

# State of New Mexico Supreme Court



## Financial Statements

**June 30, 2018**

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State of New Mexico Supreme Court

**OFFICIAL ROSTER**

June 30, 2018

**JUSTICES**

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

**ADMINISTRATIVE OFFICIALS**

Joey D. Moya	Attorney, Clerk of the New Mexico Supreme Court, CFO
Wanda M. Gonzales	Court Financial Manager, Co-CFO

## INDEPENDENT AUDITORS' REPORT

Honorable Judith K. Nakamura, Chief Justice  
State of New Mexico Supreme Court  
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, each major fund, the budgetary comparisons for the general funds, and each discretely presented component unit of the State of New Mexico Supreme Court (the Court) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Court's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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, each major fund, and each discretely presented component unit of the Court as of June 30, 2018, and the respective changes in financial position and the respective budgetary comparisons for the general funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Emphasis of Matters**

As discussed in Note A1, the financial statements of the Court 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 Court. 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, follows 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 Court'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, has implemented 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 Court'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 Court's basic financial statements, budgetary comparisons for the general funds and the discretely presented component units. 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 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 Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Court's internal control over financial reporting and compliance.

ATKINSON & CO., LTD

**Atkinson & Co., Ltd.**

Albuquerque, New Mexico  
November 1, 2018

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

June 30, 2018

The discussion and analysis provides an overview of the objective and program of the Supreme Court of New Mexico. This discussion helps the reader understand the Supreme Court's operation in terms of financial planning and expenditures of the annual budget. The Supreme Court is the entity created by the Constitution to head the judicial branch of state government.

### **Agency Overview**

The Supreme Court of New Mexico is a constitutionally created entity. See N.M. Const. Art. VI, Sections 1 to 11. The Supreme Court's constitutional powers are also recognized by statute. See, e.g., NMSA 1978, Sections 34-2-1 et. seq.; NMSA 1978, Sections 34-5-10 & 34-5-14. The New Mexico Supreme Court is the highest court in the judicial branch of state government. The Supreme Court hears direct appeals from district court judgments imposing a sentence of death or life imprisonment and from the Public Regulation Commission. The Supreme Court has original jurisdiction in quo warranto and mandamus against all state officers, boards, and commissions, and has superintending control over all inferior courts. The Court also has the power to issue writs of mandamus, error, prohibition, habeas corpus, certiorari, injunctions, and other writs necessary or proper for complete exercise of its jurisdiction. In addition, NM Const. Art. IV, Section 35, provides for the chief justice to preside at impeachment trials; Art. V, Section 3, provides for the Supreme Court to license attorneys, Art. VI, Section 15, provides for designation of judges; and Art. VI, Sec. 31 provides for review of the decisions of the judicial standards commission.

The program is a statewide program that includes oversight and superintending control over all state courts. The main premises of the Supreme Court are in the Supreme Court Building and the assets purchased by the Supreme Court become the property of the Supreme Court Building Commission, although they are maintained by the Supreme Court.

In accordance with its constitutional authority, the Supreme Court has the inherent power to manage the judicial branch of government, which includes the promulgation of rules governing the conduct of court business, the conduct of lawyers and judges, the admission to the practice of law, and the continuing legal education requirements for lawyers and judges.

### **USING THIS ANNUAL REPORT**

#### **Management's Discussion and Analysis (MD&A)**

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

#### **Financial Statements Overview**

The financial statements are for the purpose of presenting to the reader the financial position and financial changes for the Supreme Court. The financial statements are not intended to report the financial position of the State of New Mexico as a whole.



**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED**

June 30, 2018

The Supreme Court has three funds: SHARE fund 13800 is the general fund, which reverts, SHARE fund 25100 is the docket fee suspense fund, which is not reverting, and SHARE fund 79300 is the certificate fee fund which transfers over every month into the State General Fund and does not accrue to the direct benefit of the Supreme Court. Generally speaking, the Supreme Court is a reverting agency. The Supreme Court's general fund reverts into the State General Fund after the end of the fiscal year. The Supreme Court's revenues are mainly from the State General Fund, with no money received from the docket fees except for \$4.00 from every filing fee collected pursuant to Section 34-2-6 NMSA 1978 for deposit into a suspense fund. The suspense fund is for the purpose of paying the costs of archiving closed cases and is non-reverting, with a fiscal year 2018 ending balance of \$11,759.

**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 Supreme Court 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 Supreme Court 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.

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

The governmental activities reflect the Supreme Court's basic services of providing judicial review and oversight of the Judicial Branch of state government.

**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 only has two such funds: the general fund and the suspense fund. The Governmental Fund presentation is presented on a sources and uses of liquid resources basis.

**Budgetary Comparisons**

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.

As required by the Office of the State Auditor under 2 NMAC 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.

State of New Mexico Supreme Court

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED**

June 30, 2018

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Statement of Net Position**

	Government Activities	
	2018	2017
Current assets	\$ 289,374	\$ 149,100
Liabilities	<u>(288,005)</u>	<u>(248,286)</u>
Total net position	<u>\$ 1,369</u>	<u>\$ (99,186)</u>

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

All amounts appropriated were expended as of June 30, 2018, except for \$378 which was reverted to the state general fund. The Court has a positive net position at June 30, 2018, notwithstanding that the state does not provide resources for compensated absences until they are paid.

**Statement of Activities**

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

	Government Activities	
	2018	2017
State General Fund appropriations	\$ 3,350,000	\$ 3,311,914
Capital assets transferred out	(9,957)	-
Miscellaneous revenue	580	624
Reversions to State General Fund	<u>(378)</u>	<u>(1,535)</u>
Total revenues	\$ 3,340,245	\$ 3,311,003
Program expenses	<u>(3,239,690)</u>	<u>(3,304,363)</u>
Change in net position	100,555	6,640
Net position, beginning of year	<u>(99,186)</u>	<u>(105,826)</u>
Net position, end of year	<u>\$ 1,369</u>	<u>\$ (99,186)</u>

For more detailed information, see the Statement of Activities.

Activity for fiscal year 2018 compared with 2017 reveals that the Court's State General Appropriation increased in fiscal year 2018.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED**

June 30, 2018

**THE SUPREME COURT'S FUNDS**

The Supreme Court has one governmental fund which is solely a State general fund appropriated by the State Legislature. As noted above the general fund appropriation increased in 2018. The docket fee fund, also known as the suspense fund, had revenues of \$580 and no expenditures in fiscal year 2018.

**BUDGETARY HIGHLIGHTS**

The Supreme Court fiscal year 2018 appropriation increased by \$38,068 and its program expenses decreased by \$54,716, which resulted in a positive net position for the Supreme Court at the end of the fiscal year.

