

State of New Mexico Supreme Court Law Library



Financial Statements

June 30, 2018

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State of New Mexico Supreme Court Law Library

OFFICIAL ROSTER

June 30, 2018

Board of Trustees

Honorable Judith K. Nakamura	Chief Justice
Honorable Petra Jimenez Maes	Justice
Honorable Charles W. Daniels	Justice
Honorable Edward L. Chavez	Justice
Honorable Barbara J. Vigil	Justice

Administrative Officials

Lynne S. Rhys	State Law Librarian (Until April 2018)
Stephanie Wilson	Acting State Law Librarian (Started in April 2018)

INDEPENDENT AUDITORS' REPORT

Honorable Judith K. Nakamura, Chief Justice
State of New Mexico Supreme Court Law Library
and

Mr. Wayne Johnson
New Mexico State Auditor
Santa Fe, New Mexico

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the general fund, and the budgetary comparison for the general fund of the State of New Mexico Supreme Court Law Library (Law Library), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Law 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 misstatement, whether due to fraud or error.

Auditors' 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 from 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 auditors' 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 Law 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

entity'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 Law Library, as of June 30, 2018, and the respective changes in financial position thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note A1, the financial statements of the Law Library are intended to present the financial position and changes in financial position of only that portion of the governmental activities, major funds and aggregate remaining fund information of the State of New Mexico that is attributable to the transactions of the Law Library. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2018, and the changes in financial position and budgetary comparisons for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified for this matter.

As discussed in Note D, the State of New Mexico, as a single employer, has implemented Governmental Accounting Standards Board (GASB) Standard No. 68, *Accounting and Financial Reporting for Pensions*, in the June 30, 2018, Comprehensive Annual Financial Report (CAFR). Accordingly, there is no allocation of the proportional share of the net pension liability to individual agencies or to the Law Library's financial statements. All other required footnotes and other disclosures required by GASB are included in the State of New Mexico CAFR for June 30, 2018. Our opinion is not modified with respect to this matter.

As discussed in Note E, the State of New Mexico, as a single employer, follows GASB Standard No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other than Pensions*, (OPEB) in the June 30, 2018, CAFR. Accordingly, there is no allocation of the proportional share of the net OPEB liability to individual agencies or to the Law Library's financial statements. All other required footnotes and other disclosures required by GASB are included in the State of New Mexico CAFR for June 30, 2018. Our opinion is not modified with respect to this matter.

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 through 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 financial statements that collectively comprise the Law Library's basic financial statements and the budgetary comparison for the general fund. 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 was derived from and relates 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2018, on our consideration of the Law 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 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 Law Library's internal control over financial reporting and compliance.

ATKINSON & CO., LTD

Atkinson & Co., Ltd.

Albuquerque, New Mexico
November 1, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2018

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 the governmental fund's current financial resources (short-term spendable resources) with capital Assets and long-term liabilities.

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

June 30, 2018

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.

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>2018</u>	<u>2017</u>
Current Assets	\$ 126,927	\$ 132,181
Liabilities	<u>(145,891)</u>	<u>(158,474)</u>
Total Net Position (Deficit)	<u>\$ (18,964)</u>	<u>\$ (26,293)</u>

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

Financial Highlights

The Law Library’s total assets decreased from \$132,181 for fiscal year 2017 to \$126,927 for fiscal year 2018 although the operating budget remained constant. The net deficit for fiscal year 2018 was \$18,964 versus \$26,293 for fiscal year 2017. 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 2017 period the Library general fund appropriation remained the same at \$1,507,600. This decline has necessitated a refocusing of the Library’s acquisition

State of New Mexico Supreme Court Law Library

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

June 30, 2018

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.

