

State of New Mexico Supreme Court Building Commission



Financial Statements

June 30, 2017

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OFFICIAL ROSTER
June 30, 2017

COMMISSION MEMBERS

Honorable Judith K. Nakamura 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 Judith K. Nakamura, 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, 2017 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, 2017, 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, 2017, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2017 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
October 30, 2017

Management's Discussion and Analysis

June 30, 2017

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, 2017

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	
	2017	2016
Current Assets	\$ 73,095	\$ 352,274
Capital Assets	3,806,118	4,089,917
Total Assets	3,879,213	4,442,191
Liabilities	107,838	173,552
Invested in Capital Assets	3,806,118	4,089,917
Unrestricted (deficit)	(34,743)	(178,722)
Total Net Position	\$ 3,771,375	\$ 4,268,639

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

Management's Discussion and Analysis

June 30, 2017

Financial Highlights

	Government Activities	
	2017	2016
General Revenues:		
State General Fund Appropriations	\$ 930,700	\$ 971,100
Other Financing Sources	580,824	450,000
Severance Tax Bond Proceeds	130,558	161,917
Reversions to State General Fund (14000)	(8,725)	(9,649)
Total General Revenues	<u>1,633,357</u>	1,573,368
Program Revenues	-	1,160,554
Total Revenues	<u>1,633,357</u>	2,733,922
Program Expenses	<u>(2,130,621)</u>	(2,106,629)
Change in net position	<u>(497,264)</u>	627,293
Net position, beginning of year	<u>4,268,639</u>	3,641,346
Net position, end of year	<u>\$ 3,771,375</u>	<u>\$ 4,268,639</u>

For more detailed information, see the Statement of Activities.

Financial Highlights

The Commission's total revenues for fiscal year 2017, \$1,633,357 versus fiscal year 2016 which were \$2,733,922. Revenues decreased in 2017 by \$1,100,565 due to a multi-year capital appropriation in the prior year, which is in its final phase, a decrease in the Commission's general fund appropriation, and decreased capital contributions from other State agencies housed within the Supreme Court Building. Total expenses for fiscal year 2017 were \$2,130,621 versus fiscal year 2016 which were \$2,106,629. Expenses increased in 2017 by \$23,992 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, 2017

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 continued 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 2017 operating budget was subsequently reduced by \$40,400 as a result of the 2017 Regular Session of the New Mexico Legislature, which resulted in a reduction of 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 is seeking a supplemental capital outlay appropriate to complete the renovation to the exterior building. The Commission also anticipates changes to the manner in which it manages and accounts for its physical inventory and capital asset inventory for the judicial entities housed in the Supreme Court Building.

FINANCIAL CONTACT

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

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STATEMENT OF NET POSITION
June 30, 2017

	Governmental Activities
ASSETS	
Interest in State General Fund Investment Pool	\$ 73,095
Capital Assets, net	3,806,118
	\$ 3,879,213
LIABILITIES	
Accounts Payable	\$ 36,145
Payroll Benefits Payable	12,055
Payroll Taxes Payable	3,887
Accrued Payroll	11,641
Compensated Absences:	
Due Within One Year	33,827
Due After One Year	10,283
	107,838
Total Liabilities	107,838
NET POSITION	
Net Investment in Capital Assets	3,806,118
Unrestricted	(34,743)
	3,771,375
Total Net Position	3,771,375
Total Liabilities and Net Position	\$ 3,879,213

See Notes to Financial Statements.

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

	Governmental Activities
Expenses:	
Judicial:	
Administrative Services	\$ 970,914
Depreciation	1,159,707
Total Expenses	2,130,621
Program Revenues	-
Excess (Deficiency) of Revenue over Expenses	(2,130,621)
General Revenues and Transfers	
State General Fund Appropriations	930,700
Other Financing Sources (Note 3)	580,824
Severance Tax Bond Proceeds	130,558
Reversion - FY2017	(8,725)
Change in Net Position	(497,264)
Net Position, Beginning	4,268,639
Net Position, Ending	\$ 3,771,375

See Notes to Financial Statements.

BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2017

	General Fund 14000	Capital Projects 89200	Total
ASSETS			
Interest in SGFIP	\$ 63,728	9,367	73,095
Due from Other State Agencies	-	-	-
Total Assets	\$ 63,728	9,367	73,095
LIABILITIES			
Accounts Payable	\$ 36,145	-	36,145
Payroll Benefits Payable	12,055	-	12,055
Payroll Taxes Payable	3,887	-	3,887
Accrued Payroll	11,641	-	11,641
Total Liabilities	63,728	-	63,728
FUND BALANCES			
Committed	-	9,367	9,367
Total Fund Balances	-	9,367	9,367
Total Liabilities and Fund Balances	\$ 63,728	9,367	73,095

Amounts reported in the Statement of Net Assets differ because:

Total fund balances	\$ 9,367
Capital assets reported in the governmental activities are not financial resources and, therefore, are not reported in the governmental funds statement	3,806,118
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	(44,110)
Net Position per Statement of Net Position	\$ 3,771,375

See Notes to Financial Statements.

