

# State of New Mexico Supreme Court Building Commission



## Financial Statements

**June 30, 2016**

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**OFFICIAL ROSTER**  
**June 30, 2016**

**COMMISSION MEMBERS**

Honorable Charles W. Daniels 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

Tim Keller, New Mexico State Auditor  
and  
Honorable Charles W. Daniels, Chief Justice  
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 comparisons for the general fund of the State of New Mexico, Supreme Court Building Commission (Commission), as of and for the year ended June 30, 2016 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, 2016, 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, 2016, and the respective changes in financial position thereof and the respective budgetary comparisons for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America. 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 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*

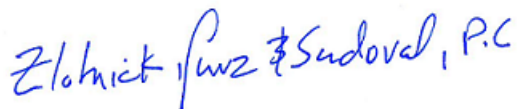
Our audit was conducted for the purpose of forming opinions on the Commission's financial statements, and the budgetary comparison. The supplementary information listed on the table of contents, required by Section 2.2.2 NMAC, is presented for purposes of additional analysis and is not a required part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

The *supplementary information* is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the *supplementary information* required by Section 2.2.2 NMAC is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

#### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2016 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, PC  
November 16, 2016

## Management's Discussion and Analysis

June 30, 2016

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.

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, 2016**

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**

	<b>Government Activities</b>	
	<b>2016</b>	<b>2015</b>
Current Assets	\$ 352,274	95,547
Capital Assets	<b>4,089,917</b>	3,689,250
Total Assets	<b>4,442,191</b>	<b>3,784,797</b>
Liabilities	<b>173,552</b>	143,451
Invested in Capital Assets	<b>4,089,917</b>	3,689,250
Unrestricted (deficit)	<b>(178,722)</b>	(47,904)
Total Net Position	<b>\$ 4,268,639</b>	<b>3,641,346</b>

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



Management's Discussion and Analysis

June 30, 2016

Financial Highlights

	<b>Government Activities</b>	
	<b>2016</b>	<b>2015</b>
General Revenues:		
State General Fund Appropriations	\$ 971,100	905,200
Other Financing Sources	450,000	17,800
Severance Tax Bond Proceeds	161,917	133,563
Reversions to State General Fund (14000)	(9,649)	(1,858)
Total General Revenues	<b>1,573,368</b>	1,054,705
Program Revenues	<b>1,160,554</b>	480,606
Total Revenues	<b>2,733,922</b>	1,535,311
Program Expenses	<b>(2,106,629)</b>	(2,075,631)
Change in net position	<b>627,293</b>	(540,320)
Net position, beginning of year	<b>3,641,346</b>	4,181,666
Net position, end of year	<b>\$ 4,268,639</b>	3,641,346

For more detailed information, see the Statement of Activities.

Financial Highlights

The Commission's total revenues for fiscal year 2016 were \$2,733,922 versus fiscal year 2015 which were \$1,535,311. Revenues increased in 2016 by \$1,208,260 due to capital contributions from other State agencies housed within the Supreme Court Building. Total expenses for fiscal year 2016 were \$2,106,629 versus fiscal year 2015 which were \$2,075,631. Expenses increased in 2016 by \$30,998 primarily due to an increase 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

**Management's Discussion and Analysis**

**June 30, 2016**

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.

Major purchases of capital assets by the Commission during the year were primarily for renovations to the exterior of the building, which included the replacement of balcony railings and re-stuccoing the building. The renovation commenced in fiscal year 2016 and, has not been completed. Funding was provided through the Capital Outlay Budget

**BUDGETARY HIGHLIGHTS**

The original appropriation to the Supreme Court Building Commission for its fiscal year 2016 operating budget was subsequently reduced by \$5,900 as a result of the 2016 Regular Session of the New Mexico Legislature, which resulted in a final appropriation for the Building Commission's fiscal year 2016 operating budget in the amount of \$971,100. The Building Commission received a capital outlay appropriation as a result of the 2015 Special Session of the Legislature for a major renovation to the exterior of the Supreme Court Building.

**ANTICIPATED CHANGES**

The Building Commission's original appropriation for its fiscal year 2017 operating budget was subsequently cut by 3% as a result of the 2016 Special Session of the New Mexico Legislature, and additional cuts to the fiscal year 2017 operating budget are still possible.

