

State of New Mexico Supreme Court



Financial Statements

June 30, 2015

TABLE OF CONTENTS

INTRODUCTORY SECTION

Official Roster..... 1

FINANCIAL SECTION

Independent Auditor’s Report 2-4

Management’s Discussion and Analysis 5-8

BASIC FINANCIAL STATEMENTS

Government-Wide Financial Statements

Statement of Net Position 9

Statement of Activities..... 10

Fund Financial Statements

Balance Sheet – Governmental Funds..... 11

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

Statement of Revenues and Expenditures – Budget and
Actual (Budgetary Basis) – General Fund 13

Statement of Fiduciary Assets and Liabilities-Agency Fund 14

Notes to Financial Statements..... 15-25

SUPPLEMENTARY INFORMATION

Statement of Changes in Fiduciary Assets and Liabilities –
Agency Fund..... 26

Schedule of Operating Transfers 27

Schedule of Vendor Information 28

COMPLIANCE SECTION

Independent Auditor’s Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance With *Government Auditing Standards*..... 29-30

Schedule of Findings and Responses 31

Exit Conference 32

OFFICIAL ROSTER

June 30, 2015

JUSTICES

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

ADMINISTRATIVE OFFICIALS

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

Independent Auditor's Report

Tim Keller
New Mexico State Auditor
and
Honorable Barbara J. Vigil, Chief Justice
New Mexico Supreme Court
Santa Fe, New Mexico

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons for the general fund of the State of New Mexico Supreme Court (Court), as of and for the year ended June 30, 2015 and the related notes to the financial statements, which collectively comprise the Court's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Court's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Court's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Court, as of June 30, 2015, and the respective changes in financial position thereof and the respective budgetary comparisons for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other information

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

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

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2015 on our consideration of the Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Court's internal control over financial reporting and compliance.

Zlotnick, Laws & Sandoval, P.C.

Zlotnick, Laws & Sandoval, PC
October 26, 2015

Management's Discussion and Analysis

June 30, 2015

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.

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

Management's Discussion and Analysis

June 30, 2015

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 2015 ending balance of \$9,812.

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.

Management's Discussion and Analysis
June 30, 2015

GOVERNMENT-WIDE FINANCIAL ANALYSIS**Statement of Net Position**

	Government Activities	
	<u>2015</u>	<u>2014</u>
Current Assets	\$ 117,979	95,267
Liabilities	<u>(213,057)</u>	<u>(175,095)</u>
Total Net Position	<u>\$ (95,078)</u>	<u>(79,828)</u>

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

All amounts appropriated were expended as of June 30, 2015, except for \$4,262 which was reverted to the state general fund. The Court has a deficit in net position at June 30, 2015, as 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	
	<u>2015</u>	<u>2014</u>
State General Fund Appropriations	\$ 3,249,600	3,096,800
Miscellaneous Revenue	704	827
Reversions to State General Fund	<u>(4,262)</u>	<u>(826)</u>
Total Revenues	<u>3,246,042</u>	<u>3,096,801</u>
Program Expenses	<u>3,261,291</u>	<u>3,093,978</u>
Change in net position	<u>(15,249)</u>	<u>2,823</u>
Net position, beginning of year	<u>(79,828)</u>	<u>(82,651)</u>
Net position, end of year	<u>\$ (95,078)</u>	<u>(79,828)</u>

For more detailed information, see the Statement of Activities.

Activity for fiscal year 2015 compared with 2014 reveals that the Court's State General Appropriation for 2015 increased and most of that increase was expended for program expenses in fiscal year 2015.

THE SUPREME COURT'S FUNDS

The Supreme Court has one governmental fund which is solely a State general fund appropriated by the State Legislature. The general fund increased in 2015 to help fund positions that were underfunded and to help meet the Court's other operating expense. The docket fee fund, also known as the suspense fund

Management's Discussion and Analysis

June 30, 2015

expended \$1,761 in fiscal year 2015 for costs related to the records archiving purpose for which the fund was created.

BUDGETARY HIGHLIGHTS

The Supreme Court had one budget adjustment during fiscal year 2015, which resulted in a decrease in budget for personal services of \$6,052, and contractual services of \$6,789, and an increase in other costs of \$12,841.

LONG-TERM DEBT ACTIVITY

The Supreme Court's long-term liabilities are for compensated absences as summarized in Note 4 to the financial statements.

ANTICIPATED CHANGES

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

FINANCIAL CONTACT

Wanda M. Gonzales, Court Financial Manager, Supreme Court, CO CFO, supwmg@nmcourts.com.

