

State of New Mexico Supreme Court Building Commission



Financial Statements

June 30, 2014

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OFFICIAL ROSTER
June 30, 2014

COMMISSION MEMBERS

Honorable Barbara Vigil, Chief Justice of the Supreme Court	Chair
Honorable Saul Cohen	Vice Chair
Edith Cherry	Member
Joey D. Moya, Chief Clerk of the Supreme Court	Building Manager

Independent Auditor's Report

Hector H. Balderas
New Mexico State Auditor
and
Honorable Barbara Vigil – Chair
New Mexico Supreme Court Building Commission
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 comparison for the general fund of the State of New Mexico Supreme Court Building Commission (Commission), as of and for the year ended June 30, 2014 and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents. We have also audited the budgetary comparison for the capital projects fund presented as supplementary information, as defined by the Government Accounting Standards Board as of and for the year ended June 30, 2014, 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 Commission'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 Commission'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 Commission, as of June 30, 2014, and the respective changes in financial position thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion the financial statements referred to above, present fairly, in all material respects the budgetary comparison for the capital projects 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 4 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the Commission's financial statements, the combining and individual fund financial statements, and the budgetary comparison. The additional schedules listed as "supplementary information" in the table of contents, which includes schedules required by 2.2.2.NMAC, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The additional schedules listed as "supplementary information" in the table of contents, which includes schedules required by 2.2.2.NMAC, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 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 information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2014 on our consideration of the Commission'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 Commission's internal control over financial reporting and compliance.

Zlotnick, Laws & Sandoval, P.C.

Zlotnick, Laws & Sandoval, PC

December 8, 2014

Management's Discussion and Analysis
June 30, 2014

The Management's Discussion and Analysis (MD&A) provides an overview of the objective and program of the Supreme Court Building Commission. This discussion helps the reader understand the Supreme Court Building Commission's operation in terms of financial planning and expenditures of the annual budget. The Supreme Court Building Commission was created by statute to manage the Supreme Court Building. 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.

Agency Overview

The powers and duties of the Supreme Court Building Commission are set forth by statute. See NMSA 1978, Sections 34-3-1 to 34-3-3 (1967). 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 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.

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 Commission. 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 Building Commission. The financial statements are not intended to report the financial position of the State of New Mexico as a whole. The Supreme Court Building Commission is one of 100+ agencies in the State that contributes to the financial position of the State of New Mexico. The Supreme Court Building Commission had one fund during the fiscal year ending 2014, the General Fund.

Generally speaking the Supreme Court Building Commission is a reverting agency. The Supreme Court Building Commission General Fund reverts into the State General Fund after the end of the fiscal year. The Supreme Court Building Commission's revenues are mainly from the State General Fund, with nothing received from court fees.

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 Building Commission has no business type activities. The focus of the Statement of Net Position (the "Unrestricted Net Position") is designed to be similar to a bottom line for the Supreme Court Building Commission and its governmental activities. This statement combines and consolidates governmental fund's current financial resources (short-term spendable resources) with capital assets and long-term liabilities.

**Management’s Discussion and Analysis
June 30, 2014**

The Statement of Activities is focused on cost of various activities that are provided by the Supreme Court Building Commission’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 Building Commission’s basic services of providing a physical facility and maintaining the contents.

Fund Financial Statements

The Supreme Court Building Commission only has one such fund: the General Fund. The Governmental Fund presentation is presented on a sources and uses of liquid resources basis.

Budgetary Comparisons

In addition to the MD&A, GASB 34 requires a budgetary comparison schedule for the General Fund. 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 2.2.2 NMAC, the Statements of Revenues and Expenditures - Budget and Actual is presented. This information is provided at the approved budget level to demonstrate compliance with legal requirements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Position

	Government Activities	
	<u>2014</u>	<u>2013</u>
Current Assets	\$ 34,956	35,796
Capital Assets	<u>4,225,578</u>	<u>4,531,121</u>
Total Assets	<u>4,260,534</u>	<u>4,566,917</u>
Liabilities	<u>78,868</u>	<u>75,228</u>
Invested in Capital Assets	4,225,578	4,531,121
Unrestricted (deficit)	<u>(43,912)</u>	<u>(39,432)</u>
Total Net Position	<u>\$ 4,181,666</u>	<u>4,491,689</u>