**LONG-TERM DEBT ACTIVITY**

The Supreme Court's long-term liabilities are for compensated absences as summarized in Note A5 to the financial statements.

**ANTICIPATED CHANGES**

For fiscal year 2019, pursuant to Chapter 39, of New Mexico Laws of 2018, the operations of the Supreme Court, the Supreme Court Building Commission, and the Supreme Court Law Library shall be funded and budgeted through a consolidated appropriation to the Supreme Court.

**FINANCIAL CONTACT**

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supjdm@nmcourts.gov

State of New Mexico Supreme Court

**STATEMENT OF NET POSITION**

June 30, 2018

	Component Units		
	Supreme Court Governmental Activities	Supreme Court Building Commission Governmental Activities	Supreme Court Law Library Governmental Activities
<b>ASSETS</b>			
Interest in State General Fund Investment Pool	\$ 289,374	\$ 78,171	\$ 126,927
Capital assets, net	-	3,069,457	-
<b>Total assets</b>	<b>\$ 289,374</b>	<b>\$ 3,147,628</b>	<b>\$ 126,927</b>
<b>LIABILITIES</b>			
Accounts payable	\$ 35,588	\$ 39,825	\$ 107,058
Payroll benefits payable	36,111	13,049	6,772
Payroll taxes payable	26,102	4,063	3,921
Accrued payroll	56,822	12,912	9,176
Due to State General Fund	11	-	-
Compensated absences:			
Due within one year	113,365	38,474	16,119
Due after one year	20,006	6,790	2,845
<b>Total liabilities</b>	<b>288,005</b>	<b>115,113</b>	<b>145,891</b>
<b>NET POSITION</b>			
Restricted - court records maintenance	11,759	-	-
Net investment in capital assets	-	3,069,457	-
Unrestricted	(10,390)	(36,942)	(18,964)
<b>Total net position</b>	<b>1,369</b>	<b>3,032,515</b>	<b>(18,964)</b>
<b>Total liabilities and net position</b>	<b>\$ 289,374</b>	<b>\$ 3,147,628</b>	<b>\$ 126,927</b>

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

State of New Mexico Supreme Court

**STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2018

	Component Units		
	Supreme Court Governmental Activities	Supreme Court Building Commission Governmental Activities	Supreme Court Law Library Governmental Activities
<b>EXPENSES</b>			
Judicial:			
Administrative services	\$ 3,239,690	\$ 974,285	\$ 1,484,695
Depreciation	-	1,055,666	-
<b>PROGRAM REVENUES</b>			
Court fees	580	-	-
Miscellaneous revenues	-	-	1,510
	<u>(3,239,110)</u>	<u>(2,029,951)</u>	<u>(1,483,185)</u>
<b>GENERAL REVENUES AND TRANSFERS</b>			
State General Fund appropriations	3,302,000	930,700	1,507,600
Other State funds - transfers in	123,000	-	-
Other State funds - transfers out	(75,000)	-	-
Other financing sources - capital assets transferred in	-	282,313	-
Other financing sources - capital assets transferred out	(9,957)	-	-
Other financing sources	-	75,000	-
Severance Tax Bond proceeds	-	7,330	-
Current year reversion	(378)	(4,252)	(17,086)
	<u>100,555</u>	<u>(738,860)</u>	<u>7,329</u>
<b>CHANGE IN NET POSITION</b>	<u>100,555</u>	<u>(738,860)</u>	<u>7,329</u>
<b>NET POSITION, beginning</b>	<u>(99,186)</u>	<u>3,771,375</u>	<u>(26,293)</u>
<b>NET POSITION, ending</b>	<u>\$ 1,369</u>	<u>\$ 3,032,515</u>	<u>\$ (18,964)</u>

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

State of New Mexico Supreme Court

**BALANCE SHEET – GOVERNMENTAL FUNDS**

June 30, 2018

	Supreme Court General Fund 13800	Supreme Court Suspense Fund 25100	Supreme Court Total	Component Units	
				Supreme Court Building Commission 14000	Supreme Court Law Library 13400
<b>ASSETS</b>					
Interest in State General Fund Investment Pool	\$ 277,606	\$ 11,768	\$ 289,374	\$ 78,171	\$ 126,927
Total assets	\$ 277,606	\$ 11,768	\$ 289,374	\$ 78,171	\$ 126,927
<b>LIABILITIES</b>					
Accounts payable	\$ 35,588	\$ -	\$ 35,588	\$ 39,825	\$ 107,058
Payroll benefits payable	36,111	-	36,111	13,049	6,772
Payroll taxes payable	26,102	-	26,102	4,063	3,921
Accrued payroll	56,822	-	56,822	12,912	9,176
Due to State General Fund	2	9	11	-	-
Total liabilities	154,625	9	154,634	69,849	126,927
<b>FUND BALANCES</b>					
Restricted	122,981	11,759	134,740	8,322	-
Unassigned	-	-	-	-	-
Total fund balances	122,981	11,759	134,740	8,322	-
Total Liabilities and Fund Balances	\$ 277,606	\$ 11,768	\$ 289,374	\$ 78,171	\$ 126,927

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

State of New Mexico Supreme Court

**RECONCILIATION OF THE BALANCE SHEET TO THE  
STATEMENT OF NET POSITION - GOVERNMENTAL FUNDS**

Year Ended June 30, 2018

		<u>Component Units</u>	
	<u>Supreme Court</u>	<u>Supreme Court Building Commission</u>	<u>Supreme Court Law Library</u>
Total Fund Balance - Governmental Funds (Governmental Fund Balance Sheet)	\$ 134,740	\$ 8,322	\$ -
Amounts reported for governmental activities in the Statement of Net Position are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. These assets consist of:			
Capital assets	\$ 21,260,051		
Accumulated depreciation	<u>(18,190,594)</u>		
Total capital assets, net	-	3,069,457	-
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>(133,371)</u>	<u>(45,264)</u>	<u>(18,964)</u>
Net position of governmental activities (Statement of Net Position (Deficit))	<u>\$ 1,369</u>	<u>\$ 3,032,515</u>	<u>\$ (18,964)</u>

