

**STATE OF NEW MEXICO
SECOND JUDICIAL DISTRICT COURT**

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JUNE 30, 2006

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SECOND JUDICIAL DISTRICT COURT

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STATE OF NEW MEXICO
JUDICIAL DISTRICT COURT

OFFICIAL ROSTER

JUNE 30, 2006

Judges

Honorable Marie Baca	Division 1
Honorable Stan Whitaker	Division 2
Honorable M. Monica Zamora	Division 3
Honorable Linda M. Vanzi	Division 4
Honorable Ted Baca	Division 5
Honorable Neil Candelaria	Division 6
Honorable John J. Romero	Division 7
Honorable Ross C. Sanchez	Division 8
Honorable Mark A. Macaron	Division 9
Honorable Theresa Baca	Division 10
Honorable Ernesto Romero	Division 11
Honorable Clay Campbell	Division 12
Honorable Valerie A Mackie Huling	Division 13
Honorable J. Michael Kavanaugh	Division 14
Honorable Richard J. Knowles	Division 15
Honorable Carl J. Butkus	Division 16
Honorable Nan G. Nash	Division 17
Honorable Denise Barela Shepherd	Division 18
Honorable Albert S. Murdoch	Division 19
Honorable William F. Lang, Chief Judge	Division 20
Honorable Angela J. Jewell	Division 21
Honorable Deborah Davis Walker	Division 22
Honorable Geraldine E. Rivera	Division 23
Honorable Kenneth H. Martinez	Division 24

Administrative Officials

Juanita Duran	Court Administrator
Arthur Gallegos	Deputy Court Administrator
Farah French	Fiscal Services Director

Zlotnick, Laws & Sandoval, P.C.

CERTIFIED PUBLIC ACCOUNTANTS
ONE CALLE MEDICO
SANTA FE, NEW MEXICO 87505

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INDEPENDENT AUDITOR'S REPORT

Domingo P. Martinez, CGFM
New Mexico State Auditor
Santa Fe, New Mexico
and

Honorable W. William F. Lang, Chief Judge
Second Judicial District Court
Albuquerque, New Mexico

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the State of New Mexico, Second Judicial District Court (Court), as of and for the year ended June 30, 2006 which collectively comprise the Court's basic financial statements as listed in the table of contents. We also have audited the combining and individual fund financial statements of the Second Judicial District Court as of and for the year ended June 30, 2006, presented as supplemental information. These financial statements are the responsibility of the Court's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Second Judicial District Court are intended to present the financial position and changes in financial position of only that portion of the financial reporting entity of the State that is attributable to the transactions of the Court. They do not purport to, and do not, present fairly the financial position of the entire state of New Mexico as of June 30, 2006 and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Court as of June 30, 2006, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund and the Major Special Revenue Funds for the year then ended in conformity 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 respective financial position of the combining and individual general fund accounts of the Court as of June 30, 2006, and the respective changes in financial position and respective budget comparisons thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated December 8, 2006 on our consideration of the Court's internal control over financial reporting and our tests of its compliance with certain provision 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 and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 to 8 is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Management's Discussion and Analysis. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the Court's basic financial statements and on the combining and individual fund financial statements. The supplementary information listed as schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards included in the supplementary information is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is also not a required part of the basic financial statements of the Court. The supplementary information schedules and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Zlotnick, Laws & Sandoval, P.C.

Zlotnick, Laws & Sandoval, P.C.
December 8, 2006

STATE OF NEW MEXICO
SECOND JUDICIAL DISTRICT COURT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2006

The Second Judicial District Court's discussion and analysis is provided as an overview of the Court's financial activities for the fiscal year ending June 30, 2006. In fiscal year 2002, the Court adopted the provisions of Governmental Accounting Standards Board Statement No. 34 (GASB 34) which established new financial reporting requirements for state and local governments throughout the United States. The new requirements were developed by GASB to make annual reports more comprehensive and easier to understand and use.

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 9 and 10), provide information about the Court as a whole and presents a longer term view of the court's finances. Fund financial statements start on page 11. For governmental activities, these statements tell how these services were financed in the short-term as well as what remains for future spending. Fund financial statements also report the Court's operations in more detail than the government-wide statements by providing information about the Court's most significant funds. The Statement of Fiduciary Net Assets provides information about activities for which the Court acts solely as agent for the benefit of others, to whom the resources belong.

Government-Wide Financial Statements

Government-wide financial statements report information about the Court as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

Fund Financial Statements

The fund financial statements provide more detailed information about the Court's most significant funds, not the Court as a whole. Funds are accounting devices that the Court uses to keep track of specific sources of funding and spending for particular purposes.