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

Management's Discussion and Analysis
June 30, 2014

Statement of Activities

	Government Activities	
	2014	2013
General Revenues:		
State General Fund Appropriations	\$ 867,100	833,400
Severance Tax Bond Proceeds	154,360	151,401
Reversions to State General Fund (14000)	(2,239)	(3,770)
Total General Revenues	1,019,221	981,031
Program Revenues	956,902	905,646
Total Revenues	1,976,123	1,886,667
Program Expenses	2,286,146	2,546,798
Change in net position	(310,023)	(660,121)
Net position, beginning of year	4,491,689	5,151,810
Net position, end of year	\$ 4,181,666	4,491,689

For more detailed information, see the Statement of Activities.

Financial Highlights

The Commission's total revenues for fiscal year 2014 were \$1,976,123 versus fiscal year 2013 which were \$1,886,677. Revenues increased in 2014 by \$89,446 due to other entities purchasing more assets in fiscal year 2014 than 2013. Total expenses for fiscal year 2014 were \$2,286,146 versus fiscal year 2013 which were \$2,546,798. Expenditures decreased in 2014 by \$260,652 primarily due to a decrease in depreciation expense.

THE SUPREME COURT BUILDING COMMISSION'S FUNDS

The Supreme Court Building Commission has no infrastructure assets, and the following capital assets:

- The Supreme Court Building and curtilage (land);
- Furniture, fixtures and equipment;
- Data processing equipment; and
- Vehicles

Most of the data processing equipment, which makes up the majority (>95%) of the Supreme Court Building Commission's current assets after depreciation, was purchased by the Administrative Office of the Courts for the District and Magistrate Courts, and has never been on the premises of the Supreme Court Building, nor in the physical custody of the Supreme Court Building Commission. However, that equipment is an asset of the Supreme Court Building Commission by statute, see NMSA 1978, Section 34-3-3 (1967), as that equipment is an asset purchased by an agency of the judicial branch housed within the Supreme Court Building.

Management's Discussion and Analysis
June 30, 2014

Major purchases of capital assets during the year were primarily for replacing the cork flooring and to upgrade the balcony. The renovation of the Supreme Court Building commenced in fiscal year 2014, and included flooring and upgrading the balcony railing in the Law Library, and has not been completed. Funding was provided through the Capital Outlay Budget.

BUDGETARY HIGHLIGHTS

There were two budget adjustments for fiscal year 2014 resulting in an increase of \$200 in the Personal Services budget category and a decrease of \$89 in the Contractual Services budget category, and a decrease of the other category \$111. Unexpended General Fund appropriations will revert to the State General Fund. In addition, the Commission was appropriated \$300,000 through Severance Tax Bond Proceeds, Laws of 2013, Chapter 226, and Section 34, to renovate the Law Library in the Supreme Court Building. As of the end of fiscal year 2014 \$154,360, has been expended from the capital funds outlay appropriation.

ANTICIPATED CHANGES

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

FINANCIAL CONTACT

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**Statement of Net Position
June 30, 2014**

	Governmental Activities
ASSETS	
Current Assets:	
Investment in State General Fund Investment Pool	\$ 34,956
Total Current Assets	34,956
Land	100,311
Capital Assets, Net	4,125,267
TOTAL ASSETS	\$ 4,260,534
LIABILITIES	
Current Liabilities:	
Accounts Payable	\$ 16,482
Accrued Payroll	16,483
Due to State General Fund	1,991
Compensated Absences - current	36,964
Total Current Liabilities	71,920
Noncurrent Liabilities:	
Compensated Absences	6,948
TOTAL LIABILITIES	78,868
NET POSITION	
Net Investment in Capital Assets	4,225,578
Unrestricted (deficit)	(43,912)
TOTAL NET POSITION	4,181,666
TOTAL LIABILITIES AND NET POSITION	\$ 4,260,534

See Notes to Financial Statements.