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

State of New Mexico Supreme Court

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

For the Year Ended June 30, 2018

	General Fund 13800	Suspense Fund 25100	Supreme Court Total	Component Units	
				Supreme Court Building Commission Total	Supreme Court Law Library Total
<b>REVENUES</b>					
Court fees	\$ -	\$ 580	\$ 580	\$ -	\$ 1,510
<b>EXPENDITURES</b>					
Judicial:					
Current:					
Personnel services and benefits	3,011,274	-	3,011,274	729,265	574,065
Contract services	7,011	-	7,011	7,011	53,805
Other costs	198,399	-	198,399	235,637	864,154
Capital outlay	9,957	-	9,957	37,910	-
Total expenditures	<u>3,226,641</u>	<u>-</u>	<u>3,226,641</u>	<u>1,009,823</u>	<u>1,492,024</u>
Excess (deficiency) of revenues over expenditures	(3,226,641)	580	(3,226,061)	(1,009,823)	(1,490,514)
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfer In:					
State General Fund appropriations	3,302,000	-	3,302,000	930,700	1,507,600
Other State funds	123,000	-	123,000	75,000	-
Other Financing Sources	-	-	-	7,330	-
Severance Tax Bond proceeds	-	-	-	-	-
Transfer Out:					
Other State funds	(75,000)	-	(75,000)	-	-
Current year reversions	(378)	-	(378)	(4,252)	(17,086)
Total Other Financing Sources	<u>3,349,622</u>	<u>-</u>	<u>3,349,622</u>	<u>1,008,778</u>	<u>1,490,514</u>
<b>NET CHANGE IN FUND BALANCES</b>	122,981	580	123,561	(1,045)	-
<b>FUND BALANCES, beginning</b>	<u>-</u>	<u>11,179</u>	<u>11,179</u>	<u>9,367</u>	<u>-</u>
<b>FUND BALANCES, ending</b>	<u>\$ 122,981</u>	<u>\$ 11,759</u>	<u>\$ 134,740</u>	<u>\$ 8,322</u>	<u>\$ -</u>

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



State of New Mexico Supreme Court

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

Year Ended June 30, 2018

		Component Units	
	Supreme Court Total	Supreme Court Building Commission Total	Supreme Court Law Library Total
Net Changes in Fund Balances - Total Governmental Funds (Statement of Revenues, Expenditures, and Changes in Fund Balances)	\$ 123,561	\$ (1,045)	\$ -
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 (increase) decrease in the liabilities for the year was:	(23,006)	(1,154)	7,329
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are:			
Additions	\$ 37,910		
Loss on disposal of fixed assets	(1,218)		
Depreciation expense	(1,055,666)		
Capital contributions - assets purchased by other entities	282,313		
	-	(736,661)	-
Change in Net Position of Governmental Activities (Statement of Activities)	\$ 100,555	\$ (738,860)	\$ 7,329

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

State of New Mexico Supreme Court

**STATEMENT OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL –  
GENERAL FUND – FOR THE SUPREME COURT**

For the Year Ended June 30, 2018

	Budget		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Court fees	\$ -	\$ -	\$ -	\$ -
General fund appropriation	330,200	3,302,000	3,302,000	-
Other financing sources	-	-	123,000	123,000
<b>Total revenues</b>	<b>\$ 330,200</b>	<b>\$ 3,302,000</b>	<b>\$ 3,425,000</b>	<b>\$ 123,000</b>
<b>EXPENDITURES</b>				
Administrative Services:				
Personnel services	\$ 3,246,300	\$ 3,010,999	\$ 3,011,274	\$ (275) *
Contractual services	7,300	7,011	7,011	-
Other	48,400	208,990	208,356	634
Other financing uses	-	75,000	75,000	-
<b>Total Expenditures</b>	<b>\$ 3,302,000</b>	<b>\$ 3,302,000</b>	<b>3,301,641</b>	<b>\$ 359</b>
Excess of revenue and other financing sources over expenditures			123,359	
Current year reversion			(378)	
Changes in fund balances per statement of revenues, expenditures and changes in fund balance (GAAP Basis)			<b>\$ 122,981</b>	

\* The level of budgetary control for the Supreme Court is the total appropriation.

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

State of New Mexico Supreme Court

**STATEMENT OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL –  
GENERAL FUND – FOR THE SUPREME COURT BUILDING COMMISSION  
(COMPONENT UNIT)**

For the Year Ended June 30, 2018

	Budget		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
State General Fund appropriations	\$ 930,700	\$ 930,700	\$ 930,700	\$ -
Other financing sources	-	75,000	75,000	-
<b>Total revenues</b>	<b>\$ 930,700</b>	<b>\$ 1,005,700</b>	<b>\$ 1,005,700</b>	<b>\$ -</b>
<b>EXPENDITURES</b>				
Administrative Services:				
Personnel services	\$ 747,100	\$ 728,600	\$ 729,265	\$ (665) *
Contractual services	7,300	7,300	7,011	289
Other	176,300	269,800	265,172	4,628 *
<b>Total Expenditures</b>	<b>\$ 930,700</b>	<b>\$ 1,005,700</b>	1,001,448	<b>\$ 4,252</b>
Excess of revenue and other financing sources over expenditures			4,252	
Current year reversion			(4,252)	
Changes in fund balances per statement of revenues, expenditures and changes in fund balance (GAAP Basis)			\$ -	

\* The level of budgetary control for the Supreme Court Building Commission is the total appropriation.

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

State of New Mexico Supreme Court

**STATEMENT OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL –  
GENERAL FUND – FOR THE SUPREME COURT LAW LIBRARY  
(COMPONENT UNIT)**

For the Year Ended June 30, 2018

	Budget		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Miscellaneous Revenue	\$ 2,200	\$ 2,200	\$ 1,510	\$ (690)
General fund appropriation	<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>
<b>EXPENDITURES</b>				
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>	1,492,024	<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.

State of New Mexico Supreme Court

**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES – AGENCY FUND**

June 30, 2018

	<u>Supreme Court Fees Fund 79300</u>
<b>ASSETS</b>	
Cash	<u>\$          -</u>
<b>LIABILITIES</b>	
Deposits Held for Others	<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 (Court) 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's accounting policies are described below:

1. Reporting Entity

The Judicial Branch of government for the State of New Mexico is created by Article VI, Section 1 of the New Mexico Constitution. The Supreme Court is the court of last resort in the State of New Mexico. The New Mexico Constitution gives the Supreme Court control over all other State Courts. The Supreme Court promulgates the rules and regulations governing procedures for all courts, as well as the Bar and other areas of the judiciary. The rules are published in New Mexico Rules Annotated.

The Supreme Court is a component unit of the Judicial Branch and these financial statements include all funds and activities over which the Court has oversight responsibility. The Court has decision-making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters. The Court is part of the primary government of the State of New Mexico and its financial data should be included with the financial data of the State.

In evaluating how to define the Court for financial reporting purposes, management has evaluated the Court's potential component units. The basic, but not the only, criterion for including a potential component unit as part of the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestations of this ability include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and the accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of the criterion involves considering whether the activity benefits the Court. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing or fiduciary relationships, regardless of whether the Court is able to exercise oversight responsibilities.