The Court has two types of funds:

- Governmental funds - Most of the Court's basic services are included in governmental funds, which focus on 1) how cash and other financial assets that can readily be converted to cash flow in and out and 2) the balances left at year-end that are available for spending.
- Fiduciary funds - The Court maintains three agency funds to account for monies held on behalf of others. These funds are purely custodial in nature thus do not include measurement of the results of operations.

STATE OF NEW MEXICO
SECOND JUDICIAL DISTRICT COURT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

Condensed Financial Information:

	FY2006	FY2005	Percent Change
STATEMENT OF NET ASSETS			
ASSETS			
Current and other assets	\$ 1,286,512	\$ 1,387,904	-7.31%
Capital assets, net	1,213,647	1,404,992	-13.62%
Total assets	2,500,159	2,792,896	-10.48%
LIABILITIES			
Current liabilities	1,629,056	1,807,394	-9.87%
Long term liabilities	98,175	89,963	9.13%
Total liabilities	1,727,231	1,897,357	-8.97%
NET ASSETS			
Invested in capital assets, net of related debt	1,213,647	1,404,992	-13.62%
Restricted	333,385	216,995	53.64%
Unrestricted	(774,104)	(726,448)	6.56%
Total net assets	\$ 772,928	\$ 895,539	-13.69%

STATEMENT OF ACTIVITIES			
REVENUES			
Program revenues	\$ 1,928,941	\$ 1,968,081	-1.99%
General revenue, net of reversion	18,696,700	17,519,543	6.72%
Total revenues	20,625,641	19,487,624	5.84%
EXPENSES			
Judicial	20,748,252	19,670,070	5.48%
Change in net assets	(122,611)	(182,446)	-32.80%
Net assets, beginning of year	895,539	1,077,985	-16.92%
Net assets, end of year	\$ 772,928	\$ 895,539	-13.69%

STATE OF NEW MEXICO
SECOND JUDICIAL DISTRICT COURT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2006

Financial Highlights

The financial position and results from operation for the Second Judicial District Court improved during the year ended June 30, 2006 as a result of increased funding levels. Total assets at June 30, 2006, were \$2,500,159. This includes cash and cash equivalents of \$1,251,841, due from external parties of \$27,551, due from other state agencies of \$7,120 and capital assets of \$1,213,647, net of accumulated depreciation of \$1,763,784. Total liabilities were \$1,727,231, including current liabilities of \$1,629,056 and long-term liabilities of \$98,175. Net assets include unrestricted net assets of (\$774,104), restricted net assets of \$333,385 and \$1,213,647 invested in capital assets.

Total revenues for the year ended June 30, 2006 were \$20,745,102. This included State general fund appropriation of \$18,127,963, net of reversion, revenue from operating grants of \$638,377, charges for services in the amount of \$180,007, court fees of \$434,714, and revenue from federal grants of \$675,843. Total expenses were \$20,748,252. The total change in net assets for the year was a decrease of \$122,611, resulting in a net asset balance of \$772,928 as of June 30, 2006.

The amount due to the State General Fund was \$75,866. This reversion figure includes the actual amount reverted in fiscal year 2006. The Court Regular General Fund reversion for fiscal year 2006 was \$64,559. The Child Support Hearing Officer Program reversion for fiscal year 2006 was \$11,307.

Total fund equity was \$334,685, which includes \$1,300 for petty cash and other cash, \$3,026 for program expenditures, \$173,772 from the Court Mediation fund, and \$156,587 from the Court Arbitration fund. Special Revenue Funds are non-reverting funds used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The Special Revenue Funds include Court Mediation and Court Arbitration.

The decrease in net assets in fiscal year 2006 was due to an increase in accumulated depreciation of Capital Assets, and a decrease in revenue collected in the Special Revenue Funds.

Other Financial Highlights

The Second Judicial District Court is responsible for monitoring and maintaining all litigant funds. Agency funds are not "operating" funds but are purely custodial and thus do not involve a measurement of results of operations. The funds are deposited into registry and savings trust accounts. The Court's savings account is established through the State Treasurer's Local Government Investment Pool (LGIP) and earned an average of 3.62% interest during the year ending June 30, 2006. In order for the Court to deposit funds into this account, deposits must exceed \$25,000 or the Court Order must specify the funds be deposited into a savings account. All other

STATE OF NEW MEXICO
SECOND JUDICIAL DISTRICT COURT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2006

funds are deposited into the registry account through a local bank and all interest accrued is transferred to the State Treasurer's Office.