**Statement of Activities
For the Year Ended June 30, 2014**

	<u>Governmental Activities</u>
Expenses:	
Judicial:	
Administrative Services	\$ 869,342
Depreciation	1,416,804
Total Expenses	<u>2,286,146</u>
Program Revenues	
Capital Grants and Contributions	956,902
Total Program Revenues	<u>956,902</u>
Net Program Expense	<u>(1,329,244)</u>
General Revenues and Transfers	
State General Fund Appropriations	867,100
Severance Tax Bond Proceeds	154,360
2014 State General Fund Reversion(14000)	(2,239)
Total General Revenues and Transfers	<u>1,019,221</u>
Change in Net Positon	(310,023)
Net Position, beginning of year	<u>4,491,689</u>
Net Position, end of year	<u>\$ 4,181,666</u>

See Notes to Financial Statements.

**Balance Sheet - Governmental Funds
June 30, 2014**

	<u>General Fund</u>	<u>Severance Tax Bond</u>	<u>Total</u>
ASSETS			
Current Assets:			
Investment in State General Fund Investment Pool	\$ 34,956	-	\$ 34,956
TOTAL ASSETS	<u>\$ 34,956</u>	<u>-</u>	<u>\$ 34,956</u>
LIABILITIES AND FUND BALANCES			
Current Liabilities:			
Accounts Payable	\$ 16,482	-	\$ 16,482
Accrued Payroll	16,483	-	16,483
Due to State General Fund	1,991	-	1,991
TOTAL LIABILITIES	<u>34,956</u>	<u>-</u>	<u>34,956</u>
FUND BALANCES			
Unassigned	-	-	-
TOTAL FUND BALANCES	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 34,956</u>	<u>-</u>	<u>\$ 34,956</u>

Amounts reported in the Statement of Net Position differ because:

Total fund balances	-
Capital assets reported in governmental activities are not financial resources and, therefore, are not reported in the government funds statement	4,225,578
Compensated absences accrued in the government-wide financial statements are excluded from the governmental funds statement	<u>(43,912)</u>
Net Position per Statement of Net Position	<u>4,181,666</u>

See Notes to Financial Statements.

**Statement of Revenues, Expenditures and
Changes in Fund Balance - Governmental Funds
For the Year Ended June 30, 2014**

	General Fund	Severance Tax Bond	Total
REVENUES	\$ -	-	\$ -
EXPENDITURES			
Current:			
General Government:			
Administrative Services:			
Personal Services and Benefits	702,830	-	702,830
Contract Services	7,011	-	7,011
Other Costs	155,020	-	155,020
Capital Outlay	-	154,360	154,360
Total Expenditures	864,861	154,360	1,019,221
(Deficiency) of Revenues Over Expenditures	(864,861)	(154,360)	(1,019,221)
OTHER FINANCING SOURCES (Uses)			
Transfers In: General Fund Appropriation	867,100	-	867,100
Transfers Out: 2014 Reversions to the State Gen. Fund	(2,239)	-	(2,239)
Transfers In: Severance Tax Bond Proceeds	-	154,360	154,360
Total Other Financing Sources (Uses)	864,861	154,360	1,019,221
Net Change in Fund Balances	-	-	-
Fund Balances, beginning	-	-	-
Fund Balances, ending	\$ -	-	\$ -

Amounts reported In the Statement of Activities are different because:

Net Change in Fund Balance		\$ -
Assets purchased by other entities		956,902
Capital outlay		154,360
Depreciation expense		(1,416,804)
Net change in total compensated absences		(4,481)
Changes in net position of governmental activities		\$ (310,023)

See Notes to Financial Statements.

**Statement of Revenues and Expenditures
Budget and Actual (Budgetary Basis) - General Fund
For the Year Ended June 30, 2014**

	Budget		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
General Fund Appropriation	\$ 867,100	867,100	867,100	-
Total Revenues	867,100	867,100	867,100	-
Fund Balance	-	-		
Total Revenues and Fund Balance	\$ 867,100	867,100		
EXPENDITURES				
Administrative Services:				
Personal Services	\$ 702,400	702,600	702,830	(230)
Contractual Services	7,100	7,011	7,011	-
Other	157,600	157,489	155,020	2,469
Total Expenditures	\$ 867,100	867,100	864,861	2,239

See Notes to Financial Statements.