Statement of Activities

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

	Government Activities	
	<u>2018</u>	<u>2017</u>
Program Revenues	\$ 1,510	\$ 1,343
State General Fund Appropriations	1,507,600	1,507,600
Reversions to State General Fund	<u>(17,086)</u>	<u>(7,997)</u>
Total Revenues	1,492,024	1,500,946
Program Expenses	<u>(1,484,695)</u>	<u>(1,494,477)</u>
Change in Net Position	7,329	6,469
Net Position, beginning of year	<u>(26,293)</u>	<u>(32,762)</u>
Net Position, end of year	<u>\$ (18,964)</u>	<u>\$ (26,293)</u>

For more detailed information, see the Statement of Activities.

The Law Library’s total expenditures for fiscal year 2018 were \$1,484,695, versus fiscal year 2017 which were \$1,494,477. Expenditures decreased in 2018 by \$9,782.

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 for FY18 was flat as compared to FY17.

BUDGETARY HIGHLIGHTS

The Supreme Court Law Library made budget adjustments in FY18 decreasing personnel services and benefits (Category 200) due to multiple vacancies and increasing supplies (Category 400) to purchase items needed that in previous years couldn’t be purchased due to limited funding.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

June 30, 2018

ANTICIPATED CHANGES

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

FINANCIAL CONTACT

Stephanie Wilson, Acting State Law Librarian

State of New Mexico Supreme Court Law Library

STATEMENT OF NET POSITION (DEFICIT)

June 30, 2018

	<u>Governmental Activities</u>
ASSETS	
Interest in State General Fund Investment Pool	\$ 126,927
Total assets	<u>\$ 126,927</u>
LIABILITIES	
Accounts payable	\$ 107,058
Payroll benefits payable	6,772
Payroll taxes payable	3,921
Accrued payroll	9,176
Compensated Absences:	
Due within one year	16,119
Due after one year	2,845
Total liabilities	<u>145,891</u>
NET POSITION (DEFICIT)	
Unrestricted (deficit)	<u>(18,964)</u>
Total net position (deficit)	<u>(18,964)</u>
Total liabilities and net position	<u>\$ 126,927</u>

The accompanying notes are an integral part of this financial statement.

State of New Mexico Supreme Court Law Library

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2018

	<u>Governmental Activities</u>
EXPENSES	
Judicial:	
Administrative services	<u>\$ 1,484,695</u>
Total expenses	1,484,695
PROGRAM REVENUES	
Miscellaneous revenues	<u>1,510</u>
Deficiency of revenue over expenses	(1,483,185)
GENERAL REVENUES AND TRANSFERS	
State General Fund appropriations	1,507,600
Current year reversion	<u>(17,086)</u>
CHANGE IN NET POSITION	7,329
NET POSITION (DEFICIT), beginning	<u>(26,293)</u>
NET POSITION (DEFICIT), ending	<u><u>\$ (18,964)</u></u>

The accompanying notes are an integral part of this financial statement.

State of New Mexico Supreme Court Law Library

BALANCE SHEET – GOVERNMENTAL FUNDS

June 30, 2018

	General Fund 13400
ASSETS	
Interest in State General Fund Investment Pool	\$ 126,927
Total assets	<u>\$ 126,927</u>
LIABILITIES	
Accounts payable	\$ 107,058
Payroll benefits payable	6,772
Payroll taxes payable	3,921
Accrued payroll	9,176
Total liabilities	<u>126,927</u>
FUND BALANCE	
Unassigned	<u>-</u>
Total fund balance (deficit)	<u>-</u>
Total liabilities and fund balance	<u>\$ 126,927</u>

The accompanying notes are an integral part of this financial statement.

State of New Mexico Supreme Court Law Libraray

**RECONCILIATION OF THE BALANCE SHEET TO THE
STATEMENT OF NET POSITION (DEFICIT) – GOVERNMENTAL FUNDS**

Year Ended June 30, 2018

Total Fund Balance - Governmental Funds (Governmental Fund Balance Sheet)	\$ -
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Certain other liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Liabilities at year end consist of:	
Compensated absences payable	<u>(18,964)</u>
Net position of governmental activities (Statement of Net Position (Deficit))	<u>\$ (18,964)</u>

The accompanying notes are an integral part of this financial statement.