**FINANCIAL CONTACT**

Joey D. Moya, Building Manager and CFO, Supreme Court Building Commission

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Wanda M. Gonzales, Court Financial Manager, Supreme Court Building Commission, CO CFO

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**STATEMENT OF NET POSITION**  
**June 30, 2016**

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Interest in State General Fund Investment Pool	\$ 337,274
Due from Other State Agencies	15,000
Capital Assets, net	4,089,917
Total Assets	\$ 4,442,191
<b>LIABILITIES</b>	
Accounts Payable	\$ 90,121
Payroll Benefits Payable	11,647
Payroll Taxes Payable	3,440
Accrued Payroll	10,362
Due to State General Fund	9,649
Compensated Absences:	
Due Within One Year	38,063
Due After One Year	10,270
Total Liabilities	173,552
<b>NET POSITION</b>	
Net Investment in Capital Assets	4,089,917
Unrestricted	178,722
Total Net Position	4,268,639
Total Liabilities and Net Position	\$ 4,442,191

*See Notes to Financial Statements.*

**STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30 2016**

	<b>Governmental Activities</b>
<b>Expenses:</b>	
Judicial:	
Administrative Services	\$ 968,578
Depreciation	1,138,051
Total Expenses	2,106,629
 <b>Program Revenues:</b>	
Capital Grants and Contributions	1,160,554
Excess (Deficiency) of Revenue over Expenses	(946,075)
 <b>General Revenues and Transfers</b>	
State General Fund Appropriations	971,100
Other Financing Sources	450,000
Severance Tax Bond Proceeds	161,917
Reversion - FY2016	(9,649)
Change in Net Position	627,293
Net Position, Beginning	3,641,346
Net Position, Ending	\$ 4,268,639

*See Notes to Financial Statements.*

**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**June 30, 2016**

	<b>General Fund</b>	<b>Capital Projects</b>	<b>Total</b>
<b>ASSETS</b>			
Interest in SGFIP	\$ 69,986	267,288	337,274
Due from Other State Agencies	-	15,000	15,000
Total Assets	\$ 69,986	282,288	352,274
 <b>LIABILITIES</b>			
Accounts Payable	\$ 34,888	55,233	90,121
Payroll Benefits Payable	11,647	-	11,647
Payroll Taxes Payable	3,440	-	3,440
Accrued Payroll	10,362	-	10,362
Due to State General Fund	9,649	-	9,649
Total Liabilities	69,986	55,233	125,219
 <b>FUND BALANCES</b>			
Committed	-	227,055	227,055
Total Fund Balances	-	227,055	227,055
Total Liabilities and Fund Balances	\$ 69,986	282,288	352,274

**Amounts reported in the Statement of Net Assets differ because:**

Total fund balances	\$ 227,055
Capital assets reported in the governmental activities are not financial resources and, therefore, are not reported in the governmental funds statement	4,089,917
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	(48,333)
Net Position per Statement of Net Position	\$ 4,268,639

See Notes to Financial Statements.

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

	General Fund	Capital Projects	Total
<b>REVENUES</b>	\$ -	-	-
<b>EXPENDITURES</b>			
Judicial:			
Current:			
Personal Services and Benefits	756,363	-	756,363
Contract Services	12,718	18,457	31,175
Other Costs	180,394	217	180,611
Capital Outlay	11,976	366,188	378,164
Total Expenditures	961,451	384,862	1,346,313
Excess (Deficiency) of Revenues Over Expenditures	(961,451)	(384,862)	(1,346,313)
<b>OTHER FINANCING SOURCES (Uses)</b>			
Transfer In:			
State General Fund Appropriations	971,100	-	971,100
Other Financing Sources	-	450,000	450,000
Severance Tax Bond Proceeds	-	161,917	161,917
Transfer Out:			
Reversion - FY2016	(9,649)	-	(9,649)
Net Change in Fund Balances	-	227,055	227,055
Fund Balances, beginning	-	-	-
Fund Balances, ending	\$ -	227,055	227,055

**Amounts reported in the Statement of Activities are different because:**

Net change in fund balance	\$ 227,055
Net change in compensated absences	(429)
Capital Contributions - assets purchased by other entities	1,160,554
Excess depreciation over capital outlay expenditures	(759,887)
Changes in net position of governmental activities	\$ 627,293