Notes to the Financial Statements
June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the State of New Mexico, Supreme Court Building Commission (Commission) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standards-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Commission's accounting policies are described below:

A. Reporting Entity

Building Commission

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 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. However, New Mexico does not at present issue an audited Comprehensive Annual Financial Report inclusive of all agencies of the primary government. The Building Commission 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 Building Commission 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 Building Commission 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.

Government-wide financial statements exclude information about fiduciary funds and component units that are fiduciary in nature.

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

**Notes to the Financial Statements
June 30, 2014**

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

The fund financial statements are a presentation of sources and uses of liquid resources. Emphasis is on the major funds of the governmental category. Non-major funds are summarized into a single column. The Supreme Court Building Commission's funds are its General Fund and Severance Tax Bond Fund which are considered major funds.

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 appropriate to demonstrate legal and covenant compliance, to demonstrate the source and use of liquid resources and to demonstrate how the Supreme Court Building Commission'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 Building Commission 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 Building Commission's Funds are classified as governmental.

General Fund – The General Fund (SHARE Fund 14000) is the primary operating fund of the Commission. It accounts for all financial resources except those required to be accounted for in another fund. The operations of the Commission 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 Commission also receives funding from other state funds, which are recorded as interagency transfers. The General Fund is a reverting fund.

Severance Tax Bond Funds – The Capital Outlay (Severance Bonds SHARE Fund 89200) was created by an appropriation to the Supreme Court Building Commission for the replacement of the cork flooring and upgrading of the balcony railing in the Law Library.

C. Non-Current Governmental Assets/Liabilities

Non-current assets and liabilities are not presented in the fund financial statements, but rather incorporated only in the government-wide Statement of Net Position.

Notes to the Financial Statements
June 30, 2014

D. Basis of Accounting

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

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic assets used. Revenues, expenses, gains, losses, assets, deferred outflows of resources and liabilities and deferred inflows of resources resulting from exchange transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities and deferred inflows of resources resulting from non-exchange transactions are recognized in accordance with requirements of GASB 33.

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

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

In applying the “susceptible to accrual” concept to intergovernmental revenues pursuant to Governmental Accounting Standards Board Statement No. 33 (GASB 33), *Accounting and Financial Reporting for Nonexchange Transactions*, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenues when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met, under most circumstances, should be reported as advances by the provider and unearned revenue by the recipient. The Severance Tax Bond Proceeds appropriations are recognized in an amount equivalent to the related capital and other expenditures.

E. Encumbrances

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

**Notes to the Financial Statements
June 30, 2014**

F. Capital Assets

Property, plant, and equipment purchased or acquired at a value of \$5,000 or greater are capitalized. Assets are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed when incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives with no salvage value.

	<u>Years</u>
Building and improvements	10-40
Furniture/fixtures	10
Data processing equipment and software	3-5
Equipment	5
Vehicles	5

G. Compensated Absences

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

<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 unpaid annual leave as of the date of termination. Accrued annual leave is recorded as a liability and net changes are recorded as expenditures in the government-wide financial statements. The fund financial statements and budgetary comparison reports only recognize the compensated absences when payments are made to employees.

H. Net Position

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

Invested in Capital Assets (net of related debt)—is intended to reflect the portion of net position which is associated with non-liquid, capital assets less outstanding capital asset related debt. The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost. The Commission 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

Notes to the Financial Statements
June 30, 2014

their use. When there is an option, the Supreme Court Building Commission spends restricted resources first.

Unrestricted Net Position—represents unrestricted liquid assets.

I. Fund Balances

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

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

Restricted – This classification includes amounts that are restricted to a specific purpose. Fund balances are restricted when constraints placed on the use of resources are either: (a) Externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments; (b) Enabling legislation, as the term is used authorizes the Commission to assess, levy, charge or otherwise mandate payment of resources and includes a *legally enforceable* requirement that those resources be used only for the specific purposes stipulated in the legislation.

