

State of New Mexico Supreme Court Building Commission



Financial Statements

June 30, 2018

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State of New Mexico Supreme Court Building Commission

OFFICIAL ROSTER

June 30, 2018

Name	Title
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 AUDITORS' REPORT

Honorable Judith K. Nakamura, Chair
State of New Mexico
Supreme Court Building Commission
and
Wayne Johnson
New Mexico State Auditor
Santa Fe, New Mexico

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the budgetary comparison for the general fund of the State of New Mexico, Supreme Court Building Commission (Commission), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund of the Commission as of June 30, 2018, and the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note A1, the financial statements of the Commission are intended to present the financial position and changes in financial position of only that portion of the governmental activities, major funds and aggregate remaining fund information of the State of New Mexico that is attributable to the transactions of the Commission. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2018, and the changes in financial position and budgetary comparisons for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified for this matter.

As discussed in Note F, the State of New Mexico, as a single employer, has implemented Governmental Accounting Standards Board (GASB) Standard No. 68, *Accounting and Financial Reporting for Pensions*, in the June 30, 2018 Comprehensive Annual Financial Report (CAFR). Accordingly, there is no allocation of the proportional share of the net pension liability to individual agencies or to the Commission's financial statements. All other required footnotes and other disclosures required by GASB are included in the State of New Mexico CAFR for June 30, 2018. Our opinion is not modified with respect to this matter.

As discussed in Note E, the State of New Mexico, as a single employer, has implemented GASB Standard No. 75, *Accounting and Financial Reporting for Post-Employment Benefits other than Pensions*, (OPEB) in the June 30, 2018, CAFR. Accordingly, there is no allocation of the proportional share of the net OPEB liability to individual agencies or to the Court's financial statements. All other required footnotes and other disclosures required by GASB are included in the State of New Mexico CAFR for June 30, 2018. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements and the budgetary comparison for the general fund. The budgetary comparison for the STB Capital Project Fund and 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 budgetary comparison for the STB Capital Project Fund and 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 Capital Project Budget Comparison and the *supplementary information* required by Section 2.2.2 NMAC is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2018, on our consideration of the 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 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.

ATKINSON & CO., LTD

Atkinson & Co., Ltd.

Albuquerque, New Mexico
November 1, 2018

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2018

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

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

June 30, 2018

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.

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 has two governmental funds: The General Fund and the Capital Project 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	
	2018	2017
Current Assets	\$ 78,171	\$ 73,095
Capital Assets	3,069,457	3,806,118
Total Assets	\$ 3,147,628	\$ 3,879,213
Liabilities	\$ 115,113	\$ 107,838
Invested in Capital Assets	3,069,457	3,806,118
Unrestricted (deficit)	(36,942)	(34,743)
Total Net Position	\$ 3,032,515	\$ 3,771,375

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

State of New Mexico Supreme Court Building Commission

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

June 30, 2018

Financial Highlights

	<u>Government Activities</u>	
	<u>2018</u>	<u>2017</u>
General Revenues		
State General Fund Appropriations	\$ 930,700	\$ 930,700
Other Financing Sources - capital assets transferred in	282,313	580,824
Other Financing Sources	75,000	-
Severance Tax bond Proceeds	7,330	130,558
Reversions to State General Fund (14000)	<u>(4,252)</u>	<u>(8,725)</u>
Total General Revenues	<u>1,291,091</u>	<u>1,633,357</u>
Program Revenues	-	-
Total Revenues	<u>1,291,091</u>	<u>1,633,357</u>
Program Expenses	<u>(2,029,951)</u>	<u>(2,130,621)</u>
Change in net Position	<u>(738,860)</u>	<u>(497,264)</u>
Net position, beginning of year	<u>3,771,375</u>	<u>4,268,639</u>
Net position, end of year	<u>\$ 3,032,515</u>	<u>\$ 3,771,375</u>

For more detailed information, see the Statement of Activities.

Financial Highlights

The Commission's total revenue decreased in fiscal year 2018 due to the winding down of a multi-year capital appropriation in the prior year, no increase in the Commission's general fund appropriation, and decreased capital contributions from other State agencies housed within the Supreme Court Building.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

June 30, 2018

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.

The renovation to the exterior of the Supreme Court Building that commenced in fiscal year 2016 is nearing completion.

BUDGETARY HIGHLIGHTS

The appropriation to the Supreme Court Building Commission for its fiscal year 2018 operating budget remained unchanged from the Building Commission's fiscal year 2017 appropriation. The Building Commission also received a \$75,000 transfer from the Supreme Court during fiscal year 2018.

