

State of New Mexico Supreme Court Law Library



Financial Statements

June 30, 2016

TABLE OF CONTENTS

INTRODUCTORY SECTION

Official Roster..... 1

FINANCIAL SECTION

Independent Auditor’s Report..... 2

Management’s Discussion and Analysis 5

BASIC FINANCIAL STATEMENTS

Government-Wide Financial Statements

Statement of Net Position 8

Statement of Activities..... 9

Fund Financial Statements

Balance Sheet – Governmental Funds..... 10

Statement of Revenues, Expenditures and Changes in Fund
Balance – Governmental Funds..... 11

Statement of Revenues and Expenditures-Budget and
Actual-(Budgetary Basis)-General Fund 12

Notes to Financial Statements..... 13

SUPPLEMENTARY INFORMATION

Schedule of Operating Transfers 24

Schedule of Vendor Information 25

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*..... 26

Schedule of Findings and Responses 28

Other Disclosures 29

OFFICIAL ROSTER
June 30, 2016

BOARD OF TRUSTEES

Honorable Charles W. Daniels	Chief Justice
Honorable Petra Jimenez Maes	Justice
Honorable Richard C. Bosson	Justice
Honorable Edward L. Chavez	Justice
Honorable Barbara Vigil	Justice

ADMINISTRATIVE OFFICIALS

Lynne S. Rhys	State Law Librarian
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Independent Auditor's Report

Tim Keller
New Mexico State Auditor
and
Honorable Charles W. Daniels – Chief Justice
New Mexico Supreme Court Law Library
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, Supreme Court Law Library (Library), as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the Library'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 Library'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 Library'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 Library, 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 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.

Other information

Our audit was conducted for the purpose of forming opinions on the Library'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.

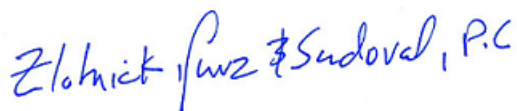
The supplementary information is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial 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 21, 2016 on our consideration of the Library'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 Library's internal control over financial reporting and compliance.



Zlotnick, Laws & Sandoval, PC
November 21, 2016

Management's Discussion and Analysis
June 30, 2016

This discussion and analysis provides an overview of the objective and program of the Supreme Court Law Library (Law Library). This discussion helps the reader understand the Law Library's operation in terms of financial planning and expenditures of the annual budget. The Law Library is an agency created by the Legislature to provide access to the primary law and related legal materials for the citizens of the State of New Mexico, including the judiciary, the legislature, and the executive branches of state government, as well as the general public, and in so doing fulfills the constitutional requirement of providing equal access to the law. The Law Library also has a special, distinct mission in support of the legal research needs of the judiciary.

Agency Overview

Statutory Authority: Sections NMSA 1978, §§ 18-1-1 to 18-1-12 set forth the powers and duties of the Supreme Court Law Library. The program is a statewide program not only providing legal materials and research services, but also oversight over District Court Law Libraries and instruction for public and academic librarians in providing access to legal materials. The main premises of the Law Library are in the Supreme Court Building, and the Assets purchased by the Law Library become the property of the Supreme Court Building Commission, although they are maintained by the Law Library.

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 Library. 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 Law Library's account books. The financial statements are not intended to report the financial position of the State of New Mexico as a whole. The Law Library is one of 100+ agencies in the State that contribute to the financial position of the State of New Mexico.

The Law Library has only one fund SHARE Fund 13400 and is a reverting agency. The Law Library's funds revert into the State General Fund after the end of the fiscal year. The Law Library's revenues are primarily from the State General Fund and fees collected from copies and microfiche printouts.

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 Law Library has no business type activities. The focus of the Statement of Net Position (Unrestricted Net Position) is designed to be similar to a bottom line for the Law Library 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 Law Library's general revenues. This is intended to summarize and simplify the users' analysis of the cost of services.

**Management’s Discussion and Analysis
June 30, 2016**

Fund Financial Statements

Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus is now on Major Funds, rather than fund types. The Supreme Court Law Library only has one such fund: the general fund. The Governmental Fund presentation is presented on a sources and uses of liquid resources basis.

Budgetary Comparisons

As required by the Office of the State Auditor under 2 NMAC 2.2.2, the Statements of Revenues and Expenditures - Budget and Actual - are also presented. This information is provided at the approved budget level to demonstrate compliance with legal requirements.