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

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

Unassigned – This classification is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount.

J. Compensated Absences

Vested or accumulated vacation leave and vested sick leave are reported in the entity-wide financial statements, since they are not expected to be liquidated with expendable available financial resources. No current expenditures are reported in the General Fund financial statements for these amounts.

K. Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial

Notes to the Financial Statements
June 30, 2014

resources is reported as a liability of the General Fund. The remaining portion of such obligations is reported in the entity-wide financial statements.

L. Budgets

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

No later than September 1, the Supreme Court Building Commission 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 Building Commission submits to the DFA, no later than May 1, an annual operating budget by category and line item based upon the appropriation made by the Legislature. The DFA – Budget Division reviews and approves the operating budget which becomes effective on July 1. All subsequent budget adjustments must be approved by the State of New Mexico, Administrative Office of the Courts and the director of the DFA – Budget Division and the LFC. The current year budget was adjusted in a legal manner.

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

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

Each year the Legislature approves multiple year appropriations, which the State considers as continuing appropriations. The Legislature authorizes these appropriations for two to five years; however, it does not identify the authorized amount by fiscal year. Consequently, the appropriation is budgeted in its entirety the first year the Legislature authorizes it. The unexpended portion of the budget is carried forward as the next year's beginning budget balance until either the project period has expired or the appropriation has been fully expended. The budget presentation in these financial statements is consistent with this budgeting methodology.

The budget for the General Fund is adopted on the modified accrual basis of accounting except for accounts payable accrued at the end of the fiscal year that do not get paid by the statutory deadline (Section 6-10-4 NMSA 1978), that must be paid out of next year's budget. A reconciliation of budgetary basis to GAAP basis will be necessary if all accounts payable at the end of the fiscal year are not paid by the statutory deadline. No reconciliation was necessary as of June 30, 2014.

**Notes to the Financial Statements
June 30, 2014**

M. Program Revenues

The Commission derives program revenues (capital grants and contributions) from the following other state agencies: Administrative Office of the Courts, Court of Appeals, Supreme Court Law Library, and The Supreme Court. These revenues represent capital assets acquired by these entities.

NOTE 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, 2014 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	\$ <u>34,956</u>	\$ <u>34,956</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 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, 2014.

General Fund Investment Pool Not Reconciled

For cash management and investment purposes, funds of various state agencies are deposited in the State General Fund investment Pool (the Pool), which is managed by the office of New Mexico State Treasurer. Claims on the Pool are reported as assets by the various agencies investing in the Pool.

In June 2012 an independent expert diagnostic report revealed that the General Fund Investment Pool balances have not been reconciled at the business unit/fund level since the inception of the Statewide Human resources, Accounting, and management Reporting system (SHARE) system in July of 2006. The Diagnostic reports are available in the Resources section of the Cash Control page of the New Mexico Department of Finance & Administration’s website at:
http://www.nmdfa.state.nm.us/Cash_Control.aspx.

**Notes to the Financial Statements
June 30, 2014**

By state statute, the New Mexico Department of Finance and Administration (DFA) is responsible for the performance of monthly reconciliations with the balances and accounts kept by the State Treasurer. Therefore, under the direction of the State Controller / Financial Control Division Director, the Financial Control Division (FCD) of the New Mexico Department of Finance & Administration undertook action to address the situation. DFA/FCD initiated the Cash Management Remediation Project (Remediation Project) in partnership with the Office of the New Mexico State Treasurer, the New Mexico Department of Information Technology, and a contracted third party with expertise in the Enterprise System Software used by the State.

The Remediation Project objective was to design and implement changes necessary to ensure ongoing completion of timely, accurate and comprehensive reconciliation of the Pool. DFA has or is in the process of implementing all the recommendations resulting for the Remediation Project and has made changes to the State's SHARE System configuration, cash accounting policies and procedures, business practices, and banking structure. This has enabled DFA to complete timely and accurate reconciliation of bank to book balances at the State and Business Unit level on a post-implementation basis, however it did not resolve historical reconciling items. Additional changes recommended by the Project continue to be cascaded through DFA and state agencies to support the Business Unit by Fund accounting requirements.