Joey D. Moya, Chief Clerk and CFO, Supreme Court of New Mexico, supjdm@nmcourts.gov

STATEMENT OF NET POSITION
June 30, 2015

	<u>Governmental Activities</u>
ASSETS	
Investment in State General Fund Investment Pool	\$ 117,979
New Mexico Supreme Court	<u>\$ 117,979</u>
LIABILITIES	
Accounts Payable	\$ 21,952
Accrued Payroll	81,953
Due to State General Fund	4,271
Compensated Absences:	
Due Within One Year	89,149
Due After One Year	15,732
Total Liabilities	<u>213,057</u>
NET POSITION	
Restricted - Court Records Maintenance	9,812
Unrestricted	<u>(104,890)</u>
Total Net Position	<u>(95,078)</u>
Total Liabilities and Net Position	<u>\$ 117,979</u>

See Notes to Financial Statements.

STATEMENT OF ACTIVITIES
For the Year Ended June 30 2015

	Governmental Activities
Expenses:	
Judicial:	
Administrative Services	\$ 3,261,291
 Program Revenues:	
Court Fees	704
Excess (Deficiency) of Revenue over Expenses	(3,260,587)
 General Revenues and Transfers	
State General Fund Appropriations	3,208,600
Other State funds	41,000
FY2015 Reversion	(4,262)
Change in Net Position	(15,249)
Net Position, Beginning	(79,829)
Net Position, Ending	\$ (95,078)

See Notes to Financial Statements.

BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2015

	General Fund	Suspense Fund	Total
ASSETS			
Investment in State Gen. Fund Investment Pool	\$ 108,167	9,812	117,979
Total Assets	\$ 108,167	9,812	117,979
 LIABILITIES			
Accounts Payable	\$ 21,952	-	21,952
Accrued Payroll	81,953	-	81,953
Due to State General Fund	4,262	9	4,271
Total Liabilities	108,167	9	108,176
 FUND BALANCES			
Restricted	-	9,803	9,803
Unassigned	-	-	-
Total Fund Balances	-	9,803	9,803
Total Liabilities and Fund Balances	\$ 108,167	9,812	117,979

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

Total fund balances	\$ 9,803
Some liabilities are not due and payable in the current period and therefore are not reported in the funds.	
Those liabilities consist of the following:	
Compensated absences	(104,881)
Net Position per Statement of Net Position	\$ (95,078)

See Notes to Financial Statements.

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS
For the Year Ended June 30 2015**

	<u>General Fund</u>	<u>Suspense Fund</u>	<u>Total</u>
REVENUES			
Court Fees	\$ -	704	704
EXPENDITURES			
Judicial:			
Current:			
Personal Services and Benefits	3,135,356	-	3,135,356
Contract Services	7,511	-	7,511
Other Costs	102,471	1,761	104,232
Total Expenditures	<u>3,245,338</u>	<u>1,761</u>	<u>3,247,099</u>
Excess (Deficiency) of Revenues Over Expenditures	(3,245,338)	(1,057)	(3,246,395)
OTHER FINANCING SOURCES (Uses)			
Transfer In:			
State General Fund Appropriations	3,208,600	-	3,208,600
Other State funds	41,000	-	41,000
Transfer Out:			
FY2015 Reversion	<u>(4,262)</u>	<u>-</u>	<u>(4,262)</u>
Total Other Financing Sources (Uses)	<u>3,245,338</u>	<u>-</u>	<u>3,245,338</u>
Net Change in Fund Balances	-	(1,057)	(1,057)
Fund Balances, beginning	<u>-</u>	<u>10,860</u>	<u>10,860</u>
Fund Balances, ending	<u><u>\$ -</u></u>	<u><u>9,803</u></u>	<u><u>9,803</u></u>

Amounts reported in the Statement of Activities are different because:

Net change in fund balance	\$ (1,057)
Increase in compensated absences	<u>(14,192)</u>
Changes in net position of governmental activities	<u><u>\$ (15,249)</u></u>

See Notes to Financial Statements.

**STATEMENT OF REVENUES AND EXPENDITURES BUDGET AND ACTUAL (BUDGETARY BASIS) –
GENERAL FUND
For the Year Ended June 30 2015**

	Budget		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
General Fund Appropriation	\$ 3,208,600	3,208,600	3,208,600	-
Other Financing Sources	41,000	41,000	41,000	-
Total Revenues	\$ 3,249,600	3,249,600	3,249,600	-
 EXPENDITURES				
Administrative Services:				
Personal Services	\$ 3,143,900	3,137,848	3,135,356	2,492
Contractual Services	14,300	7,511	7,511	-
Other	91,400	104,241	102,471	1,770
Total Expenditures	\$ 3,249,600	3,249,600	3,245,338	4,262
Excess of revenue and other financing sources over expenditures			4,262	
FY2015 Reversion			(4,262)	
Changes in fund balances per statement of revenues, expenditures and changes in fund balance (GAAP Basis)			-	

See Notes to Financial Statements.