ANTICIPATED CHANGES

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

FINANCIAL CONTACT

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State of New Mexico Supreme Court Building Commission

STATEMENT OF NET POSITION

June 30, 2018

	<u>Governmental Activities</u>
ASSETS	
Interest in State General Fund Investment Pool	\$ 78,171
Capital assets, net	3,069,457
	<hr/>
Total assets	<u>\$ 3,147,628</u>
LIABILITIES	
Accounts payable	\$ 39,825
Payroll benefits payable	13,049
Payroll taxes payable	4,063
Accrued payroll	12,912
Compensated Absences:	
Due within one year	38,474
Due after one year	6,790
	<hr/>
Total liabilities	<u>115,113</u>
NET POSITION	
Net investment in capital assets	3,069,457
Unrestricted (Deficit)	(36,942)
	<hr/>
Total net position	<u>3,032,515</u>
	<hr/>
Total liabilities and net position	<u>\$ 3,147,628</u>

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

State of New Mexico Supreme Court Building Commission

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2018

	<u>Governmental Activities</u>
EXPENSES	
Judicial	
Administrative services	\$ 974,285
Depreciation	<u>1,055,666</u>
Total expenses	2,029,951
PROGRAM REVENUES	<u>-</u>
Deficiency of revenue over expenses	(2,029,951)
GENERAL REVENUES AND TRANSFERS	
State General Fund Appropriations	930,700
Other financing sources - capital additions transferred in	282,313
Other financing sources	75,000
Severance Tax Bond proceeds	7,330
Current year reversion	<u>(4,252)</u>
CHANGE IN NET POSITION	(738,860)
NET POSITION, beginning	<u>3,771,375</u>
NET POSITION, ending	<u><u>\$ 3,032,515</u></u>

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

State of New Mexico Supreme Court Building Commission

BALANCE SHEET – GOVERNMENTAL FUNDS

June 30, 2018

	General Fund 14000	Capital Projects 89200	Total
ASSETS			
Interest in SGFIP	\$ 69,849	\$ 8,322	\$ 78,171
Due from other state agencies	-	-	-
	<u>69,849</u>	<u>8,322</u>	<u>78,171</u>
Total assets	<u>\$ 69,849</u>	<u>\$ 8,322</u>	<u>\$ 78,171</u>
LIABILITIES			
Accounts payable	\$ 39,825	\$ -	\$ 39,825
Payroll benefits payable	13,049	-	13,049
Payroll taxes payable	4,063	-	4,063
Accrued payroll	12,912	-	12,912
	<u>69,849</u>	<u>-</u>	<u>69,849</u>
Total liabilities	<u>69,849</u>	<u>-</u>	<u>69,849</u>
FUND BALANCES			
Committed	-	8,322	8,322
	<u>-</u>	<u>8,322</u>	<u>8,322</u>
Total fund balances	<u>-</u>	<u>8,322</u>	<u>8,322</u>
Total liabilities and fund balances	<u>\$ 69,849</u>	<u>\$ 8,322</u>	<u>\$ 78,171</u>

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

State of New Mexico Supreme Court Building Commission

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

June 30, 2018

Total Fund Balance - Governmental Funds (Governmental Fund Balance Sheet)	\$	8,322
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. These assets consist of:

Capital assets	\$	21,260,051
Accumulated depreciation		<u>(18,190,594)</u>
Total capital assets, net		3,069,457

Certain other liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Liabilities at year end consist of:

Compensated absences payable	<u>(45,264)</u>
Net position of governmental activities (Statement of Net Position (Deficit))	<u>\$ 3,032,515</u>

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

State of New Mexico Supreme Court Building Commission

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

For the Year Ended June 30, 2018

	General Fund 14000	Capital Projects 89200	Total
REVENUES	\$ -	\$ -	\$ -
EXPENDITURES			
Judicial:			
Current:			
Personnel services and benefits	729,265	-	729,265
Contract services	7,011	-	7,011
Other costs	227,262	8,375	235,637
Capital outlay	37,910	-	37,910
Total expenditures	<u>1,001,448</u>	<u>8,375</u>	<u>1,009,823</u>
Deficiency of revenues over expenditures	(1,001,448)	(8,375)	(1,009,823)
OTHER FINANCING SOURCES (USES)			
Transfer In:			
State General Fund appropriations	930,700	-	930,700
Other financing sources	75,000	-	75,000
Severance Tax Bond proceeds	-	7,330	7,330
Transfer Out:			
Current year reversion	<u>(4,252)</u>	<u>-</u>	<u>(4,252)</u>
NET CHANGE IN FUND BALANCES	-	(1,045)	(1,045)
FUND BALANCES, beginning	<u>-</u>	<u>9,367</u>	<u>9,367</u>
FUND BALANCES, ending	<u>\$ -</u>	<u>\$ 8,322</u>	<u>\$ 8,322</u>