State of New Mexico Supreme Court Law Library

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS**

Year Ended June 30, 2018

	General Fund 13400
REVENUES	
Miscellaneous revenue	\$ 1,510
EXPENDITURES	
Judicial:	
Current:	
Personnel services and benefits	574,065
Contract services	53,805
Other costs	864,154
Capital outlay	-
Total expenditures	<u>1,492,024</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	(1,490,514)
OTHER FINANCING SOURCES (USES)	
Transfer In:	
State General Fund appropriations	1,507,600
Transfer Out:	
Current year reversion	<u>(17,086)</u>
Net other financing sources (uses)	<u>1,490,514</u>
NET CHANGE IN FUND BALANCES	-
FUND BALANCE, beginning	<u>-</u>
FUND BALANCE, ending	<u><u>\$ -</u></u>

The accompanying notes are an integral part of this financial statement.

State of New Mexico Supreme Court Law Library

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE
STATEMENT OF ACTIVITIES – GOVERNMENTAL FUNDS**

Year Ended June 30, 2018

Net Changes in Fund Balances - Total Governmental Funds
(Statement of Revenues, Expenditures, and Changes in Fund Balances) \$ -

Amounts reported for governmental activities in the Statement of Activities are different because:

In the Statement of Activities, certain operating expenses - compensated absences (sick and annual leave) are measured by the amounts earned during the year. In the Governmental Funds, however, expenditures for these items are measured by the amounts of financial resources used (essentially, the amounts actually paid). The net decrease in the liabilities for the year was:

7,329

Change in Net Position of Governmental Activities (Statement of Activities)

\$ 7,329

The accompanying notes are an integral part of this financial statement.

State of New Mexico Supreme Court Law Library

**STATEMENT OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL –
(BUDGETARY BASIS) – GENERAL FUND**

For the Year Ended June 30, 2018

	Budget		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Miscellaneous revenue	\$ 2,200	\$ 2,200	\$ 1,510	\$ (690)
General Fund appropriations	<u>1,507,600</u>	<u>1,507,600</u>	<u>1,507,600</u>	<u>-</u>
Total revenues	<u>\$ 1,509,800</u>	<u>\$ 1,509,800</u>	<u>\$ 1,509,110</u>	<u>\$ (690)</u>
EXPENDITURES				
Administrative services:				
Personnel services	\$ 674,800	\$ 588,300	\$ 574,065	\$ 14,235
Contractual services	44,900	53,805	53,805	-
Other	<u>790,100</u>	<u>867,695</u>	<u>864,154</u>	<u>3,541</u>
Total expenditures	<u>\$ 1,509,800</u>	<u>\$ 1,509,800</u>	<u>1,492,024</u>	<u>\$ 17,776</u>
Excess of revenue and other financing sources over expenditures			17,086	
Current year reversion			<u>(17,086)</u>	
Changes in fund balances per statement of revenues, expenditures and changes in fund balance (GAAP Basis)			<u>\$ -</u>	

The accompanying notes are an integral part of this financial statement.

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE A – 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:

1. Reporting Entity

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 (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 was determined to be a discrete component unit of the Supreme Court during the year ended June 30, 2018. The Law Library has no component units that are required to be reported in its financial statements.

2. 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.

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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2. Basic Financial Statements – Continued

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 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 General Fund is classified as governmental.

The following fund type is 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.

3. 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.

4. 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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

4. Basis of Accounting – Continued

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

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.

5. 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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

6. 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

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.

Accrued compensated absences consist of accumulated annual leave up to 240 hours, sick leave between 600 and 720 hours, and compensatory leave for employees, including the related employer's matching FICA and Medicare payroll taxes.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

7. 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 record capital assets and does not have any related debt.

Restricted Net Position – is liquid assets, 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.

8. 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. There were no restricted assets at June 30, 2018

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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

8. Fund Balances – Continued

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.

9. 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.

10. 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 (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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

10. Budgets – Continued

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, 2018.