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - AGENCY FUND
June 30, 2015

	<u>Supreme Court Fees Fund</u>
ASSETS	
Cash	\$ <u> -</u>
LIABILITIES	
Deposits Held for Others	\$ <u> -</u>

See Notes to Financial Statements.

Notes to the Financial Statements

June 30, 2015

NOTE 1: 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:

A. Reporting Entity

Supreme Court

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. However, New Mexico does not at present issue an audited Comprehensive Annual Financial Report inclusive of all agencies of the primary government. The Court has no component units that are required to be reported in its financial statements.

B. Basic Financial Statements

The basic financial statements include both government-wide (based on the 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.

Notes to the Financial Statements

June 30, 2015

Since the Supreme Court only has one program, it does not employ direct cost allocation in the financial statements.

The fund financial statements differs 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 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

Notes to the Financial Statements

June 30, 2015

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 does not revert to the State General Fund as it is not a budgeted 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.

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.

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

C. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied.

The 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.

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.

Notes to the Financial Statements

June 30, 2015

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

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

D. Capital Assets

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.

E. 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.

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

Notes to the Financial Statements**June 30, 2015**

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.

F. 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 (generated from revenues and not bond proceeds), which have third-party, legally enforceable, (statutory, bond covenant or granting agency) limitations on their use. When there is an option, the Supreme Court spends restricted resources first.

Unrestricted Net Position—represent unrestricted liquid assets.

G. Fund Balances

Governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable - This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted - This classification includes amounts that are restricted to a specific purpose. Fund balances are restricted when constraints placed on the use of resources are either: (a) Externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments; (b) Enabling legislation, as the term is used authorizes the 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.

Notes to the Financial Statements

June 30, 2015

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.

H. 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.

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.

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

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

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

Notes to the Financial Statements

June 30, 2015

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.

I. 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,

J. Use of Estimates

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

NOTE 2: STATE GENERAL FUND INVESTMENT POOL

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

Agency claims against the SGFIP and fiduciary resources held at STO to fulfill those claims were not reconciled from the inception of SHARE (the State's centralized accounting system), in July 2006, through January 2013, which caused uncertainty as to the validity of the claims and the ability of fiduciary resources to fulfill those claims. As a result of business process and systems configuration changes made during the Cash Management Remediation Project Phase I the Department of Finance and Administration's Financial Control division began reconciling transactional activity reported by the State's fiscal agent bank to the SHARE general ledger on a point-forward basis beginning February 1, 2013. In March 2015, the Financial Control Division implemented a reconciliation process that compares statewide agency claims against the resources held in the SGFIP at STO. This process is known as the claims to resources reconciliation. The claims to resources reconciliation process has been successfully applied to fiscal year-end 2014 and the months from January 2015 through June 2015. While work remains, the results are encouraging and the following assertions can be made:

Notes to the Financial Statements

June 30, 2015

1. The difference between statewide agency claims against the SGFIP and fiduciary resources held at STO to fulfill those claims has remained within a relatively narrow range over the periods in which the reconciliation process has been used;
2. Agency claims on the SGFIP will be honored in their entirety. Any adjustment necessary to the claims balance will be applied against the General Operating Reserve. No portion of the adjustment shall be allocated to any specific agency that participates in the SGFIP.

NOTE 3: STATE TREASURER GENERAL FUND INVESTMENT POOL

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

At June 30, 2015 the Court had the following invested in the General Fund Investment Pool:

	Share Fund #	Maturity	Account Balance	Fair Value
General Fund	138	1 day	\$ 108,167	108,167
Supreme Court Fees Fund	793	1 day	-	-
Supreme Court Suspense Fund	251	1 day	9,812	9,812
Total Governmental Funds			\$ 117,979	117,979

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, 2015.

NOTE 4: DUE TO STATE GENERAL FUND

The Supreme Court accrued a liability for reversion of \$4,262 to the State General Fund for its unexpended general appropriations for the fiscal year ended June 30, 2015.

Notes to the Financial Statements

June 30, 2015

NOTE 5: COMPENSATED ABSENCES

The following is a summary of changes in compensated absences:

Balance 6/30/14	Additions	Deletions	Balance 6/30/15	Due within One Year
\$ 90,689	118,891	104,699	104,881	89,149

NOTE 6: GASB 68 - FINANCIAL REPORTING AND DISCLOSURE FOR MULTIPLE-EMPLOYER COST SHARING PENSIONS AND FOR SINGLE EMPLOYER PENSIONS PLAN (JUDICIAL) BY EMPLOYERS

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

The 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 the Public Employees Retirement Association (PERA). Disclosure requirements for governmental funds apply to the primary government as a whole, and as such, this information will be presented in the Component Appropriation Funds Annual Financial Report (General Fund) and the Comprehensive Annual Financial Report (CAFR) of the State of New Mexico.