General Fund Budgetary Highlights

The New Mexico State Legislature makes annual appropriations to the Court. Budget adjustments require approval by the New Mexico Department of Finance and Administration. These budget adjustments fall into the following three categories:

- Amendments approved shortly after the beginning of the year to reflect the actual beginning account balances.
- Budget adjustments requests that increase or decrease other State funds based on actual revenues.
- Increases or reallocations of appropriations to prevent budget overruns.

The fiscal year 2006 legislative session lasted 30 days. The Court requested \$20.2 million and was appropriated \$20.4 million. During the legislative session, the Court received additional budget adjustment authority for fiscal year 2006 to increase the budget for the PreTrial Services Program and duplication fees up to \$350,000. Amendments to the budget require approval by the Budget Division of the Department of Finance and Administration.

Approved budgets decreased by \$52,583 during the year from the original amount of \$21,095,011 to \$21,042,428. The less than 1% decrease is primarily attributed to reducing established budgets for the FDDC, Truancy and MCJCC grants and programs. Actual budgetary basis expenditures of \$20,508,971 are within the total allowed in the final approved budget by \$533,457.

The statement of revenues and expenditures reflects a balance of \$116,670 for the net change in fund balances in the Total Governmental Funds column. Contributing factors to the excess were that the Court increased the revenue carryover for Special Revenue Funds. These special revenue funds include Mediation and Court Alternatives (Arbitration).

Capital Assets

The Court's capital assets for the year ended June 30, 2006 increased by \$128,663. This includes furniture and equipment needed for the courthouse. The Court does not own any real property or infrastructure assets.

Long Term Liabilities

Long term Liabilities consist entirely of accrued compensated absences. The long term portion of accrued compensated absences increased by \$8,212 during the year.

STATE OF NEW MEXICO
SECOND JUDICIAL DISTRICT COURT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2006

Agency Highlights

The fund financial statements provide more detailed information about the Second Judicial District Court's General Fund and its components, which include the capital outlay fund, the court automation transcripts fund, the child support enforcement hearing officer fund, grants, and contracts. The general fund appropriation of \$18,203,829 includes Court Regular, Adult Drug Court, Juvenile Drug Court, Domestic Violence Pilot Program, Truancy Program, Mental Health Court, and an additional judgeship. This amount is an increase of \$1,645,929, or just under 10%, from the prior fiscal year. Other State Funds decreased by \$273,061 or 53%, from the prior fiscal year. Other State Funds for the fiscal year 2006 include \$253,992 for a compensation package towards judges and employee salaries, \$42,400 to replace federal funds for drug courts and \$218,447 for Neutral Corner Program. The 53% decrease is attributable to increased funding in the general fund appropriation, as the Domestic Violence Program is now funded through the General Fund. Also, we did not request a supplemental appropriation in fiscal year 2006. The Second Judicial District Court also received bond proceeds in the amount of \$70,940 for security upgrades. Also, the capital outlay fund consists of an appropriation of \$50,000 for the judicial complex security system upgrade. Both amounts were expended in fiscal year 2006. The Child Support Enforcement Hearing Officer fund was created through a Joint Powers agreement between the Human Services Department and the Second Judicial District Court for \$796,091. This reflects an increase of \$30,619, or 4%, over fiscal year 2005. Grant revenues decreased by \$140,500 or 27%, from the prior year. The amount of \$518,129 for grants and private gifts under the general fund column includes funds received through the Pre-Trial Services program, the Violence Against Women Act (VAWA) grant, Family Dependency Drug Court (FDDC) grant, the Truancy grant and the Albuquerque Community Foundation grant. The most significant change was the Second Judicial District Court was no longer fiscal agent for the Metropolitan Criminal Justice Coordinating Council (MCJCC) program in fiscal year 2006. Also, Grant revenue from VAWA, FDDC, and Truancy is on a cost reimbursement basis.

The Major Fund column in the fund financial statements, consists of the Court Mediation fund, which primarily supports the Court Clinic Division. The Court Clinic is a division within the Court that provides services to all District Court Judges, Hearing Officers, and Special Commissioners. The revenue generated comes from a portion of domestic relations filings fees collected as well as advisory consultation fees collected from clients based on a sliding fee scale. The Court has statutory authority to collect both these fees. Expenses incurred from the Court Mediation fund include salary, benefits, and operating costs. Revenue generated in fiscal year 2006 was \$260,129, a decrease of \$22,513 or 9% under fiscal year 2005. This decrease is attributed to decreased filings in domestic relations cases. In addition, the Second Judicial District Court receives \$26,553 from the Administrative Office of the Courts for the supervised visitation program. The Court Mediation fund is non-reverting.