The following entities are presented in the financial statements as component units:

**Discretely Presented Component Units**

In the financial statements, discrete presentation entails reporting component unit financial data in a column separate from the financial data of the Court. Based on the application of these criteria, the New Mexico Supreme Court Law Library (Library) and New Mexico Supreme Court Building Commission (Building Commission) are included in these financial statements as discretely presented component units.

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2018

**The New Mexico Supreme Court Law Library (Library)** is a New Mexico judicial state agency located in the Supreme Court building in Santa Fe, New Mexico. The 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. The Library has no component units.

**The New Mexico Supreme Court Building Commission (Building Commission)** is a New Mexico judicial state agency located in the Supreme Court building in Santa Fe, New Mexico. The Supreme Court Building Commission is responsible for the building and grounds of the Supreme Court Building and all material contents including books and computer equipment. The Court appoints the Board of the Building Commission. The Building Commission has no component units.

The inclusion of the assets, liabilities, and net income of the Library and Building Commission as discretely presented component units of the Court, for accounting purposes only, has been directed by the Governmental Accounting Standards Board as applied to governmental units. The Library and Building Commission have no obligation to provide resources and earnings to the Court, except by action of the governing bodies of the Law Library and Building Commission. The three members of the Building Commission are appointed by the Court and the five members of the Law Library's Board of Trustees are made up of the five Justices of the Supreme Court.

The financial statements of the Library and Building Commission can be obtained directly at the Court's office at the following address: New Mexico Supreme Court, 801 237 Don Gaspar Avenue, Santa Fe, New Mexico 87501.

2. Basic Financial Statements

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

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, as well as operating and capital grants. The program revenues must be directly associated with the function and consist of fees. The net cost by function is normally covered by general revenue. Since the Supreme Court only has one program, it does not employ indirect cost allocation in the financial statements.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2018

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

2. Basic Financial Statements – Continued

The fund financial statements differ from the government-wide financial statements. Emphasis is on the major funds of the governmental category. Non-major funds are summarized into a single column. The Supreme Court's only major fund is its General Fund.

The governmental funds in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is deemed more appropriate to demonstrate legal and covenant compliance, to demonstrate the source and use of liquid resources and to demonstrate how the Supreme Court'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 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, deferred outflows of resources, liabilities, deferred 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 Funds are classified into two categories: governmental and fiduciary. Each category, in turn, is divided into separate "fund types."

**Governmental Funds** - are used to account for all or most of the Supreme Court's general government activities, including the collection and disbursement of earmarked monies (Special Revenue Fund).

**General Fund** - The general fund is the primary operating fund of the Supreme Court, and is presented as a major fund. It accounts for all financial resources except those required to be accounted for in another fund. The operations of the Supreme Court are funded primarily by appropriations from the State General Fund which are recorded as "other financing sources" in the general fund in the year appropriated. The General Fund is a reverting fund. The New Mexico Supreme Court was created by Article VI, Section 1 of the NM Constitution and is SHARE fund 13800.

**Supreme Court Suspense Fund** - This special revenue fund accounts for revenue sources that are legally restricted to expenditures for specific purposes. No expenditures from the special revenue fund can be made for the general operations of the Supreme Court



**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2018

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

2. Basic Financial Statements – Continued

except as authorized by NMSA 1978 34-2-6. The Suspense Fund was established by NMSA 1978, Section 34-2-6. This statute authorized the Supreme Court to retain in the Suspense Fund four dollars (\$4) of fees collected on each case docketed in the Supreme Court. These funds are designated to defray the cost of filming, binding and storing Supreme Court documents and records. The Suspense Fund is not budgeted in current fiscal year for expenditures, and does not revert to the State General Fund. This is the only special revenue fund of the New Mexico Supreme Court and it is SHARE fund 25100. The Supreme Court has elected to present this fund as a major fund to streamline the financial statement presentation.

Supreme Court Fees Fund - This agency fund receives certificate fees which it remits to the State General Fund.

**Fiduciary Funds** - are used to account for all assets held on behalf of outside parties, including other governments, or on behalf of other funds within the government. Since the activities in these funds are on behalf of other governments, it is excluded from the entity-wide financial statements.

3. 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 Statement of Net Position and the Statement of Activities display information about the Court, the primary government, as a whole, without displaying the individual funds or fund types. Generally, these statements distinguish between activities that are governmental and those that are considered business-type activities. The Court has no business-type activities; therefore these statements only reflect governmental activities. Government-wide financial statements exclude information about fiduciary funds and component units that are fiduciary in nature.

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 and liabilities, deferred inflows of resources resulting from exchange transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with requirements of GASB 33.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2018

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

3. Basis of Accounting – Continued

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

Expenditures are recorded as liabilities when incurred.

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.

4. Capital Assets

Property and equipment purchased or acquired at a value of \$5,000 or greater are capitalized. By State statute, all capital assets used by the Supreme Court 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 branch housed within the Supreme Court Building. Capital assets purchased by the Supreme Court are reported as capital outlay expenditures in the General Fund.

5. Compensated Absences

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

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

The maximum accrued annual leave may be carried forward into the beginning of the next calendar year and any excess is lost. When employees terminate, they are compensated for accumulated annual leave as of the date of termination, up to the maximum of 240 hours.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2018

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

5. Compensated Absences – Continued

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

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

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

6. Net Position

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

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

*Restricted Net Position* – are 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 spends restricted resources first.

*Unrestricted Net Position* – represent unrestricted liquid assets. The balance at June 30 of \$(10,390) represents unfunded accrued compensated absences, which will be paid out of current resources when redeemed.

7. 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:

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2018

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

7. Fund Balances – Continued

**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 Court to assess, levy, charge or otherwise mandate payment of resources and includes a *legally enforceable* requirement that those resources be used only for the specific purposes stipulated in the legislation.

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

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

**Unassigned** – This classification is the residual classification for the general fund. This classification represents a 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.

8. Budgets

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

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

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

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2018

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

8. Budgets – Continued

The Supreme Court 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.

The legal level of budgetary control is at the appropriation program level, meaning total expenditures for the program need to be compared to the program's approved final budget for compliance.

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

Each year the Legislature approves multiple year appropriations, which the State considers as continuing appropriations. The Legislature authorizes these appropriations for two to five years; however, it does not identify the authorized amount by fiscal year. Consequently, the appropriation is budgeted in its entirety the first year the Legislature authorizes it.

The unexpended portion of the budget is carried forward as the next year's beginning budget balance until either the project period has expired or the appropriation has been fully expended. The budget presentation in these financial statements is consistent with this budgeting methodology.