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

NOTE 7: POST-EMPLOYMENT BENEFITS - STATE RETIREE HEALTH CARE PLAN

Plan Description. The Supreme Court contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit post-employment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978).

Notes to the Financial Statements

June 30, 2015

The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

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

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

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

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

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2015, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2015, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each

Notes to the Financial Statements

June 30, 2015

participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The Supreme Court's contributions to the RHCA for the years ended June 30, 2015, 2014 and 2013 were \$50,014, \$47,629, and \$44,091, respectively, which equal to the required contributions for each year.

NOTE 7: RISK MANAGEMENT

The Supreme Court is exposed to various risk of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees or others; or acts of God. The Court is insured through Risk Management Division of the General Services Department, which is accounted for as an internal service fund of the State of New Mexico. In general, Risk Management Division responds to suits against the state and state agencies; manages fund to provide unemployment compensation, tort liability insurance, workman's compensation, and general and property insurance, and attempts to reduce the number of suits against the state and state agencies through the risk management process. The actuarial gains and losses of Risk Management Division were not available and are not included in this report. However, the Court would not be liable for more than the annual premiums. The court expended \$22,493 to obtain this coverage.

SUPPLEMENTARY AND OTHER INFORMATION

STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES - AGENCY FUND
June 30, 2015

	Balance			Balance
	<u>July 01, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2015</u>
ASSETS				
Cash	<u>\$ -</u>	<u>673</u>	<u>673</u>	<u>-</u>
LIABILITIES				
Deposits Held for Others	<u>\$ -</u>	<u>673</u>	<u>673</u>	<u>-</u>

See independent auditor's report.

SCHEDULE OF OPERATING TRANSFERS
For the Year Ended June 30, 2015

	SHARE FUND	TITLE	TRANSFER	
			In	Out
(1)	85300	Department of Finance & Administration	\$ 3,208,600	-
(2)	85300	Department of Finance & Administration	41,000	-
(3)	85300	Department of Finance & Administration	-	4,262
			<u>\$ 3,249,600</u>	<u>4,262</u>

- (1) General Fund Appropriation - Laws of 2014, Second Session, Chapter 63, Section 4.
- (2) Compensation Package - Laws of 2014, Second Session, Chapter 63, Section 8.
- (3) Fiscal year 2015 reversion to the State General Fund.

See independent auditor's report.

SCHEDULE OF VENDOR INFORMATION for Purchases Exceeding \$60,000 (excluding GRT)

For the Year Ended June 30, 2015

RFB# or RFP#	Type of Procurement	Awarded Vendor	\$ Amount of Awarded Contract	\$ Amount of Amended Contract	Name and Physical Address per the procurement documentation, of <u>ALL</u> Vendor(s) that responded	In-State/ Out- of-State Vendor (Y or N) (Based on Statutory Definition)	Was the vendor in- state and chose Veteran's preference (Y or N) For federal funds answer N/A	Brief Description of the Scope of Work
	None Noted.							

See independent auditor's report.

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

Tim Keller
New Mexico State Auditor
and
Honorable Barbara J. Vigil, Chief Justice
New Mexico Supreme Court
Santa Fe, New Mexico

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons for the general fund of the State of New Mexico Supreme Court (Court), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Court's basic financial statements and have issued our report thereon dated October 26, 2015.

Internal Control over Financial Reporting

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

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

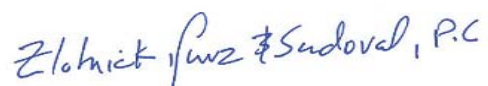
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies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

Compliance and Other Matters

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

Purpose of this Report

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



Zlotnick, Laws & Sandoval, P.C.
October 26, 2015

Schedule of Findings and Responses

June 30, 2015

Status of Prior Year's Findings

None

Current Year's Findings

None

Exit Conference

June 30, 2015

The contents of this report were discussed on November 13, 2015. The following individuals were in attendance:

New Mexico Supreme Court

Honorable Barbara Vigil

Chief Justice

Joey D. Moya

Attorney, Clerk of the New Mexico
Supreme Court, CFO

Wanda Gonzales

Court Financial Manager, CO-CFO

Lynne Rhys

Law Librarian, Supreme Court
Law Library

Arthur Pepin

Director, Administrative Office of
The Courts

Oscar Arevalo

CFO, Administrative Office of the
Courts

Zlotnick, Laws & Sandoval, PC

Asa Laws, CPA

Partner