The budgetary comparison schedules present both the original and the final appropriated budgets for the reporting period as well as the actual inflows, outflows and balances, as stated on the government’s budgetary basis.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Position

	Government Activities	
	<u>2016</u>	<u>2015</u>
Current Assets	\$ 159,316	141,712
Liabilities	<u>(192,078)</u>	<u>(171,301)</u>
Total Net Position	<u>\$ (32,762)</u>	<u>(29,588)</u>

For more detailed information, see the Statement of Net Position.

Financial Highlights

The Law Library’s total assets increased from \$141,712 for fiscal year 2015 to \$ 159,316 for fiscal year 2016 due to a decrease in operating expenditures. The net deficit for fiscal year 2016 was \$32,762 versus \$29,588 for fiscal year 2015. The combined effect of budgetary cuts during the recession years of 2008 to 2015, new mid-cycle budget cuts, and an average inflation of 7% per year in law book prices since 2008 has challenged the library’s ability to provide adequate legal research tools to the New Mexico judiciary, legal community and public at large. Over the 2008 to 2016 period the library general fund appropriation declined from \$1,813,700 to \$1,558,700. This decline has necessitated a refocusing of the library’s acquisition policy away from print materials toward electronic resources. Despite the decrease in funds available, the library has been able to increase the content of Westlaw resources available to district court personnel. The transition from Westlaw Classic to Westlaw Next has increased the usability of Westlaw resources, but has also required greater expenditures.

**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
Program Revenues	1,724	\$ 1,642
State General Fund Appropriations	1,558,700	1,547,400
Reversions to State General Fund	(4,961)	(39,142)
Total Revenues	1,555,463	1,509,900
Program Expenses	1,556,913	1,506,427
Change in net Position	(3,174)	3,473
Net Position, beginning of year	(29,588)	(33,061)
Net Position, end of year	(32,762)	\$ (29,588)

For more detailed information, see the Statement of Activities.

The Law Library's total expenditures for fiscal year 2016 were \$1,556,913, versus fiscal year 2015 which were \$1,506,427. Expenditures increased in 2015 by \$33,616.

THE SUPREME COURT LAW LIBRARY'S FUNDS

The Supreme Court Law Library has one governmental fund which is solely funded by State general fund appropriations by the State Legislature. The general fund has decreased in 2016 as well as previous years due to statewide budget cuts imposed by the State Legislature for all state government agencies.

BUDGETARY HIGHLIGHTS

The Supreme Court Law Library made budget adjustments during fiscal year 2016 increasing the personal services and benefits 200 category by \$64,000, decreasing the contractual 300 category by \$274,200, and increasing the 400 other category by \$265,000. The large transfer from category 300 to 400 was for accounting purposes only; Westlaw and Lexis charges had previously been charged to category 300, but DFA determined during FY2016 that they should instead be charged to category 400.

ANTICIPATED CHANGES

The Supreme Court Law Library knows of no anticipated changes that will significantly affect the financial position of the agency.

FINANCIAL CONTACT

Lynne S. Rhys, State Law Librarian liblsr@nmcourts.gov

STATEMENT OF NET POSITION
June 30, 2016

	Governmental Activities
ASSETS	
Investment in State General Fund Investment Pool	\$ 159,316
Total Assets	\$ 159,316
 LIABILITIES	
Accounts Payable	\$ 130,363
Payroll Benefits Payable	7,542
Payroll Taxes Payable	5,531
Accrued Payroll	10,767
Due to State General Fund	5,113
Compensated Absences:	
Due Within One Year	28,631
Due After One Year	4,131
Total Liabilities	192,078
 NET POSITION	
Unrestricted (deficit)	(32,762)
Total Net Position	(32,762)
Total Liabilities and Net Position	\$ 159,316

See Notes to Financial Statements.

STATEMENT OF ACTIVITIES
For the Year Ended June 30 2016

	Governmental Activities
Expenses:	
Judicial:	
Administrative Services	\$ 1,558,637
Program Revenues:	
Miscellaneous Revenues	1,724
Excess (Deficiency) of Revenue over Expenses	(1,556,913)
General Revenues and Transfers	
State General Fund Appropriations	1,558,700
Other Financing Sources	
FY2016 Reversion	(4,961)
Change in Net Position	(3,174)
Net Position, Beginning	(29,588)
Net Position, Ending	\$ (32,762)

See Notes to Financial Statements.

BALANCE SHEET - GOVERNMENTAL FUND
June 30, 2016

	General Fund
ASSETS	
Investment in State Gen. Fund Investment Pool	\$ 159,316
Total Assets	\$ 159,316
LIABILITIES	
Accounts Payable	\$ 130,363
Payroll Benefits Payable	7,542
Payroll Taxes Payable	5,531
Accrued Payroll	10,767
Due to State General Fund	5,113
Total Liabilities	159,316
FUND BALANCES	
Unassigned	-
Total Fund Balances	-
Total Liabilities and Fund Balances	\$ 159,316

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

Total fund balances	\$ -
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	(32,762)
Net Position per Statement of Net Position	\$ (32,762)

See Notes to Financial Statements.