The budget for the General Fund is adopted on the modified accrual basis of accounting except for accounts payable accrued at the end of the fiscal year that do not get paid by the statutory deadline (Section 6-10-4 NMSA 1978), that must be paid out of next year's budget. A reconciliation of budgetary basis to GAAP basis will be necessary if all accounts payable at the end of the fiscal year are not paid by the statutory deadline.

9. Inter-Fund Activity

Inter-fund transactions are treated as transfers. Transfers between governmental funds are netted as part of the reconciliation of the government-wide financial statements.

10. Use of Estimates

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

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2018

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

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

At June 30, 2018 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	13800	1 day	\$ 277,606	\$ 277,606
Supreme Court Fees Fund	79300	1 day	-	-
Supreme Court Suspense Fund	25100	1 day	<u>11,768</u>	<u>11,768</u>
Total governmental funds			<u>\$ 289,374</u>	<u>\$ 289,374</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, 2018.

State of New Mexico Supreme Court

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

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>
\$ 110,365	\$ 194,984	\$ (171,979)	\$ 133,370	\$ 113,365

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

The New Mexico Supreme Court also has a single employer defined benefit pension plan for Supreme Court Justices (Judicial Retirement) administered by 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 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.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2018

**NOTE D – PENSION PLANS – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION – CONTINUED**

The Supreme Court's contributions to PERA for the years ended June 30, 2018, 2017 and 2016 were \$370,654, \$392,387 and \$381,141, respectively, which equal to the required contributions for each year.

**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 Court, 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's contributions to RHCA for the years ended June 30, 2018, 2017 and 2016 were \$51,039, \$49,641 and \$50,014, respectively, which equal to the required contributions for each year.



**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2018

**NOTE F – RISK MANAGEMENT**

The Supreme Court is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees or others; or acts of God. The Court is insured through Risk Management Division of the General Services Department, which is accounted for as a separate fund within that agency of the State of New Mexico. In general, Risk Management Division responds to suits against the state and state agencies; manages the 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 Supreme Court have not exceeded available coverage. However, the Court would not be liable for more than the annual premiums.

**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	13800	\$ 378

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.

The restricted fund balance of \$122,981 in the general fund does not revert as the source of funds in the amount of \$123,000 came from the NM General Services Department Capital Building Repair Fund on June 27, 2018, reported as other financing sources specifically for building improvements to expend for stucco repairs during FY19.

**NOTE H– SUPREME COURT BUILDING COMMISSION**

1. Summary of Reporting Entity and Significant Disclosures

The Supreme Court Building Commission was created by statute. See NMSA 1978, Section 34-3-1 (1967). The Building Commission operates under a Board of Directors, three residents of the State appointed by the New Mexico Supreme Court. The Building Manager of the Building Commission is responsible for administrative operations and for handling budget matters and all financial transactions. The Building Superintendent is under the Building Manager’s supervision.

The Supreme Court Building houses the Supreme Court, Supreme Court Building Commission, and Supreme Court Law Library. The Supreme Court Building Commission also provides office space for the New Mexico Court of Appeals and the Administrative Office of the Courts. By statute, the Supreme Court Building Commission has care, custody and

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2018

**NOTE H – SUPREME COURT BUILDING COMMISSION – CONTINUED**

control of the Supreme Court Building and its grounds, along with all equipment, furniture and fixtures purchased or used by agencies of the judicial branch housed within it. See NMSA 1978, Section 34-3-3 (1967). Such equipment and furniture may also be maintained in part by the individual agencies that purchase or use it.

The Supreme Court Building Commission is a component unit of the Judicial Branch and these financial statements include all funds and activities over which the Building Commission has oversight responsibility. The Building Commission has decision-making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters. The Building Commission 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 Building Commission has no component units that are required to be reported in its financial statements.

2. State Treasurer General Fund Investment Pool

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

At June 30, 2018, the Commission 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	14000	1 day	\$ 69,849	\$ 69,849
STB Capital Outlay Fund	89200	1 day	8,322	8,322

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 the 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, 2018.

3. Capital Assets

Capital asset activity for the year ended June 30, 2018 was as follows:

State of New Mexico Supreme Court

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2018

**NOTE H – SUPREME COURT BUILDING COMMISSION – CONTINUED**

3. Capital Assets – Continued

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018
Capital assets:				
Land	\$ 100,311	\$ -	\$ -	\$ 100,311
Building and improvements	5,705,269	42,741	-	5,748,010
Aircraft, autos and trucks	623,817	56,394	(161,813)	518,398
Information tech equipment	9,728,883	171,466	-	9,900,349
Furniture and fixtures	4,949,452	49,622	(6,091)	4,992,983
Total capital assets depreciated	<u>21,107,732</u>	<u>320,223</u>	<u>(167,904)</u>	<u>21,260,051</u>
Less accumulated depreciation for:				
Building and improvements	3,546,336	434,689	-	3,981,025
Aircraft, autos and trucks	465,891	61,915	(161,813)	365,993
Information tech equipment	9,722,503	247,948	-	9,970,451
Furniture and fixtures	3,566,884	311,114	(4,873)	3,873,125
Total accumulated depreciation	<u>17,301,614</u>	<u>1,055,666</u>	<u>(166,686)</u>	<u>18,190,594</u>
Total capital assets, net	<u>\$ 3,806,118</u>	<u>\$ (735,443)</u>	<u>\$ (1,218)</u>	<u>\$ 3,069,457</u>

Current depreciation expense is \$1,055,666.

Contributions of current year capital additions from entities housed within the Supreme Court Building are as follows:

Supreme Court Law Library	20500	\$ -
New Mexico Supreme Court	21600	9,957
Administrative Office of the Courts	21800	272,356
Supreme Court Building Commission	21900	<u>37,910</u>
Total capital asset additions		<u>\$ 320,223</u>

4. Compensated Absences

The following is a summary of changes in compensated absences:

Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018	Due Within One Year
<u>\$ 44,110</u>	<u>\$ 83,252</u>	<u>\$ (82,098)</u>	<u>\$ 45,264</u>	<u>\$ 38,474</u>

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2018

**NOTE H – SUPREME COURT BUILDING COMMISSION – CONTINUED**

5. Pension Plans – Public Employees Retirement Association and JRA Retirement Plan

Compliant with the requirements of Government Accounting Standards Board (GASB) 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 Building Commission, 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 PERA. Disclosure requirements for governmental funds apply to the primary government as a whole, and as such, this information will be presented in the 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 Commission's contributions to PERA for the years ended June 30, 2018, 2017 and 2016 were \$78,147, \$77,563 and \$77,983, respectively, which equal the required contributions for each year.