*See Notes to Financial Statements.*

**STATEMENT OF REVENUES AND EXPENDITURES BUDGET AND ACTUAL (BUDGETARY BASIS) –  
GENERAL FUND (14000)  
For the Year Ended June 30 2016**

	Budget			Variance Favorable (Unfavorable)
	Original	Final	Actual	
<b>REVENUES</b>				
State General Fund				
Appropriations	\$ 977,000	971,100	971,100	-
Total Revenues	977,000	971,100	971,100	-
 <b>EXPENDITURES</b>				
Personal Services	740,200	760,154	756,363	3,791
Contractual Services	7,300	7,011	12,718	(5,707)
Other	229,500	203,935	192,370	11,565
Total Expenditures	\$ 977,000	971,100	961,451	9,649
Excess of revenue over expenditures			\$ 9,649	
Reversion - FY2016			(9,649)	
Ending fund balance			\$ -	

*See Notes to Financial Statements.*

**Notes to the Financial Statements**

**June 30, 2016**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the State of New Mexico, Supreme Court 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 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, Sec on 34-3-3 (1967). Such equipment and furniture may also be maintained in part by the individual agencies that purchase or use it.

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

**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.



## Notes to the Financial Statements

June 30, 2016

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. 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 indirect cost allocation in the financial statements.

The fund financial statements differ from the governmental-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 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 more 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, 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 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 General Fund is a reverting fund.

Severance Tax Bond (STB) Capital Outlay (Fund 89200) – This fund was created by the Department of Finance and Administration to track all STB Capital Outlay appropriations. All current and future capital appropriations to the Commission will be budgeted in this fund, which is treated as a major fund.

## Notes to the Financial Statements

June 30, 2016

### 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 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.

### D. 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. By statute, the 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.

**Notes to the Financial Statements**

**June 30, 2016**

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

**E. Compensated Absences**

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

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

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

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

**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 Commission does not have any related debt.

## Notes to the Financial Statements

June 30, 2016

*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 Building Commission spends restricted resources first.

*Unrestricted Net Position*—represents 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 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.

### H. Program Revenues

The Commission derives program revenues (capital grants and contributions) from the following 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.

**Notes to the Financial Statements**

**June 30, 2016**

**I. 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.

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

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

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

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

**Notes to the Financial Statements**

**June 30, 2016**

**J. 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.

**K. 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**

The Financial Control Division (FCD) in collaboration with the State Treasurer's Office, implemented a comprehensive reconciliation model that compared aggregated agency claims on the State General Fund Investment Pool and to the associated resources held by the State Treasurer's Office. This process now has been reviewed by the IPAs performing audits of the General Fund, the Department of Finance and Administration and the State of New Mexico's Comprehensive Annual Financial Report for fiscal year 2015. Each review of the process deemed it to be adequate and the findings related to Cash Reconciliation were significantly reduced or eliminated. Successfully addressing this issue allowed the Department to reinstate \$100M that had been reserved as a loss contingency.

For FY 2016 the following assertions are provided:

1. The calculated difference between resources maintained by STO and the agency claims has remained stable and within a narrow and acceptable range (< \$200k standard deviation) over the last twelve months;
2. Resources are sufficient to cover claims and there is no need to adjust any specific business unit claim on the SGFIP;
3. All claims will be honored at face value.

**NOTE 3: 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, 2016, the Commission had the following invested in the General Fund Investment Pool:

	Share Fund #	Maturity	Account Balance	Fair Value
General Fund	14000	1 day	\$ 519,986	\$ 519,896
STB Capital Outlay Fund	89200	1 day	(182,712)	(182,712)

Notes to the Financial Statements

June 30, 2016

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, 2016.

**NOTE 4: DUE TO DUE FROM**

Due from other state agencies of \$15,000 represents cash drawdown request for capital project expenditures incurred at June 30, 2016.