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

	General Fund
REVENUES	
Miscellaneous Revenue	\$ 1,724
EXPENDITURES	
Judicial:	
Current:	
Personal Services and Benefits	660,041
Contract Services	121,448
Other Costs	770,728
Capital Outlay	3,246
Total Expenditures	1,555,463
Excess (Deficiency) of Revenues Over Expenditures	(1,553,739)
OTHER FINANCING SOURCES (Uses)	
Transfer In:	
State General Fund Appropriations	1,558,700
Other State funds	-
Transfer Out:	
FY2016 Reversion	(4,961)
Total Other Financing Sources (Uses)	1,553,739
Net Change in Fund Balances	-
Fund Balances, beginning	-
Fund Balances, ending	\$ -

Amounts reported in the Statement of Activities are different because:

Net change in fund balance	\$ -
Change in compensated absences	(3,174)
Changes in net position of governmental activities	\$ (3,174)

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				
Miscellaneous Revenue	\$ 2,200	2,200	1,724	(476)
General Fund Appropriation	1,569,500	1,558,700	1,558,700	-
 Total Revenues	 1,571,700	 1,560,900	 1,560,424	 (476)
 EXPENDITURES				
Administrative Services:				
Personal Services	\$ 655,000	660,600	660,041	559
Contractual Services	395,600	121,448	121,448	-
Other	521,100	778,852	773,974	4,878
 Total Expenditures	 \$ 1,571,700	 1,560,900	 1,555,463	 5,437
 Excess of revenue and other financing sources over expenditures			 4,961	
FY2016 Reversion			 (4,961)	
 Changes in fund balances per statement of revenues, expenditures and changes in fund balance (GAAP Basis)			 -	

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, Supreme Court Law Library 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 Supreme Court Law Library's accounting policies are described below:

A. Reporting Entity

Supreme Court Law Library

The Supreme Court Law Library was created by statute in 1915. The current statutory authority is found at NMSA 1978, §18-1-1 et seq. Pursuant to statute, the New Mexico Supreme Court sits as the Supreme Court Law Library's Board of Trustees. NMSA 1978, § 18-1-2. The New Mexico Supreme Court appoints a State Law Librarian as agency head. NMSA 1978, § 18-1-7.

The Supreme Court Law Library is a component unit of the Judicial Branch and these financial statements include all funds and activities over which the Law Library has oversight responsibility. The Law Library has decision-making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters. The Law Library 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. The Law Library 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 Supreme Court Law Library 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 Supreme Court Law Library 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 measurement focus, which incorporates long-term assets and receivables, as well as long-term debt and obligations. Government-wide financial statements exclude information about fiduciary funds and component units that are fiduciary in nature. Revenues are recognized if available within 60 days.

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

The net cost by function is normally covered by general revenue. Revenue consists of State of New Mexico appropriations and fees charged for library services. Since the Supreme Court Law Library only has one program, it does not employ direct cost allocation in the financial statements.

The governmental funds in the fund financial statements are presented on a current financial resources measurement focus and the modified accrual basis of accounting. This is the manner in

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

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 Supreme Court Law Library's 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 Supreme Court Law Library 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 Supreme Court Law Library Funds are classified as governmental.

The following fund types are used by the Law Library:

Governmental Fund Types

Governmental fund types are used to account for all of the Law Library's activities. The General Fund (SHARE Fund 13400) is the primary operating fund of the Law Library. The General Fund is a reverting fund.

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 and 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

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

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.

E. Encumbrances

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

F. Capital Assets

By State statute, all capital assets used by the Supreme Court Law Library are accounted for by the State of New Mexico, Supreme Court Building Commission. The Commission is responsible for the care, custody, and control of capital assets used by agencies of the judicial department housed within the Supreme Court Building. Capital assets purchased by the Supreme Court Law Library are reported as capital outlay expenditures in the General Fund.

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

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

Annual leave and other compensated absences with similar characteristics are accrued as a liability as benefits are earned by employees if: the employees' right to receive compensation is attributable to services already rendered; and it is probable that the employer will compensate employees for benefits through paid time off or some other means, such as cash payments at termination or retirement.