6. 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 Commission, 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 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.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2018

**NOTE H– SUPREME COURT BUILDING COMMISSION – CONTINUED**

6. Post-Employment Benefits – State Retiree Health Care Plan - Continued

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 Building Commission contributions to RHCA for the years ended June 30, 2018, 2017 and 2016 were \$9,199, \$9,131, and \$9,180, respectively, which equal the required contributions for each year.

7. Capital Outlay Appropriations

The Commission was appropriated a total of \$750,000 for stucco and balcony repairs of the Supreme Court Building. The funding came from two sources, Severance Tax Bond Proceeds and the Attorney General Settlement Fund under Laws of 2015, Chapter 3, Section 31 and section 53, respectively, and will expire on fiscal year 2019. As of the end of fiscal year 2018, \$741,483 has been expended for the project. The accompanying financial statements only reflect the total amount expended in the current year. The variance in the budgetary comparison reflects the unexpended project balance at year end.

8. 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	14000	\$ 4,252

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.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2018

**NOTE H – SUPREME COURT BUILDING COMMISSION – CONTINUED**

9. Risk Management

The Supreme Court Building Commission 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 Commission 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 Building Commission have not exceeded available coverage. However, the Commission would not be liable for more than the annual premiums.

**NOTE I – SUPREME COURT LAW LIBRARY**

1. Summary of Reporting Entity and Significant Disclosures

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.

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.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2018

**NOTE I – SUPREME COURT LAW LIBRARY – CONTINUED**

2. State Treasurer General Fund Investment Pool - Continued

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.

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.

3. 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>
<u>\$ 26,293</u>	<u>\$ 15,330</u>	<u>\$ (22,659)</u>	<u>\$ 18,964</u>	<u>\$ 16,119</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.

4. 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 has implemented the standard for the fiscal year ending June 30, 2018.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2018

**NOTE I – SUPREME COURT LAW LIBRARY – CONTINUED**

4. Pension Plan – Public Employee Retirement Association - Continued

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 PERA. Disclosure requirements for governmental funds apply to the primary government as a whole, and as such, this information will be presented in the 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 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.

5. Post-Employment Benefits – State Retiree Health Care Plan

The Supreme Court Law Library contributions to 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.

6. Risk Management

The Supreme Court Law Library is exposed to various risks 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 Court would not be liable for more than the annual premiums.



**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2018

**NOTE I – SUPREME COURT LAW LIBRARY – CONTINUED**

7. 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

**STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES – AGENCY FUND**

June 30, 2018

	Balance <u>July 01, 2017</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2018</u>
<b>ASSETS</b>				
Cash	<u>\$ -</u>	<u>\$ 1,153</u>	<u>\$ 1,153</u>	<u>\$ -</u>
<b>LIABILITIES</b>				
Deposits Held for Others	<u>\$ -</u>	<u>\$ 1,153</u>	<u>\$ 1,153</u>	<u>\$ -</u>

State of New Mexico Supreme Court

**SCHEDULE OF OPERATING TRANSFERS**

For the Year Ended June 30, 2018

Supreme Court

	Share Fund	Title	Transfer	
			In	Out
(1)	85300	Department of Finance & Administration	\$ 3,302,000	\$ -
(2)	85300	Department of Finance & Administration	-	75,000
(3)	85300	Department of Finance & Administration	123,000	-
(4)	14000	Transfer of Capital Assets to AOC	-	9,957
(1)	85300	Current year reversion	-	378
			<u>\$ 3,425,000</u>	<u>\$ 85,335</u>

(1) General Fund Appropriation Act of 2017

(2) Laws of 2017, 52nd Legislature, HB 261, Section 1

(3) General Services Department Capital Building Fund

(4) Capital Assets Transferred to the Supreme Court Building Commission

Supreme Court Law Library

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

(1) General Fund Appropriation Act of 2017

State of New Mexico Supreme Court

**STATEMENT OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL –  
STB CAPITAL PROJECTS FUND (89200)**

For the Year Ended June 30, 2018

Supreme Court Building Commission

	Budget		Prior-Year Actual	Current Year Actual	Total Since Inception	Variance Favorable (Unfavorable)
	Original	Final				
<b>REVENUES</b>						
Severance Tax Bond Proceeds	\$ 300,000	\$ 300,000	\$ 292,475	\$ 7,330	\$ 299,805	\$ 195
Other Financing Sources	450,000	450,000	450,000	-	450,000	-
Total Revenues	<u>\$ 750,000</u>	<u>\$ 750,000</u>	<u>\$ 742,475</u>	7,330	<u>\$ 749,805</u>	<u>\$ 195</u>
<b>EXPENDITURES</b>						
Contractual Services	\$ 100,000	\$ 68,020	\$ 80,376	\$ -	\$ 80,376	\$ (12,356)
Other	650,000	681,980	652,732	8,375	661,107	20,873
Total Expenditures	<u>\$ 750,000</u>	<u>\$ 750,000</u>	<u>\$ 733,108</u>	<u>\$ 8,375</u>	741,483	<u>\$ 8,517</u>
Excess of revenue over expenditures					8,322	
Current year reversion					-	
Committed fund balance carryforward					<u>\$ 8,322</u>	

State of New Mexico Supreme Court

**SCHEDULE OF OPERATING TRANSFERS**

For the Year Ended June 30, 2018

State of New Mexico Supreme Court Building Commission

	Share Fund	Title	Transfer	
			In	Out
(1)	85300	Department of Finance & Administration	\$ 930,700	\$ -
(1)	216 to 219	Department of Finance & Administration	75,000	-
(2)	50230	NM Finance Authority	7,330	-
(3)	69200	Transfer of capital assets from AOC	20,381	-
(3)	44300	Transfer of capital assets from AOC	74,645	-
(3)	27300	Transfer of capital assets from AOC	63,691	-
(3)	57500	Transfer of capital assets from AOC	12,334	-
(3)	68900	Transfer of capital assets from AOC	52,413	-
(3)	13900	Transfer of capital assets from AOC	48,892	-
(3)	13800	Transfer of capital assets from the Supreme Court	9,957	-
(4)	85300	Department of Finance & Administration Reversion	-	4,252
	Total		<u>\$ 1,295,343</u>	<u>\$ 4,252</u>

(1) General Appropriation Act of 2017.

(2) STB Capital Outlay Appropriations, Laws of 2015, Chapter 3, Section 31.

(3) Capital Assets received from the Administrative Office of the Courts (AOC) (AOC) and the Supreme Court

(4) Fiscal year 2018 reversion to the State General Fund.

**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  
and  
Mr. Wayne Johnson  
New Mexico State Auditor

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, the budgetary comparisons for the general funds, and each discretely presented component unit of the State of New Mexico Supreme Court (the Court), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Court's basic financial statements, and have issued our report thereon dated November 1, 2018.