**NOTE 5: CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2016 was as follows:

	Balance 6/30/2015	Additions	Deletions	Balance 6/30/2016
Land	\$ 100,311	-	-	100,311
Capital Assets:				
Buildings & Improvements	4,440,616	669,578	-	5,110,194
Furniture, Fixtures & Equipment	4,398,471	485,890	-	4,884,361
Data Processing Equipment	9,235,791	332,129	-	9,567,920
Vehicles	517,918	51,120	-	569,038
Total	<u>18,693,107</u>	<u>1,538,717</u>	-	<u>20,231,824</u>
Less - Accumulated Depreciation:				
Buildings & Improvements	2,844,045	311,844	-	3,155,889
Furniture, Fixtures & Equipment	2,857,623	343,850	-	3,201,473
Data Processing Equipment	8,946,196	436,023	-	9,382,219
Vehicles	355,993	46,333	-	402,326
Total	<u>15,003,857</u>	<u>1,138,050</u>	-	<u>16,141,907</u>
Net Capital Assets	<u>\$ 3,689,250</u>	<u>400,667</u>	-	<u>4,089,917</u>

Current depreciation expense is \$1,138,051.

**Notes to the Financial Statements**

**June 30, 2016**

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

Supreme Court Law Library	20500		\$	3,246
New Mexico Court of Appeals	21500			2,367
New Mexico Supreme Court	21600			32,340
Administrative Office of the Courts	21800			1,744,634
Supreme Court Building Commission	21900			378,165
Total capital outlay				2,160,752
Less: assets in custody at district courts				(622,035)
Total capital asset additions				1,538,717

**NOTE 6: DUE TO STATE GENERAL FUND**

The Commission accrued liability for reversion of \$9,649 to the state general fund for its unexpended general appropriations for the fiscal year ended June 30, 2016.

**NOTE 7: COMPENSATED ABSENCES**

The following is a summary of changes in compensated absences:

Balance 6/30/2015	Additions	Deletions	Balance 6/30/2016	Due within One Year
\$ 47,904	42,401	(41,972)	48,333	38,063

**NOTE 8: GASB 68 - FINANCIAL REPORTING AND DISCLOSURE FOR MULTIPLE-EMPLOYER COST SHARING PENSIONS PLANS BY EMPLOYERS**

Compliant with the requirements of Government Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, the State of New Mexico has implemented the standard for the fiscal year ending June 30, 2016.

The Supreme Court Building Commission, as part of the primary government of the State of New Mexico, is a contributing employer to a cost-sharing multiple employer defined benefit pension plan administered by the 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.



## Notes to the Financial Statements

June 30, 2016

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 9: 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 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](http://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.

**Notes to the Financial Statements**

**June 30, 2016**

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 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, 2016, 2015 and 2014 were \$9,180, \$9,194, and \$8,956, respectively, which equal the required contributions for each year.

**NOTE 11: CAPITAL OUTLAY APPROPRIATIONS**

The Commission was appropriated a total of \$750,000 for stucco and balcony repairs of the Supreme Court Building. The funding came from two sources, Severance Tax Bond Proceeds and the Attorney General Settlement Fund under Laws of 2015, Chapter 3, Section 31 and section 53, respectively, and will expire on fiscal year 2019. As of the end of fiscal year 2016, \$384,862 has been expended for the project. The accompanying financial statements only reflect the total amount expended in the current year. The variance in the budgetary comparison reflects the unexpended project balance at year end

**NOTE 10: 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 \$43,937 to obtain this coverage.

## **SUPPLEMENTARY INFORMATION**

**STATEMENT OF REVENUES AND EXPENDITURES BUDGET AND ACTUAL (BUDGETARY BASIS) – STB CAPITAL PROJECTS FUND (89200)**  
**For the Year Ended June 30 2016**

	Budget		Prior-Year Actual	Current Year Actual	Total Since Inception	Variance Favorable (Unfavorable)
	Original	Final				
<b>REVENUES</b>						
Severance Tax Bond Proceeds	\$ 300,000	300,000	-	161,917	161,917	(138,083)
Other Financing Sources	450,000	450,000	-	450,000	450,000	-
Total Revenues	<u>750,000</u>	<u>750,000</u>	<u>-</u>	<u>611,917</u>	<u>611,917</u>	<u>(138,083)</u>
<b>EXPENDITURES</b>						
Contractual Services	100,000	68,020	-	18,457	18,457	49,563
Other	650,000	681,980	-	366,405	366,405	315,575
Total Expenditures	<u>\$ 750,000</u>	<u>750,000</u>	<u>-</u>	<u>384,862</u>	<u>384,862</u>	<u>365,138</u>
Excess of revenue over expenditures				227,055		
Reversion				-		
Committed fund balance carryforward				<u>227,055</u>		

Appropriation Period	Short Title	Approved Budget	Prior Years Expenditures	Current Year Expenditures	Outstanding Encumbrances	Unexpended/ Unencumbered Balance
FY 2015	Stucco & Balcony Repairs	\$ 750,000	-	384,862	353,231	11,907

See Notes to Financial Statements.