Employees accumulate annual leave at a rate based on appointment date and length of continuous service. A maximum of 240 hours of annual leave may be carried forward after the pay period beginning in December and ending in January. When employees terminate, they are compensated at their current hourly rate for accumulated unpaid annual leave as of the date of termination, up to a maximum of 240 hours.

Employees accumulate sick leave at a rate of 3.69 hours per pay period. There is no limit to the amount of sick leave that an employee may accumulate. State agencies are allowed to pay fifty percent of each employee hourly rate for accumulated sick leave over 600 hours, up to 120 hours. Payment may be made only once per fiscal year at a specified pay period in either January or July. Additionally, upon retirement, those employees with over 600 hours of accumulated sick leave, have the option to convert 400 hours of such leave to cash at one half of their hourly rate.

Fair Labor Standards Act (FLSA) states that nonexempt employees accumulate compensation time at a rate of 1.5 times the number of hours worked, in excess of forty hours per week, based on their regular hourly rate. Exempt and classified employees who are FLSA exempt accumulate compensation time at the same rate as the number of hours worked. Overtime must be preapproved by management. Payment of this liability can be made by compensated leave time or cash payment. At June 30th, there was no compensation time owed to any employees.

In accordance with GASB 16, accrued compensated absences consist of accumulated annual leave up to 240 hours, sick leave between 600 and 720 hours, compensatory leave for employees, including the related employers' matching FICA and Medicare payroll taxes.

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.

Net Investment 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 Law Library 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 Supreme Court Law Library spends restricted resources first.

Unrestricted Net Position—represents unrestricted liquid assets.

Notes to the Financial Statements
June 30, 2016

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 Law Library 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 Law Library's highest level of decision-making authority. Those committed amounts cannot be used for any other purpose unless the Law Library 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 Law Library'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.

J. 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.

K. Budgets

The Supreme Court Law Library follows these procedures in establishing the budgetary data reflected in the financial statements:

No later than September 1, the Supreme Court Law Library submits to the Judicial Budget Office (JBO), the Legislative Finance Committee (LFC), and the Department of Finance and Administration

Notes to the Financial Statements
June 30, 2016

(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 Supreme Court Law Library 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 (NMSA 1978, § 6-10-4), 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**

NOTE 2: STATE TREASURER GENERAL FUND INVESTMENT POOL

State law (NMSA 1978, § 8-6-3) requires the Supreme Court Law Library cash be managed by the New Mexico State Treasurer's Office. Accordingly, the investments of the Supreme Court Law Library 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:

	<u>Share Fund #</u>	<u>Maturity</u>	<u>Account Balance</u>	<u>Fair Value</u>
General Fund	13400	1 day	\$ <u>159,316</u>	\$ <u>159,316</u>

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

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

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

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 New Mexico State Treasurer. Claims on the Pool are reported as assets by the various agencies investing in the Pool.

In June 2013 an independent expert diagnostic report revealed that the Pool balances have not been reconciled at the "business unit/fund" level since the inception of the Statewide Human Resources, Accounting, and management Reporting system (SHARE) system in July of 2006. 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.

By state statute, the New Mexico Department of Finance and Administration (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 (FCD) of the New Mexico Department of Finance & Administration undertook action to address the situation. DFA/FCD initiated the Cash Management Remediation Project (Remediation Project) in partnership with the Office of the New Mexico State Treasurer, the New Mexico Department of Information Technology, and a contracted third party with expertise in the Enterprise System Software used by the State.

The Remediation Project objective was to design and implement changes necessary to ensure ongoing completion of timely, accurate and comprehensive reconciliation of the Pool. DFA has or is in the

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

process of implementing all the recommendations resulting for the Remediation Project and has made changes to the State's 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 reconciling 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.

DFA Management in FY 2012 recorded a loss contingency of \$101.7 million in the General Fund based on its estimate of the effect of issues related to the reconciliation of the Pool, that estimate is still current. Because no specific loss amount is determinable, consistent with generally accepted accounting principles, the amount accrued is the minimum amount that DFA management considers to be probable. Ultimately, the loss could exceed the amount accrued, perhaps by a substantial amount.

Update for Fiscal Year 2016: 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.

The cash transactions processed by the Supreme Court Law Library 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 Supreme Court Law Library.

**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 Supreme Court Law Library reports the timely completion of the reconciliation process to Supreme Court Law Library 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 the Supreme Court Law Library’s share of the state general fund investment pool provides management assurance that the balance reflected in State General Fund Investment Pool account is accurate as of the end of the reporting period. In addition, Supreme Court Law Library reconciles other asset and liability accounts on the balance sheet of each fund type. This process also provides additional assurance that transactions affecting the Supreme Court Law Library’s share in the State General Fund Investment Pool account are accurate.