11. Subsequent Events

Subsequent events have been evaluated through November 1, 2018, the date which the financial statements were available to be issued, to determine whether such events should be recorded or disclosed in the financial statements for the year ended June 30, 2018. Effective July 1, 2018, the Law Library was combined for funding purposes into the Supreme Court as a blended component unit. Management believes no other material subsequent events have arisen that would require adjustment or disclosure.

NOTE B – 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, 2018, the Law Library 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>\$ 126,927</u>	<u>\$ 126,927</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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2018

NOTE B – STATE TREASURER GENERAL FUND INVESTMENT POOL – CONTINUED

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, 2018.

NOTE C – COMPENSATED ABSENCES

The following is a summary of changes in compensated absences:

<u>Balance June 30, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2018</u>	<u>Due Within One Year</u>
\$ 26,293	\$ 15,330	\$ (22,659)	\$ 18,964	\$ 16,119

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 Law Library has no other debt.

NOTE D – PENSION PLAN – PUBLIC EMPLOYEE RETIREMENT ASSOCIATION

Compliant with the requirements of Government Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, the State of New Mexico follows the standard for the fiscal year ending June 30, 2018.

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 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.

The Supreme Court Law Library contributions to the PERA for the years ended June 30, 2018, 2017, and 2016 were \$68,163, \$81,962, and \$82,719, respectively, which equal the required contributions for each year.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2018

NOTE E – POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN

Compliant with the requirements of Government Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, the State of New Mexico has implemented this standard for the fiscal year ended June 30, 2018.

The 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 postemployment health care plan that provides comprehensive group health insurance for persons who have retired from certain public service positions in New Mexico. The other postemployment benefits (OPEB) Plan is administered by the Retiree Health Care Authority of the State of New Mexico. Overall, total OPEB liability exceeds OPEB Plan net position resulting in a net OPEB liability. The State has determined the State's share of the net OPEB liability to be a liability of the State as a whole, rather than any agency or department of the State and the liability will not be reported in the department or agency level financial statements of the State. All required disclosures will be presented in the CAFR of the State of New Mexico.

Information concerning the net liability, benefit expense, and benefit-related deferred inflows and deferred outflows of resources of the primary government will be contained in the State of New Mexico CAFR for the year ended June 30, 2018, and will be available, when issued, from the Office of the State Controller, Room 166, Bataan Memorial Building, 407 Galisteo Street, Santa Fe, New Mexico, 87501.

The Supreme Court Law Library contributions to the RHCA for the years ended June 30, 2018, 2017, and 2016 were \$8,024, \$9,648, and \$9,738, respectively, which equal the required contributions for each year.

NOTE F – 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. Any claims against the Law Library have not exceeded available coverage. However, the Library would not be liable for more than the annual premiums.

State of New Mexico Supreme Court Law Library

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2018

NOTE G – REVERSIONS TO STATE GENERAL FUND

Current year reversions for the State General Fund as of June 30, 2018, were as follows:

<u>Appropriation Year</u>	<u>Fund Type</u>	<u>SHARE System Fund</u>	<u>Reversion</u>
Laws of 2017	General Fund	13400	\$ 17,086

In accordance with statute Section 6-5-10(A) NMSA 1978, all unreserved, undesignated fund balances in reverting funds and accounts as reflected in the central accounting system as of June 30 shall revert.

SUPPLEMENTARY INFORMATION

State of New Mexico Supreme Court Law Library

SCHEDULE OF OPERATING TRANSFERS

For the Year Ended June 30, 2018

Share Fund	Title	Transfer	
		In	Out
(1) 85300	Department of Finance & Administration	\$ 1,507,600	\$ -
(1) 14900	Current year reversion	-	(17,086)
Total		<u>\$ 1,507,600</u>	<u>\$ (17,086)</u>

(1) General Fund Appropriation, Laws of 2017,
Chapter 3, Section 4

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING, AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Honorable Judith K. Nakamura, Chief Justice
State of New Mexico Supreme Court Law Library
and
Mr. Wayne Johnson
New Mexico State Auditor
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 comparison for the general fund of the State of New Mexico Supreme Court Law Library (Law Library), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Law Library's basic financial statements and have issued our report thereon dated November 1, 2018.