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2017**

	General Fund 14000	Capital Projects 89200	Total
REVENUES	\$ -	-	-
EXPENDITURES			
Judicial:			
Current:			
Personal Services and Benefits	723,954	-	723,954
Contract Services	7,011	61,919	68,930
Other Costs	181,411	842	182,253
Capital Outlay	9,599	285,485	295,084
Total Expenditures	921,975	348,246	1,270,221
Excess (Deficiency) of Revenues Over Expenditures	(921,975)	(348,246)	(1,270,221)
OTHER FINANCING SOURCES (Uses)			
Transfer In:			
State General Fund Appropriations	930,700	-	930,700
Severance Tax Bond Proceeds	-	130,558	130,558
Transfer Out:			
Reversion - FY2017	(8,725)	-	(8,725)
Net Change in Fund Balances	-	(217,688)	(217,688)
Fund Balances, beginning	-	227,055	227,055
Fund Balances, ending	\$ -	9,367	9,367

Amounts reported in the Statement of Activities are different because:

Net change in fund balance	\$ (217,688)
Net change in compensated absences	4,223
Capital Contributions - assets purchased by other entities	#REF!
Excess depreciation over capital outlay expenditures	(864,623)
Changes in net position of governmental activities	#REF!

See Notes to Financial Statements.

**STATEMENT OF REVENUES AND EXPENDITURES BUDGET AND ACTUAL (BUDGETARY BASIS) –
GENERAL FUND (14000)
For the Year Ended June 30, 2017**

	Budget			Variance Favorable (Unfavorable)
	Original	Final	Actual	
REVENUES				
State General Fund				
Appropriations	\$ 930,700	930,700	930,700	-
Total Revenues	930,700	930,700	930,700	-
 EXPENDITURES				
Personal Services	735,300	725,650	723,954	1,696
Contractual Services	7,400	7,012	7,011	1
Other	188,000	198,038	191,010	7,028
Total Expenditures	\$ 930,700	930,700	921,975	8,725
Excess of revenue over expenditures			\$ 8,725	
Reversion - FY2017			(8,725)	
Ending fund balance			\$ -	

See Notes to Financial Statements.

Notes to the Financial Statements

June 30, 2017

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, 2017

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, 2017

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, 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 method 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, 2017

	<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:

<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, 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, 2017

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, 2017

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, 2017

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 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, 2017, the Commission had the following invested in the General Fund Investment Pool:

	Share Fund #	Maturity	Account Balance	Fair Value
General Fund	14000	1 day	\$ 63,728	\$ 63,728
STB Capital Outlay Fund	89200	1 day	9,367	9,367

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, 2017.

Notes to the Financial Statements

June 30, 2017

NOTE 3: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was as follows:

	Balance 6/30/2016	Additions	Deletions	Balance 6/30/2017
Capital Assets:				
Land	\$ 100,311	-	-	\$ 100,311
Buildings And Improvements	5,110,194	595,075	-	5,705,269
Aircraft, Autos And Trucks	569,038	54,779	-	623,817
Information Technology Equip	9,567,920	160,963	-	9,728,883
Furniture And Fixtures	4,884,361	65,091	-	4,949,452
Total	20,231,824	875,908	-	21,107,732
Less - Accumulated Depreciation:				
Buildings And Improvements	3,155,889	390,447	-	3,546,336
Aircraft, Autos And Trucks	402,326	63,565	-	465,891
Information Technology Equip	9,382,219	340,284	-	9,722,503
Furniture And Fixtures	3,201,473	365,411	-	3,566,884
Total	16,141,907	1,159,707	-	17,301,614
Net Capital Assets	\$ 4,089,917	(283,799)	-	\$ 3,806,118

Current depreciation expense is \$1,159,707.

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

Supreme Court Law Library	20500	\$ -
New Mexico Supreme Court	21600	-
Administrative Office of the Courts	21800	580,824
Supreme Court Building Commission	21900	295,084
Total capital asset additions		\$ 875,908

NOTE 4: COMPENSATED ABSENCES

The following is a summary of changes in compensated absences:

Balance 6/30/2016	Additions	Deletions	Balance 6/30/2017	Due within One Year
\$ 48,333	37,749	41,972	44,110	33,827

Notes to the Financial Statements

June 30, 2017

NOTE 5: 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, 2017.

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.

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 6: 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.

Notes to the Financial Statements

June 30, 2017

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, 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, 2017, 2016 and 2015 were \$9,131, \$9,180, and \$9,194, respectively, which equal the required contributions for each year.