**Internal Control Over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Court's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet 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 and significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2018-002 that we consider to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Court's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and 2.2.2 NMAC, which are described in the accompanying schedule of findings and questioned costs as items 2018-001, 2018-003, 2018-004, 2018-005, and 2018-006.

### **Court's Responses to Findings**

The Court's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Court'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 Department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Court's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

ATKINSON & CO., LTD

**Atkinson & Co., Ltd.**

Albuquerque, New Mexico  
November 1, 2018



State of New Mexico Supreme Court  
**SCHEDULE OF FINDINGS AND RESPONSES**

June 30, 2018

**Current Year Findings – Supreme Court**

*Findings – Financial Statement Audit*

None

*Findings in Accordance with 2.2.2 NMAC (State Audit Rule)*

2018-001 Compensated Absences (Other Noncompliance)

**Component Unit Findings – Supreme Court Building Commission**

*Findings – Financial Statement Audit*

2018-002 (2015-001) Reconciliation and Review of Capital Assets (Significant Deficiency)

2018-003 State Procurement Code Violation (Control Deficiency and Noncompliance)

*Findings in Accordance with 2.2.2 NMAC (State Audit Rule)*

2018-004 Capital Asset Disposition (Other Noncompliance)

2018-005 Compensated Absences (Other Noncompliance)

**Component Unit Findings – Supreme Court Law Library**

*Findings – Financial Statement Audit*

None

*Findings in Accordance with 2.2.2 NMAC (State Audit Rule)*

2018-006 Compensated Absences (Other Noncompliance)

**Prior Year Findings – Supreme Court**

None

**Prior Year Findings - Supreme Court Building Commission**

**Status**

*Findings – Financial Statement Audit*

2015-001 Capital Assets (Material Weakness)

Modified and Repeated

**Prior Year Findings – Supreme Court Law Library**

None

**SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED**

June 30, 2018

**FINDINGS IN ACCORDANCE WITH 2.2.2. NMAC (STATE AUDIT RULE) –  
SUPREME COURT**

**2018-001 Compensated Absences (Other Noncompliance)**

CONDITION

During audit test work performed on the compensated absences, we noted that the Supreme Court had up to 17 inactive employees from several years ago with termination pay balances for a potential liability totaling \$4,026.

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 Supreme Court 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 Supreme Court. Until recently there were no reports in SHARE which identified inactive employees with compensated absences balances owed.

EFFECT

The Supreme Court 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.

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.

VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN

A process is in place to pay departing employees appropriate terminal leave balances upon their termination. The new reporting available in SHARE will be utilized to monitor leave balances that may arise after an employee has left employment to ensure that all appropriate terminal leave is timely paid. The Court Financial Manager and the Director of the Administrative Office of the Courts are still researching and analyzing the circumstances for the identified balances in SHARE for inactive employees to determine if the leave balances are owed or should be otherwise resolved within the SHARE system. This process will be completed by June 30, 2019.

**SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED**

June 30, 2018

**FINANCIAL STATEMENT AUDIT FINDINGS – SUPREME COURT BUILDING COMMISSION**

**2018-002 (2015-001) Reconciliation and Review of Capital Assets (Significant Deficiency)**

CONDITION

New Mexico statute 34-3-3, NMSA 1978, requires the Supreme Court Building Commission to be responsible for the care, custody and control of all equipment, furniture and fixtures purchased or used by agencies of the judicial department housed therein.

During the past few fiscal years the commission has been working to revamp their fixed asset accounting and inventory maintenance software; however, the system still is perpetuating errors and relies on excel spreadsheets to compute and track depreciation. Additionally, the errors in the system have made it difficult to complete and certify a fixed asset annual inventory.

CRITERIA

New Mexico statute Section 12-6-10(A) NMSA 1978, requires each agency to conduct an annual physical inventory of movable chattels and equipment on the inventory list at the end of each fiscal year. The agency shall certify the correctness of the inventory after the physical inventory. This certification should be provided to the agency's auditors.

2.20.1 NMAC: Accounting and Control of Fixed Assets of State Government, Accounting for Acquisitions and Establishing Controls.

In addition, under the *GASB Comprehensive Implementation Guide*, Question 7.9.8, capitalization policies should ensure that all material capital assets, collectively, be reported.

CAUSE

For years the Commission, with assistance from the Administrative Office of the Courts and its fixed asset manager, has relied on a spreadsheet to track and maintain its fixed assets and inventory schedules. The schedules have been based on voucher information from SHARE that did not include adequate detail to easily identify and describe specific individual assets, which led to erroneously including assets that were purchased by the AOC and other judicial entities, such as the magistrate courts, that are not housed in the Supreme Court Building. Over time the over inclusive spreadsheet became large and convoluted and has compromised the ability of the AOC fixed asset manager to properly track and report fixed assets and inventory lists for the Commission. The Commission has tasked the AOC and its fixed asset manager with revamping the list and bought software to help maintain the inventory list. At this point it remains a work in progress and the Commission has decided that it would be best to start fresh, revamp the system, and move from its fixed assets schedule to the AOC fixed assets schedule those items that have been incorrectly included in the Commission's fixed assets inventory. The project is not complete and so some of the errors and difficulties remain at this point.

**SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED**

June 30, 2018

**FINANCIAL STATEMENT AUDIT FINDINGS – SUPREME COURT BUILDING COMMISSION**

**2018-002 (2015-001) Reconciliation and Review of Capital Assets (Significant Deficiency)  
– Continued**

**EFFECT**

The capital asset schedules provided are highly susceptible to error and lack important information such as in-service dates, detailed description of the assets, and indication of multiple transactions comprising one asset addition, which was compounded by the inclusion of assets that should not be attributed to the Commission. Because the capital asset schedules do not have a detailed description for many of the assets, and because a complete physical inventory of the capital assets was not completed, these items may no longer exist or are no longer in use.

**RECOMMENDATION**

The Commission should begin immediately to create a system to both maintain compliance with statute and to provide for accurate, reliable financial reporting limited to those fixed assets properly attributable to the care, custody, and control of the Commission. We recommend the Commission start from scratch to rebuild their inventory lists and financial reporting system for fixed assets. A careful, thorough inventory should be taken and the results reconciled to SHARE.

**MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN**

The Commission will direct the Chief Financial Officer and Fixed Assets Manager of the Administrative Office of the Courts to take immediate steps to implement the recommended corrective actions, which will include (1) discontinuing the use of the prior spreadsheets that have been historically used to track fixed assets, (2) creating a new inventory list and reporting system for the Commission that will exclude assets not properly attributable to the Commission and that will provide the Commission with the information it needs to maintain an accurate fixed assets inventory that can be certified, reconciled to SHARE, and that complies with all statutory and financial reporting requirements.

**SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED**

June 30, 2018

**FINANCIAL STATEMENT AUDIT FINDINGS – SUPREME COURT BUILDING COMMISSION**

**2018-003 State Procurement Code Violation (Control Deficiency and Noncompliance)**

CONDITION

During 2018, the Building Commission procured video surveillance and access control system equipment for security purposes in the amount of \$30,408 without obtaining and maintaining documentation for a minimum of three written quotes prior to the purchase and installation as required by State Procurement Code regulations.

CRITERIA

Section 1.4.1.51 of the State Procurement Code regulations require that insofar as it is practical for small purchases of nonprofessional services, construction or items of tangible personal property having a value exceeding twenty thousand dollars (\$20,000) but not exceeding sixty thousand dollars (\$60,000), and in accordance with any procedures or processes set forth by the state purchasing agent, no fewer than three businesses shall be solicited via written requests containing the specifications for the procurement to submit written quotations that are recorded and placed in the procurement file. If three written quotes cannot be obtained, the agency shall document the reasons and include the document in the procurement file. Such notations as “does not carry” or “did not return my phone call” do not qualify as a valid quotation. If the lowest quotation is not acceptable, the central purchasing office must issue a written determination as to the reasons for such a decision. These reasons must not be arbitrary or capricious. The written determination becomes a part of the procurement file. The award shall be made to the business offering the lowest acceptable quotation.

CAUSE

There was miscommunication between the Court Security Officer who was assigned to handle the procurement of the system and the Court Financial Manager responsible to ensure three quotes were obtained. The Court Security Officer was not familiar with the requirement to obtain three written quotes and provide them to the CFO or Court Financial Manager. The CFO or Court Financial Manager did not follow up with the Court Security Officer to ensure three written quotes were obtained for the procurement file prior to initiating the purchase order to approve the purchase.

EFFECT

The Building Commission is in violation of State Procurement Code Regulations and established policies and procedures governing procurements.

**SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED**

June 30, 2018

**FINANCIAL STATEMENT AUDIT FINDINGS – SUPREME COURT BUILDING COMMISSION**

**2018-003 State Procurement Code Violation (Control Deficiency and Noncompliance) –  
– Continued**

**RECOMMENDATION**

When delegating specialized purchases, the CFO or Court Financial Manager management should ensure that individuals delegated responsibility to make such procurements must be educated to follow the State Procurement Code regulations and established procurement policies and procedures so as not to put the Building Commission at risk of obtaining procurements with inflated pricing or violating established policies and procedures in the future.

**VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN**

Management agrees with recommendations and will take immediate steps to ensure that the Chief Procurement Officer obtains and retains three written quotes when required under the Procurement Code. In this instance, three quotes were obtained but the written documentation for one of the quotes was either misplaced or discarded. The undocumented third quote was less competitive than the other two quotes obtained, and the security system purchased was the best value of the three quotes.

**SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED**

June 30, 2018

**FINDINGS IN ACCORDANCE WITH 2.2.2. NMAC (STATE AUDIT RULE) – SUPREME COURT BUILDING COMMISSION**

**2018-004 Capital Asset Disposition (Other Noncompliance)**

CONDITION

During fiscal year 2018 the Building Commission disposed of one capital asset and the AOC disposed of nine vehicles and failed to provide written notification to the State Auditor.

CRITERIA

NMAC 2.2.2 10 U: “At least 30 days prior to any disposition of property included on the agency inventory list described at Subsection W of 2.2.2.10 NMAC, written notification of the official finding and proposed disposition duly sworn and subscribed under oath by each member of the authority approving the action shall be sent to the State Auditor.”

CAUSE

The Building Commission’s management assumed that because the assets had passed their useful life, (three to five years) and had been fully depreciated, that the State Auditor wouldn’t have to be notified.

EFFECT

The Building Commission was not in compliance with NMAC 2.2.2.

RECOMMENDATION

The Building Commission should apply all of the applicable rules and regulations when disposing of fixed assets.

VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION

The Court Financial Manager and the Director of the Administrative Office of the Courts will take immediate steps to ensure that all applicable rules and regulations are followed when disposing of fixed assets.

**SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED**

June 30, 2018

**FINDINGS IN ACCORDANCE WITH 2.2.2. NMAC (STATE AUDIT RULE) – SUPREME COURT BUILDING COMMISSION**

**2018-005 Compensated Absences (Other Noncompliance)**

CONDITION

During audit testwork performed on the compensated absences, we noted that the Building Commission had up to four inactive employees from several years ago with termination pay balances totaling \$140.

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 Building Commission 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 Building Commission. Until recently there were no reports in SHARE which identified inactive employees with compensated absences balances owed.

EFFECT

The Building Commission 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.

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.

VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION

A process is in place to pay departing employees appropriate terminal leave balances upon their termination. The new reporting available in SHARE will be utilized to monitor leave balances that may arise after an employee has left employment to ensure that all appropriate terminal leave is timely paid. The Court Financial Manager and the Director of the Administrative Office of the Courts are still researching and analyzing the circumstances for the identified balances in SHARE for inactive employees to determine if the leave balances are owed or should be otherwise resolved within the SHARE system. This process will be completed by June 30, 2019.



**SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED**

June 30, 2018

**FINDINGS IN ACCORDANCE WITH 2.2.2. NMAC (STATE AUDIT RULE) – SUPREME COURT LAW LIBRARY**

**2018-006 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, 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.

**VIEWS OF RESPONSE OFFICIALS AND CORRECTIVE ACTION**

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 Law Library will investigate the

**SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED**

June 30, 2018

**FINDINGS IN ACCORDANCE WITH 2.2.2. NMAC (STATE AUDIT RULE) – SUPREME COURT LAW LIBRARY – CONTINUED**

**2018-006 Compensated Absences (Other Noncompliance) – Continued**

IEWS OF RESPONSE OFFICIALS AND CORRECTIVE ACTION – Continued

matter and then determine what, if any, action is needed by June 30, 2019. The Interim CFO and Director of Fiscal Services of the Administrative Office of the Courts and the Acting State Law Librarian note that no former employee has claimed that they were not correctly paid for accrued leave upon termination.

State of New Mexico Supreme Court

**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**

Honorable Judith K. Nakamura  
Joey D. Moya  
Wanda Gonzales  
Artie Pepin

Chief Justice  
Attorney, Clerk of the Supreme Court, CFO  
Court Financial Manager, Co-CFO  
Director, Administrative Office of the Courts

**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 Department. Management has reviewed and approved the financial statements.