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. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Law 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and 2.2.2 NMAC, which is described in the accompanying schedule of findings and questioned costs as item 2018-001.

Law Library's Responses to Findings

The Law Library's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Law Library's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

ATKINSON & CO., LTD

Atkinson & Co., Ltd.

Albuquerque, New Mexico
November 1, 2018

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2018

Current Year Findings Description

Findings – Financial Statement Audit

None

Findings in Accordance with 2.2.2 NMAC (State Audit Rule)

2018-001 Compensated Absences (Other Noncompliance)

Prior Year Findings Description

Status

None

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2018

FINDINGS IN ACCORDANCE WITH 2.2.2 NMAC (STATE AUDIT RULE)

2018-001 Compensated Absences (Other Noncompliance)

CONDITION

During audit testwork performed on the compensated absences, we noted that the Law Library had two inactive employees from several years ago with outstanding termination pay balances totaling \$1,516.

During audit testwork performed on the journal entries, we also noted that the Law Library had one employee who was paid an incorrect higher pay rate for compensated absences upon termination of employment. This overpayment was not caught by the Law Library and was subsequently discovered by the State's Central Payroll. The Law Library recorded a journal entry to record the overpayment reimbursement.

CRITERIA

The New Mexico State Personnel Administration determines absence and leave policies for all state entities. Per Section 1.1.7 of the New Mexico Administrative Code, annual leave balances up to 240 hours are due and payable as an obligation to the Law Library to the terminated employees.

CAUSE

There was not a process in place to ensure that terminated employees were paid their compensated absences balances owed to them by the Law Library. Until recently there were no reports in SHARE which identified inactive employees with compensated absences balances owed. For the one employee that was overpaid for terminal leave, the error was due to management oversight.

EFFECT

The Law Library was not in compliance with State of New Mexico standards for terminal leave pay and still has outstanding compensated absences owed to former employees, several of which left employment more than five years ago. The overpaid employee did remit the overpaid balance back to the Law Library.

RECOMMENDATION

We recommend that management utilize the new reporting available in SHARE to improve its monitoring procedures to ensure terminated employees are paid appropriate terminal leave.

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2018

FINDINGS IN ACCORDANCE WITH 2.2.2 NMAC (STATE AUDIT RULE) – CONTINUED

2018-001 Compensated Absences (Other Noncompliance) – Continued

VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN

The Law Library believes further research into this issue is needed and doubts the accuracy of the new SHARE report. At this time, the Law Library denies that it was not in compliance with the State of New Mexico standards for terminal leave pay. The Interim CFO and Director of Fiscal Services of the Administrative Office of the Courts and the Acting State Law Librarian will investigate the matter and then determine what, if any, action is needed by June 30, 2019. The Law Library notes that no former employee has claimed that they were not correctly paid for accrued leave upon termination.

State of New Mexico Supreme Court Law Library

EXIT CONFERENCE

Year Ended June 30, 2018

An exit conference was held on October 23, 2018. The following individuals were present:

New Mexico Supreme Court Law Library:

Honorable Judith K. Nakamura
Arthur W. Pepin
Suzette A. Fronk

Stephanie Wilson

Chief Justice
Director, Administrative Office of the Courts
Interim CFO and Director of Fiscal Services
Administrative Office of the Courts
Acting State Law Librarian

Atkinson & Co., Ltd.:

Clarke Cagle, CPA, CCIFP, CGFM
Sarah Brack, CPA, CGFM, CGMA
Andrea Brewer, CPA, CFE

Audit Director
Audit Manager
Audit Manager

PREPARATION OF FINANCIAL STATEMENTS

Management is responsible for ensuring that the books and records adequately support the preparation of financial statements in accordance with generally accepted accounting principles and that records are correct and in balance. The financial statements presented in this report have been prepared by the independent auditor with the assistance of the Library. Management has reviewed and approved the financial statements.