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

State of New Mexico Supreme Court Building Commission

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

For the Year Ended June 30, 2018

Net Changes in Fund Balances - Total Governmental Funds (Statement of Revenues, Expenditures, and Changes in Fund Balances)	\$ (1,045)
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Amounts reported for governmental activities in the Statement of Activities are different because:

In the Statement of Activities, certain operating expenses - compensated absences (sick and annual leave) are measured by the amounts earned during the year. In the Governmental Funds, however, expenditures for these items are measured by the amounts of financial resources used (essentially, the amounts actually paid). The net decrease in the liabilities for the year was: (1,154)

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are:

Additions	\$ 37,910	
Loss on disposal of fixed assets	(1,218)	
Depreciation expense	(1,055,666)	
Capital contributions - assets received from other entities	<u>282,313</u>	
		<u>(736,661)</u>

Change in Net Position of Governmental Activities (Statement of Activities)	<u>\$ (738,860)</u>
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The accompanying notes are an integral part of this financial statement.

State of New Mexico Supreme Court Building Commission

**STATEMENT OF REVENUES AND EXPENDITURES –
BUDGET AND ACTUAL – GENERAL FUND**

For the Year Ended June 30, 2018

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the State of New Mexico, Supreme Court 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:

1. Reporting Entity

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 (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, Section 34-3-3 (1967). Such equipment and furniture may also be maintained in part by the individual agencies that purchase or use it.

The Supreme Court Building Commission is a component unit of the Supreme Court 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 Law Library was determined to be a discrete component unit of the Supreme Court during the year ended June 30, 2018. The Building Commission has no component units that are required to be reported in its financial statements.

2. 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 FINANCIAL STATEMENTS – CONTINUED

June 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2. Basic Financial Statements – Continued

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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2. Basic Financial Statements – Continued

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.

3. Basis of Accounting

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

The 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.

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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

4. Capital Assets

Property 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 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.

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

5. Compensated Absences

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

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

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

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

5. Compensated Absences – Continued

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.

6. Net Position

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

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

Restricted Net Position—are liquid assets (generated from revenues), 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.

7. Fund Balances

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

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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

7. Fund Balances – Continued

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.

8. 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. Severance tax proceeds amounted to \$2,330 for FY18.

9. 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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

9. Budgets – Continued

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.

10 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.

11. Use of Estimates

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

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

12. Subsequent Events

Subsequent events have been evaluated through November 1, 2018, the date which the financial statements were available to be issued, to determine whether such events should be recorded or disclosed in the financial statements for the year ended June 30, 2018. Effective July 1, 2018, the Building Commission was combined for funding purposes into the Supreme Court as a blended component unit. Management believes no other material subsequent events have arisen that would require adjustment or disclosure.

NOTE B – STATE TREASURER GENERAL FUND INVESTMENT POOL

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

At June 30, 2018, the Commission had the following invested in the General Fund Investment Pool:

	<u>SHARE Fund</u>	<u>Maturity</u>	<u>Account Balance</u>	<u>Fair Value</u>
General Fund	14000	1 day	\$ 69,849	\$ 69,849
STB Capital Outlay Fund	89200	1 day	8,322	8,322

Interest Rate Risk – The New Mexico State Treasurer’s Office has an investment policy that limits investment maturities to five years or less on allowable investments. This policy is the means of managing exposure to fair value losses arising from increasing interest rates. This policy is reviewed and approved annually by the New Mexico State Board of Finance.

Credit Risk – The New Mexico State Treasurer pools are not rated.

For additional GASB 40 disclosure information regarding cash held by the New Mexico State Treasurer, the reader should see the separate audit report for the New Mexico State Treasurer’s Office for the fiscal year ended June 30, 2018.