**SCHEDULE OF OPERATING TRANSFERS**  
**For the Year Ended June 30 2016**

	SHARE FUND	TITLE	TRANSFER	
			In	Out
(1)	85300	Department of Finance & Administration	\$ 971,100	-
(2)	54400	Attorney General/Settlements	450,000	-
(3)	50230	NM Finance Authority	161,917	-
(4)	85300	Department of Finance & Administration	-	9,649
	Total		<u>\$ 1,583,017</u>	<u>9,649</u>

- (1) General Appropriation Act of 2015.
- (2) STB Capital Outlay Appropriations, Laws of 2015, Chapter 3, Section 53.
- (3) STB Capital Outlay Appropriations, Laws of 2015, Chapter 3, Section 31.
- (4) Fiscal year 2016 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 2016**

<i>Agency Number</i>	<i>Agency Name</i>	<i>Agency Type</i>	<i>RFB#/RFP# (If applicable)</i>	<i>Type of Procurement</i>	<i>Vendor Name</i>	<i>Did Vendor Win Contract?</i>	<i>\$ Amount of Awarded Contract</i>	<i>\$ Amount of Amended Contract</i>	<i>Physical address of vendor (City, State)</i>	<i>Did the Vendor provide documentation of eligibility for in-state preference?</i>	<i>Did the Vendor provide documentation of eligibility for veterans' preference?</i>	<i>Brief Description of the Scope of Work</i>	<i>If the procurement is attributable to a Component Unit, Name of Component Unit</i>
21900	Supreme Court Building Commission	State Agencies	100	Competitive (RFP or RFB)	Prime Builder, LLC	Winner	\$ 654,431	\$ -	6808 Academy Pkway E NE Suite A4, Albuquerque, NM 87109	Yes	No	Re-Stucco & Balcony Repairs	n/a
					Vigil Contracting	Loser			1512 Coors SW, Albuquerque, NM 87121				
					Longhorn Construction	Loser			9208 Lona Ln NE, Albuquerque, NM 87111				

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 Charles W. Daniels, Chief Justice  
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 State of New Mexico Supreme Court Building Commission (Commission), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and the related budgetary comparisons of the capital projects fund, presented as supplementary information, and have issued our report thereon dated November 16, 2016.

**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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Commission'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 preceding paragraph 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. We identified a deficiency in internal control, described in the accompanying *schedule of findings and responses* that we consider to be a material weakness, item 2015-001.

### **Compliance and Other Matters**

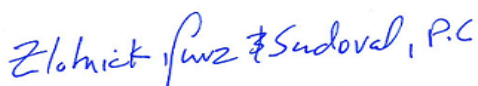
As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying *schedule of findings and responses* as item 2015-001.

### **The Commission's Response to Finding**

The Commission's response to the finding identified in our audit are described in the accompanying *schedule of findings and responses*. The Commission's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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.  
November 16, 2016



**Schedule of Findings and Responses**

**June 30, 2016**

**MATERIAL WEAKNESS AND NONCOMPLIANCE**

**2015-001**

**Capital Assets (Repeated)**

Condition:

New Mexico statute 34-3-3, NMSA 1978, requires the Supreme Court Building Commission to be responsible for the care, custody and control of all equipment, furniture and fixtures purchased or used by agencies of the judicial department housed therein. The Commission's capital assets consist of about \$5.6 million in building and improvements and about \$15.2 million in furniture, fixtures, vehicles and equipment. The capital assets listing is maintained on excel worksheets. The Worksheets provided by the Commission contain the following errors:

- The current year capital asset listing included purchases for and in custody at district courts totaling \$622,035 and related depreciation expense of \$9,486. Also, capital assets purchased for and in custody at district courts in fiscal year 2015 totaling \$245,119 haven't been transferred to the appropriate district courts. These assets were purchased by the Administrative Office of the Courts (AOC). The AOC has not provided the district courts with the appropriate notification and related documentation to assure that they treat these purchases as the property of the district court. Each district court should record the capital asset and the transfer from AOC in their accounting records.
- Building and improvements have useful lives of 10 to 40 years; however, depreciation on all current and prior year improvements was calculated using a 10 year useful life.
- The capital assets listing reflects many items of IT equipment dating back to fiscal year 2000 that may no longer exist.
- The capital assets listing does not provide an adequate description of the item, the quantity, the location and the tag number.
- The AOC's fixed asset manager oversees the capital assets listing for the Building Commission; however, he does not have access to SHARE for other State agencies housed in the Supreme Court Building. Reconciliations between capital outlay accounts and capital asset additions were not performed on a regular basis; therefore, many audit adjustments are required.

During the year, the Commission along with the other entities housed in the Supreme Court Building pooled resources to purchase a Wasp fixed asset software; However, reports generated from the Wasp system are insufficient to provide proper financial statement disclosure.

In addition, the Commission did not provide a year end certification of a physical inventory of capital assets.

**Schedule of Findings and Responses**

**June 30, 2016**

Criteria:

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

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

Cause:

The AOC's capital asset manager maintains the capital assets listing for the Commission. Due to the Wasp systems limitations, he had to reestablish the capital assets listing from the prior year, which was maintained on an excel spreadsheet. As previously noted, the capital asset manager does not have access to the details he needs through the SHARE system. No alternative procedure was established to reconcile capital outlay expenditures to additions to the capital assets listing. The worksheets lack much of the detail information necessary to perform a physical inventory of the capital assets.

Effect:

The capital asset worksheets provided are inaccurate; the worksheets may overstate one asset category and understate others. Because the capital worksheets do not have a detailed description of the assets, and because a physical inventory of the capital assets was not completed, these items may no longer exist or no longer be in use.

Recommendation:

The Commission needs to notify district courts on a timely basis of capital asset purchased on their behalf. The capital assets listing should be cleaned up to reflect assets that are presently in use. Also, judicial agencies housed within the Supreme Court Building should report all capital asset purchases and provide documentation on a quarterly basis to the AOC's capital asset manager, so that he can determine whether the items should be included in the capital assets listing. The capital asset manager should perform a more thorough analysis to determine the useful lives of assets related to building and improvements. He also needs to work with the software developer to ensure that the Wasp system will generate reports necessary to support the financial statement disclosure. Finally, capital assets should be inventoried and certified annually as required by State law.

Management Response and Corrective Action:

The Building Commission is taking steps to correct all noted deficiencies. The AOC CFO and Asset Manager, in conjunction with the Building Commission and court personnel from the other judicial entities housed in the Supreme Court Building, will certify a physical assets inventory by December 31, 2016. And going forward, the Building Commission will ensure compliance with New Mexico statute Section 12-6-10(A) NMSA 1978. All assets that were purchased on behalf of other statewide judicial

**Schedule of Findings and Responses**

**June 30, 2016**

entities will be transferred to the respective courts by January 31, 2017. The AOC CFO and Asset Manager will work with other court personnel to reconcile and properly account for all assets within the WASP asset system by March 31, 2017.

The Building Commission will update the asset policy to better detail the proper useful life assigned to Building and Improvements asset categories for accurate depreciation. In addition, the policy will be updated to include quarterly reporting and reconciliation of assets between the SHARE and WASP systems. These reports will be delivered to the AOC Director for validation and approval.

**Schedule of Findings and Responses**

**June 30, 2016**

**Prior Year Findings**

Capital Assets Listing – Revised and Repeated.

**Exit Conference  
June 30, 2016**

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

**New Mexico Supreme Court Building Commission**

Honorable Charles W. Daniels, Chair, Chief Justice of the Supreme Court

Deborah Dungan, Attorney, Administrative Assistant to Chief Justice

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

Wanda M. Gonzales, Court Financial Manager, CO-CFO

**Zlotnick, Laws & Sandoval, PC**

Asa Laws, CPA Partner

Ban Trinh, CPA

Brian Laws, CPA