TRANSFERS
For the Year Ended June 30, 2016

	SHARE FUND	TITLE	TRANSFER	
			In	Out
(1)	62000	Department of Finance & Administration	\$ 5,898,600	-
(1)	62000	Department of Finance & Administration	1,400	-
(1)	14900	Department of Finance & Administration	-	13,804
			<u>\$ 5,900,000</u>	<u>13,804</u>

- (1) General Fund Appropriation - Laws of 2015, 1st Session, Chapter 101, Section 4.
- (2) Laws 2016, 2nd S, Chapter 11, Section 6, item 1. For shortfall in fiscal year 2015.

See independent auditor's report.

**SCHEDULE OF VENDOR INFORMATION for Purchases Exceeding \$60,000 (excluding GRT)
For the Year Ended June 30, 2016**

RFB# or RFP#	Type of Procurement	Awarded Vendor	\$ Amount of Awarded Contract	\$ Amount of Amended Contract	Name and Physical Address per the procurement documentation, of <u>ALL</u> Vendor(s) that responded	In-State/ Out- of-State Vendor (Y or N) (Based on Statutory Definition)	Was the vendor in- state and chose Veteran's preference (Y or N) For federal funds answer N/A	Brief Description of the Scope of Work
N/A	Sole Source	UNM	\$ 110,700	\$ -	University of New Mexico 1712 Las Lomas, NE Albuquerque, NM 87131-3181	Y	N/A	Lease of Land, the University also provides utility resources, electricity, steam, phone, garbage/sewag e & water

See independent auditor's report.

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*

Tim Keller, New Mexico State Auditor
and
Honorable Michael E. Vigil, 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, the general fund, 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, 2016, and the related notes to the financial statements, which collectively comprise the Court's basic financial statements, and have issued our report thereon dated November 29, 2016.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be

material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control described in the accompanying *Schedule of Findings and Responses* as item 2015-003 that we consider to be a significant deficiency.

Compliance and Other Matters

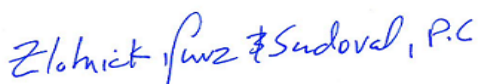
As part of obtaining reasonable assurance about whether the Court's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect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

The Court's Response to Finding

The Court's response to the finding identified in our audit are described in the accompanying *Schedule of Findings and Responses*. The Court's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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, Laws & Sandoval, P.C.
November 29, 2016

Schedule of Findings and Responses

June 30, 2016

Significant Deficiency

2015-003

Accrued Payroll

Condition:

The accrued payroll liabilities for the year end was \$183,246; however, the general ledger shows accrued payroll liabilities of \$164,735, a difference of \$18,511. Management has made no progress toward implementing the prior year's corrective action plan.

Criteria:

The calculated payroll liabilities at year end should agree to the payroll liability amounts in the general ledger.

Cause:

The Court has not been reconciling the payroll liability accounts; as a result, differences between actual liabilities and general ledger accounts have grown over the years. These differences primarily occurred when an employee transferred in from another State agency or out to another State agency. On those occasions, the SHARE system is unable to allocate the payroll liabilities correctly.

Effect:

The payroll liability balances at year end were understated by the amount shown above.

Recommendation:

The Court needs to reconcile these differences and adjust the SHARE general ledger to the actual payroll liabilities.

Management Response and Corrective Action:

The NM Court of Appeals will reconcile payroll liability accounts going forward and will work with DFA and the AOC to find and correct account differences that have accumulated over the years. This appears to be a demanding, time consuming task requiring a pay-period by pay-period review to identify the discrepancies. The Court will start with most recent pay periods and will work backward in time until the accounts are reconciled. The Court's goal is to dramatically reduce the difference between the general ledger and calculated payroll liabilities by the end of this fiscal year.

To help mitigate the problem going forward, the Court has adopted a policy of requiring new hires transferring to the Court from another state agency to only start their new job at the beginning of a pay period. The Court will also encourage and request that Court employees who transfer to another state agency do so at the beginning of a pay period.

Schedule of Findings and Responses

June 30, 2016

Prior Year Findings

<u>Description</u>	<u>Status</u>
2015-001: Capital Assets Listing - Material Non-Compliance	Resolved
2015-002: Budget Over-Expenditures - Non-Compliance	Resolved
2015-003: Accrued Payroll - Significant Deficiency	Revised and Repeated

**Exit Conference
June 30, 2016**

The contents of this report were discussed on November 29, 2016. The following individuals were in attendance:

New Mexico Court of Appeals

Honorable Michael E. Vigil	Chief Judge
Linda M. Vanzi	Judge
Mark H. Reynolds	Chief Attorney Clerk
Ken Wells	Chief Financial Officer
Oscar Arevalo	Director, Fiscal Services Division, AOC

Zlotnick, Laws & Sandoval, PC

Asa Laws	Shareholder
Brian Laws	CPA