NOTE C – CAPITAL ASSETS

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

State of New Mexico Supreme Court Building Commission

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2018

NOTE C – CAPITAL ASSETS – CONTINUED

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018
Capital assets:				
Land	\$ 100,311	\$ -	\$ -	\$ 100,311
Building and improvements	5,705,269	42,741	-	5,748,010
Aircraft, autos and trucks	623,817	56,394	(161,813)	518,398
Information tech equipment	9,728,883	171,465	-	9,900,348
Furniture and fixtures	4,949,452	49,623	(6,091)	4,992,984
Total capital assets depreciated	<u>21,107,732</u>	<u>320,223</u>	<u>(167,904)</u>	<u>21,260,051</u>
Less accumulated depreciation for:				
Building and improvements	3,546,336	434,689	-	3,981,025
Aircraft, autos and trucks	465,891	61,915	(161,813)	365,993
Information tech equipment	9,722,503	247,948	-	9,970,451
Furniture and fixtures	3,566,884	311,114	(4,873)	3,873,125
Total accumulated depreciation	<u>17,301,614</u>	<u>1,055,666</u>	<u>(166,686)</u>	<u>18,190,594</u>
Total capital assets, net	<u>\$ 3,806,118</u>	<u>\$ (735,443)</u>	<u>\$ 1,218</u>	<u>\$ 3,069,457</u>

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

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

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

NOTE D – COMPENSATED ABSENCES

The following is a summary of changes in compensated absences:

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

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2018

**NOTE E – PENSION PLANS – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
AND JUDICIAL RETIREMENT PLAN**

Compliant with the requirements of Government Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, the State of New Mexico follows the standard for the fiscal year ending June 30, 2018.

The 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.

The New Mexico Supreme Court also has a single employer defined benefit pension plan for Supreme Court Justices (Judicial Retirement) administered by the Public Employees Retirement Association (PERA). Disclosure requirements for governmental funds apply to the primary government as a whole, and as such, this information will be presented in the Component Appropriation Funds Annual Financial Report (General Fund) and the Comprehensive Annual Financial Report (CAFR) of the State of New Mexico.

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

The Commission's contributions to PERA for the years ended June 30, 2018, 2017 and 2016 were \$78,147, \$77,563 and \$77,983, respectively, which equal the required contributions for each year.

NOTE F – POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN

Compliant with the requirements of Government Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, the State of New Mexico has implemented this standard for the fiscal year ended June 30, 2018.

The Commission, as part of the primary government of the State of New Mexico, is a contributing employer to a cost-sharing multiple-employer defined benefit postemployment health care plan that provides comprehensive group health insurance for persons who have retired from certain public service positions in New Mexico. The other postemployment benefits (OPEB) Plan is administered by the Retiree Health Care Authority of the State of New Mexico. Overall, total OPEB liability exceeds OPEB Plan net position resulting in a net OPEB liability.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2018

NOTE F – POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN – CONTINUED

The State has determined the State's share of the net OPEB liability to be a liability of the State as a whole, rather than any agency or department of the State and the liability will not be reported in the department or agency level financial statements of the State. All required disclosures will be presented in the Comprehensive Annual Financial Report (CAFR) of the State of New Mexico.

Information concerning the net liability, benefit expense, and benefit-related deferred inflows and deferred outflows of resources of the primary government will be contained in the State of New Mexico Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2018, and will be available, when issued, from the Office of the State Controller, Room 166, Bataan Memorial Building, 407 Galisteo Street, Santa Fe, New Mexico, 87501.

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

NOTE G – CAPITAL OUTLAY APPROPRIATIONS

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

NOTE H – REVERSIONS TO STATE GENERAL FUND

Current year reversions for the State General Fund as of June 30, 2018, were as follows:

<u>Appropriation Year</u>	<u>Fund Type</u>	<u>SHARE System Fund</u>	<u>Reversion</u>
Laws of 2017	General Fund	14000	\$ 4,252

In accordance with statute Section 6-5-10(A) NMSA 1978, all unreserved, undesignated fund balances in reverting funds and accounts as reflected in the central accounting system as of June 30 shall revert.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2018

NOTE I – RISK MANAGEMENT

The Supreme Court Building Commission is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees or others; or acts of God. The Commission is insured through Risk Management Division of the General Services Department, which is accounted for as an internal service fund of the State of New Mexico. In general, Risk Management Division responds to suits against the state and state agencies; manages fund to provide unemployment compensation, tort liability insurance, workman's compensation, and general and property insurance, and attempts to reduce the number of suits against the state and state agencies through the risk management process. Any claims against the Building Commission have not exceeded available coverage. However, the Commission would not be liable for more than the annual premiums.

SUPPLEMENTARY INFORMATION

State of New Mexico Supreme Court Building Commission

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

For the Year Ended June 30, 2018

See Notes to Financial Statements

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

State of New Mexico Supreme Court Building Commission

SCHEDULE OF OPERATING TRANSFERS

For the Year Ended June 30, 2018

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

(1) General Appropriation Act of 2017.