A plan to address historical reconciliation items is being assessed and a separate initiative will need to be undertaken to resolve the historical reconciliation items. DFA Management considers it unlikely that this separate initiative will be successful in allocating all historical reconciling items to the State entities invested in the Pool. As a result, any remaining differences post specific allocation to Pool participants will be reported in the State General Fund.

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

The cash transactions processed by Supreme Court Building Commission flow through the state general fund investment pool. Since SHARE was implemented, we recognized the statewide cash reconciliation issue and in response, developed internal reconciliation procedures to ensure that cash receipts and disbursements recorded in the SHARE system are in fact transactions that have been initiated by the Supreme Court Building Commission.

The reconciliation occurs each month and any required adjustments are forwarded to the Financial Control Division at DFA for correction. Monthly reconciliation procedures throughout the fiscal year, include, but are not limited to validation of: allotments, deposits, expenditures, all general entries, operating transfers, payroll expenditures/payroll liabilities, and review of outstanding warrants. The Supreme Court Building Commission reports the timely completion of the reconciliation process to Commission management monthly and conducts monthly management budget reviews to ensure that all cash deposits and financial transactions are accurately recorded and posted to the SHARE system.

**Notes to the Financial Statements
June 30, 2014**

This monthly internal reconciliation of cash receipts and disbursements flowing through Commission's share of the state general fund investment pool provides management assurance that the balance reflected in State General Fund Investment Pool account is accurate as of the end of the reporting period. In addition, Supreme Court Building Commission reconciles other asset and liability accounts on the balance sheet of each fund type. This process also provides additional assurance that transactions affecting the Commission's share in the State General Fund Investment Pool account are accurate.

NOTE 3: DUE FROM STATE GENERAL FUND

During the fiscal year ended June 30, 2014 management discovered that in fiscal year 2010 the accounts payable balance and the accompanying expenditures were erroneously adjusted. As a result of the error the fiscal year 2014 reversion was overstated by \$248. The Commission obtained permission from the Department of Finance and Administration to net the \$248 against the current year reversion of \$2,239 resulting in an amount due to the state general fund of \$1,991.

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014 was as follows:

	Balance 6/30/2013	Additions	Deletions	Balance 6/30/2014
Land	\$ 100,311	-	-	\$ 100,311
Capital Assets:				
Buildings & Improvements	3,983,631	336,423	-	4,320,054
Furniture, Fixtures & Equipment	4,131,524	212,419	-	4,343,943
Data Processing Equipment	12,287,698	456,250	3,805,786	8,938,162
Vehicles	314,241	106,169	-	420,410
Total	<u>20,817,405</u>	<u>1,111,261</u>	<u>3,805,786</u>	<u>18,122,880</u>
Accumulated Depreciation:				
Buildings & Improvements	2,287,138	277,680	-	2,564,818
Furniture, Fixtures & Equipment	2,202,582	323,204	-	2,525,786
Data Processing Equipment	11,530,426	761,015	3,805,786	8,485,655
Vehicles	266,138	54,905	-	321,043
Total	<u>16,286,284</u>	<u>1,416,804</u>	<u>3,805,786</u>	<u>13,897,302</u>
Net Capital Assets	<u>\$ 4,531,121</u>	<u>(305,543)</u>	<u>-</u>	<u>\$ 4,225,578</u>

Current depreciation expense is \$1,416,804.

**Notes to the Financial Statements
June 30, 2014**

NOTE 5: COMPENSATED ABSENCES

The following is a summary of changes in compensated absences:

Balance 6/30/13	Additions	Deletions	Balance 6/30/14	Due within One Year
\$39,432	41,056	36,576	\$43,912	\$36,964

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 Commission has no other debt.

NOTE 6: RETIREMENT PLANS

Plan Description. Substantially all of the Supreme Court Building Commission’s full-time employees participate in public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11 NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to PERA, PO Box 2123, Santa Fe, NM 87504-2123.