NOTE 7: CAPITAL OUTLAY APPROPRIATIONS

The Commission was appropriated a total of \$750,000 for stucco and balcony repairs of the Supreme Court Building. The funding came from two sources, Severance Tax Bond Proceeds and the Attorney General Settlement Fund under Laws of 2015, Chapter 3, Section 31 and section 53, respectively, and will expire on fiscal year 2019. As of the end of fiscal year 2017, \$733,108 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

Notes to the Financial Statements

June 30, 2017

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.

STATEMENT OF REVENUES AND EXPENDITURES BUDGET AND ACTUAL (BUDGETARY BASIS) – STB CAPITAL PROJECTS FUND (89200)
For the Year Ended June 30, 2017

	Budget		Prior-Year Actual	Current Year Actual	Total Since Inception	Variance Favorable (Unfavorable)
	Original	Final				
REVENUES						
Severance Tax Bond Proceeds	\$ 300,000	300,000	161,917	130,558	292,475	(7,525)
Other Financing Sources	450,000	450,000	450,000	0	450,000	-
Total Revenues	<u>750,000</u>	<u>750,000</u>	<u>611,917</u>	<u>130,558</u>	<u>742,475</u>	<u>(7,525)</u>
EXPENDITURES						
Contractual Services	100,000	68,020	18,457	61,919	80,376	(12,356)
Other	650,000	681,980	366,405	286,327	652,732	29,248
Total Expenditures	<u>\$ 750,000</u>	<u>750,000</u>	<u>384,862</u>	<u>348,246</u>	<u>733,108</u>	<u>16,892</u>
Excess of revenue over expenditures					9,367	
Reversion					-	
Committed fund balance carryforward					<u>9,367</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	348,246	-	16,892

See Notes to Financial Statements.

SCHEDULE OF OPERATING TRANSFERS
For the Year Ended June 30, 2017

	SHARE FUND	TITLE	TRANSFER	
			In	Out
(1)	85300	Department of Finance & Administration	\$ 930,700	-
(2)	50230	NM Finance Authority	130,558	-
(3)	01100	Transfer of capital assets from AOC	43,986	
(3)	27300	Transfer of capital assets from AOC	94,576	
(3)	57500	Transfer of capital assets from AOC	85,053	
(3)	89200	Transfer of capital assets from AOC	171,685	-
(3)	89200	Transfer of capital assets from AOC	185,524	
(4)	85300	Department of Finance & Administration	-	8,725
	Total		<u>\$ 1,642,082</u>	<u>8,725</u>

(1) General Appropriation Act of 2016.

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

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

(4) Fiscal year 2017 reversion to the State General Fund.

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 Judith K. Nakamura, 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, 2017, 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 October 30, 2017.

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

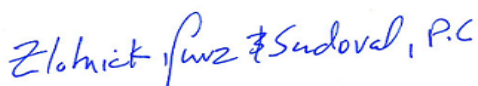
As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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.
October 30, 2017

Schedule of Findings and Responses

June 30, 2017

MATERIAL WEAKNESS AND NONCOMPLIANCE

2015-001

Capital Assets (Revised and 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.

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

Criteria:

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

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

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

Cause:

For years the Commission relied on a spreadsheet to track and maintain fixed assets and inventory lists. The lists were based on voucher information from SHARE and did not include adequate detail to easily identify individual assets. Over time the spreadsheet became large and convoluted. The Commission has been working to revamp the list and has even bought software to help maintain the inventory list. At this point it remains a work in progress and the Commission has decided that it would be best at this point to start fresh and revamp the system. The project is not complete and so some of the errors and difficulties remain at this point.

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.

Schedule of Findings and Responses

June 30, 2017

Recommendation:

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

Management Response and Corrective Action:

The Commission, in coordination with the other judicial entities housed in the Supreme Court Building and with the assistance of the Chief Financial Officer and Fixed Assets Manager of the Administrative Office of the Courts, is taking immediate steps to implement the recommended corrective actions, which will include (1) discontinuing the use of the prior Excel spreadsheets that have been historically used to track and maintain the Commission's fixed assets and physical inventory, (2) creating a new inventory list and reporting system that will provide the Commission with the information it needs to maintain an accurate inventory that does not over or under report items purchased or used by judicial entities housed in the Supreme Court Building as required under NMSA 1978, Section 34-3-3, and (3) conducting a thorough inventory that can be certified, reconciled to SHARE, and that complies with all statutory and financial reporting requirements.

Schedule of Findings and Responses

June 30, 2017

Prior Year Findings

2015-001 Capital Assets Listing – Revised and Repeated.

**Exit Conference
June 30, 2017**

The contents of this report were discussed on October 26, 2017. The following individuals were in attendance:

New Mexico Supreme Court Building Commission

Honorable Judith K. Nakamura, Chair, Chief Justice of the Supreme Court

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