NOTE 3: DUE TO STATE GENERAL FUND

The Supreme Court Law Library accrued a liability for reversion to the State General Fund for its unexpended general appropriations for the fiscal year ended June 30, 2016. The following is a summary of reversion activity for the fiscal year.

State dated warrants	\$ 152
Budget year 2016 reversion	<u>4,961</u>
Due to State General Fund	<u>\$ 5,113</u>

NOTE 4: COMPENSATED ABSENCES

The following is a summary of changes in compensated absences:

Balance 06/30/15	Additions	Deletions	Balance 06/30/16	Due within One Year
<u>\$29,588</u>	<u>40,560</u>	<u>37,386</u>	<u>\$32,762</u>	<u>\$28,631</u>

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 5: RETIREMENT PLANS

GASB 68 - Financial Reporting and Disclosure for Multiple-Employer Cost Sharing Pensions Plans by Employers. Compliant with the requirements of Government Accounting Standards Board Statement

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

No. 68, Accounting and Financial Reporting for Pensions, the State of New Mexico has implemented the standard for the fiscal year ending June 30, 2016.

The Supreme Court Law Library, 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.

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 6: POST-EMPLOYMENT BENEFITS - STATE RETIREE HEALTH CARE PLAN

Plan Description. The Supreme Court Law Library 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 (NMSA 1978, § 10-7C). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

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

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

Funding Policy. The Retiree Health Care Act (NMSA 1978, § 10-7C-15) 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

Notes to the Financial Statements
June 30, 2016

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 (NMSA 1978, § 10-7C-15) 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 Supreme Court Law Library contributions to the RHCA for the years ended June 30, 2016, 2015 and 2014 were \$9,738, \$7,715, and \$9,149, respectively, which equal the required contributions for each year.

NOTE 10: RISK MANAGEMENT

The Supreme Court Law Library 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 Law Library 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)	85300	Department of Finance & Administration	\$ 1,558,700	\$ -
(1)	14900	FY 2016 Reversion	-	4,961
	Total		<u>\$ 1,558,700</u>	<u>\$ 4,961</u>

(1) General Fund Appropriation, Laws of 2015, Chapter 101, Sections 4B

See independent auditor's report.

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

<i>RFB#/RFP# (If applicable)</i>	<i>Type of Procurement</i>	<i>Vendor Name</i>	<i>Did Vendor Win Contract?</i>	<i>\$ Amount of Awarded Contract</i>	<i>\$ Amount of Amended Contract</i>	<i>Physical address of vendor (City, State)</i>	<i>Did the Vendor provide documentation of eligibility for in-state preference?</i>	<i>Did the Vendor provide documentation of eligibility for veterans' preference?</i>	<i>Brief Description of the Scope of Work</i>
N/A	Sole Source	Thomson Reuters		548,268	548,268	St. Paul, MN	No	No	3 years - Westlaw access for Supreme Court and Court of Appeals
N/A	Sole Source	Thomson Reuters		707,316	707,316	St. Paul, MN	No	No	3-years - Print subscription for updates
N/A	Sole Source	LexisNexis		130,786	130,786	Albany, NY	No	No	3 years - LexisNexis access for Judiciary
N/A	Sole Source	LexisNexis Matthew Bender		265,022	265,022	Albany, NY	No	No	3 years - Print subscription for updates
N/A	Small Purchase	SyrsiDynex EOS LLC		74,166	74,166	Carlsbad, CA	No	No	3 years - software and cloud service for library cataloging, OPAC, circulation

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 Charles W. Daniels, Chief Justice, President
New Mexico Supreme Court Law Library
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, Supreme Court Law Library (Library), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements and have issued our report thereon dated November 21, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Library'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 Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library'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 Library'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 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or Section 12-6-5 NMSA 1978.

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 Library's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Zlotnick, Laws & Sandoval, P.C.

Zlotnick, Laws & Sandoval, P.C.
November 21, 2016

**Schedule of Findings and Responses
June 30, 2016**

Current Year's Findings

None

Status of Prior Year's Findings

None

**Other Disclosures
June 30, 2016**

Preparation of the Financial Statements

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

Exit Conference

The contents of this report were discussed on November 21, 2016. The following individuals were in attendance:

New Mexico Supreme Court Law Library

Honorable Charles W. Daniels	Chief Justice
Lynne Rhys	State Law Librarian

Zlotnick, Laws & Sandoval, PC

Asa Laws, CPA	CPA, Shareholder
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