Funding Policy. Plan members are required to contribute 8.92% of their gross salary. The Supreme Court Building Commission is required to contribute 16.59% of the gross covered salary. The contribution requirements of plan members and Supreme Court Building Commission are established under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The Supreme Court Building Commission contributions to PERA for the years ended June 30, 2014, 2013 and 2012 were \$ 71,200, \$62,505, and \$54,807, respectively, equal to the amount of the required contributions for each year.

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

Plan Description. The Supreme Court Building Commission contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit post-employment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person’s behalf unless that person retires before the employer’s RHCA effective

Notes to the Financial Statements
June 30, 2014

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 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, 2013, 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, 2013, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The Supreme Court Building Commission contributions to the RHCA for the years ended June 30, 2014, 2013 and 2012 were \$8,956, \$8,289, and \$7,497, respectively, which equal the required contributions for each year.

Notes to the Financial Statements
June 30, 2014

NOTE 8: 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. The actuarial gains and losses of Risk Management Division were not available and are not included in this report. However, the Commission would not be liable for more than the annual premiums. The Commission expended \$49,600 to obtain this coverage.

NOTE 9: CAPITAL OUTLAY APPROPRIATIONS

The Commission was appropriated \$300,000 through Severance Tax Bond Proceeds, Laws of 2013, Chapter 226, and Section 34, to renovate the Supreme Court Building Law Library, to expire in fiscal year 2017. As of the end of fiscal year 2014, \$154,360 has been expended from the capital funds outlay appropriation with \$145,640 remaining.

**Statement of Revenues and Expenditures
Budget and Actual (Budgetary Basis) - Capital Projects Fund
For the Year Ended June 30, 2014**

	Budget		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Laws of 2013, Chapter 227, Section 34 Revenue	\$ 300,000	300,000	154,360	(145,640)
Expenditures	\$ 300,000	300,000	154,360	145,640
Excess (Deficiency) of Revenues Over Expenditures			-	
Ending Balance			\$ -	

See Independent Auditor's Report

**Schedule of Operating Transfers
For the Year Ended June 30, 2014**

	SHARE FUND	TITLE	TRANSFER	
			In	Out
(1)	14000	Department of Finance & Administration	\$ 867,100	\$ -
(2)	89200	Department of Finance & Administration	154,361	-
(1)	14000	FY 2014 Reversion(14000)	-	2,239
	Total		<u>\$ 1,021,461</u>	<u>\$ 2,239</u>

(1) General Fund Appropriation, Laws of 2013, Chapter 227, Section 4

(2) Severance Tax Bond Proceeds, Laws of 2013, Chapter 226, Section 34

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*

Hector H. Balderas
New Mexico State Auditor
and
Honorable Barbara Vigil – Chair
New Mexico Supreme Court Building Commission
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 New Mexico Supreme Court Building Commission (Commission), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated December 8, 2014.

Internal Control over Financial Reporting

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

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

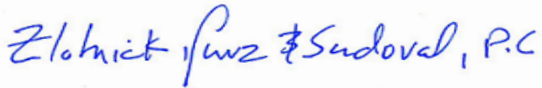
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free from 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*.

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



Zlotnick, Laws & Sandoval, P.C.

December 8, 2014

**Schedule of Findings and Responses
June 30, 2014**

Prior Year's Findings

None

Current Year's Findings

None

**Other Disclosures
June 30, 2014**

Preparation of the Financial Statements

Zlotnick, Laws & Sandoval, PC assisted in the preparation of the financial statements presented in this report. Management is responsible for the financial statements. The Commission's management has reviewed and approved the financial statements and related notes and they believe that their records adequately support the financial statements.

Exit Conference

The contents of this report were discussed on December 11, 2014. The following individuals were in attendance:

New Mexico Supreme Court Building Commission

Honorable Barbara Vigil,
Chair Chief Justice of the Supreme Court

Joey D. Moya
Chief Clerk of the Supreme Court, CFO, Building Manager

Wanda M. Gonzales
Court Financial Manager, Co CFO

Zlotnick, Laws & Sandoval, PC

Asa Laws, CPA
Brian Laws, CPA