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

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

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

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING, AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Honorable Judith K. Nakamura, Chief Justice
State of New Mexico Supreme Court Building Commission
and
Mr. Wayne Johnson
New Mexico State Auditor

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

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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 first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses and significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2018-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and 2.2.2 NMAC, which are described in the accompanying schedule of findings and responses as items 2018-002, 2018-003, and 2018-004.

Commission's Responses to Findings

The Commission's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Commission's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Commission'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.

ATKINSON & CO., LTD

Atkinson & Co., Ltd.

Albuquerque, New Mexico
November 1, 2018

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2018

Current Year Findings Description

Financial Statement Audit Findings

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

2018-002 State Procurement Code Violation (Control Deficiency and Noncompliance)

Findings in Accordance with 2.2.2 NMAC (State Audit Rule)

2018-003 Capital Asset Disposition (Other Noncompliance)

2018-004 Compensated Absences (Other Noncompliance)

Prior Year Findings Description

Status

2015-001 Capital Assets (Material Weakness)

Modified and Repeated

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2018

FINANCIAL STATEMENT AUDIT FINDINGS

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

CONDITION

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

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

CRITERIA

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

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

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

CAUSE

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

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2018

FINANCIAL STATEMENT AUDIT FINDINGS

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

EFFECT

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

RECOMMENDATION

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

MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

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

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2018

FINANCIAL STATEMENT AUDIT FINDINGS

2018-002 State Procurement Code Violation (Control Deficiency and Noncompliance)

CONDITION

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

CRITERIA

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

CAUSE

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

EFFECT

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

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2018

FINANCIAL STATEMENT AUDIT FINDINGS

2018-002 State Procurement Code Violation (Control Deficiency and Noncompliance) – Continued

RECOMMENDATION

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

VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN

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

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2018

FINDINGS IN ACCORDANCE WITH 2.2.2. NMAC (STATE AUDIT RULE)

2018-003 Capital Asset Disposition (Other Noncompliance)

CONDITION

During fiscal year 2018 the Building Commission disposed of one capital asset and the New Mexico Administrative Office of the Courts disposed of nine assets but failed to provide written notification to the State Auditor.

CRITERIA

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

CAUSE

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

EFFECT

The Building Commission was not in compliance with NMAC 2.2.2.

RECOMMENDATION

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

VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN

The Building Manager and Chief Clerk of the Supreme Court and the Court Financial Manager will take steps by June 30, 2019, to ensure that all applicable rules and regulations are followed when disposing of fixed assets.

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2018

FINDINGS IN ACCORDANCE WITH 2.2.2. NMAC (STATE AUDIT RULE)

2018-004 Compensated Absences (Other Noncompliance)

CONDITION

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

CRITERIA

The New Mexico State Personnel Administration determines absence and leave policies for all state entities. Per Section 1.1.7 of the New Mexico Administrative Code, annual leave balances up to 240 hours are due and payable as an obligation to the Building Commission to the terminated employees.

CAUSE

There was not a process in place to ensure that terminated employees were paid their compensated absences balances owed to them by the Building Commission. Until recently there were no reports in SHARE which identified inactive employees with compensated absences balances owed.

EFFECT

The Building Commission was not in compliance with State of New Mexico standards for terminal leave pay and still has outstanding compensated absences owed to former employees, several of which left employment more than five years ago.

RECOMMENDATION

We recommend that management utilize the new reporting available in SHARE to improve its monitoring procedures to ensure terminated employees are paid appropriate terminal leave.

VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN

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

State of New Mexico Supreme Court Building Commission

EXIT CONFERENCE

Year ended June 30, 2018

An exit conference was held on October 23, 2018. The following individuals were present:

New Mexico Supreme Court Building Commission:

Honorable Judith K. Nakamura
Joey D. Moya

Chair, Chief Justice of the Supreme Court
Building Manager and Chief Clerk of the
Supreme Court, CFO

Wanda M. Gonzales
Artie Pepin

Court Financial Manager, CO-CFO
Director, Administrative Office of the Courts

Atkinson & Co., Ltd.:

Clarke Cagle, CPA, CCIFP, CGFM
Sarah Brack, CPA, CGFM, CGMA
Andrea Brewer, CPA, CFE

Audit Director
Audit Manager
Audit Manager

PREPARATION OF FINANCIAL STATEMENTS

Management is responsible for ensuring that the books and records adequately support the preparation of financial statements in accordance with generally accepted accounting principles and that records are correct and in balance. The financial statements presented in this report have been prepared by the independent auditor with the assistance of the Commission. Management has reviewed and approved the financial statements.