STATE OF NEW MEXICO
SECOND JUDICIAL DISTRICT COURT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2006

The Other Fund column in the fund financial statements consists of the Court Alternatives (Arbitration) Program, which offers settlement facilitation for civil and domestic relations cases. In addition, the program saw a continuing expansion of its Alternatives Dispute Resolution (ADR) program. The program generates revenues through a portion of the civil filing fees collected. Pursuant to statute, any judicial district that has established a Court Alternatives Program may collect a fee of \$15 on all new and reopened civil cases. In fiscal year 2006, the revenue generated for this program was \$174,585 an increase of \$15,270 or 9%, over fiscal year 2005. This is also a non-reverting fund.

Economic Factors and Next Year's Budget

The budget request for fiscal year 2007 was \$22.6 million, which included the general fund and special revenue funds. The approved appropriation was \$22.5 million. This included replacement of federal funds for VAWA, FDDC and Truancy programs.

Request for Information

This financial report is designed to provide the general public and other interested parties with a general overview of this Court's finances and accountability of funds. Questions concerning this report or request for additional information should be addressed to the Second Judicial District Court, 400 Lomas NW, Albuquerque, NM 87102.

**STATE OF NEW MEXICO
SECOND JUDICIAL DISTRICT COURT**

STATEMENT OF NET ASSETS

JUNE 30, 2006

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 1,251,841
Due from external parties	27,551
Due from other state agencies	7,120
Capital assets, net (see Note 4)	<u>1,213,647</u>
 Total assets	 <u>\$ 2,500,159</u>
LIABILITIES	
Accounts payable	\$ 103,936
Accrued payroll	728,430
Due to local governments	43,595
Due to State General Fund	75,866
Compensated absences (see Note 7)	
Due within one year	677,229
Due in more than one year	<u>98,175</u>
 Total liabilities	 <u>1,727,231</u>
NET ASSETS	
Invested in capital assets, net of related debt	1,213,647
Restricted for program expenditures	333,385
Unrestricted	<u>(774,104)</u>
 Total net assets	 <u>\$ 772,928</u>

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
SECOND JUDICIAL DISTRICT COURT**

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2006

	<u>Governmental Activities</u>
Expenses:	
Judicial:	
Administrative services	\$ 20,428,244
Depreciation expense	318,645
Loss on disposal of capital assets	1,363
Total expenses	<u>20,748,252</u>
Program Revenues:	
Charges for services	180,007
Court fees	434,714
Federal grants - operating	675,843
Other operating grants	638,377
Total program revenues	<u>1,928,941</u>
Net program expenses	(18,819,311)
General Revenue and Transfers:	
General fund appropriation	18,203,829
Other state funds	541,392
Bond proceeds appropriation	70,940
Transfers:	
Reversion to the City of Albuquerque	(43,595)
Reversion to State General Fund	(75,866)
Total general revenue and transfers	<u>18,696,700</u>
Change in net assets	(122,611)
Net assets-June 30, 2005	<u>895,539</u>
Net assets -June 30, 2006	<u>\$ 772,928</u>

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
SECOND JUDICIAL DISTRICT COURT**

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2006

	<u>Major Funds</u>			<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Mediation Fund</u>	<u>Alternative Dispute Resolution</u>	
ASSETS				
Cash and cash equivalents	\$ 902,539	\$ 193,796	\$ 155,506	\$ 1,251,841
Due from external parties	8,706	12,590	6,255	27,551
Due from other state agencies	7,120	-	-	7,120
Total assets	<u>\$ 918,365</u>	<u>\$ 206,386</u>	<u>\$ 161,761</u>	<u>\$ 1,286,512</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 83,519	\$ 20,417	\$ -	\$ 103,936
Accrued payroll	711,059	12,197	5,174	728,430
Due to local governments	43,595	-	-	43,595
Due to State General Fund	75,866	-	-	75,866
Total liabilities	<u>914,039</u>	<u>32,614</u>	<u>5,174</u>	<u>951,827</u>
Fund Balances:				
Reserved for:				
Petty cash	1,300	-	-	1,300
Program expenditures	3,026	173,772	156,587	333,385
Total fund balances	<u>4,326</u>	<u>173,772</u>	<u>156,587</u>	<u>334,685</u>
Total liabilities and fund balances	<u>\$ 918,365</u>	<u>\$ 206,386</u>	<u>\$ 161,761</u>	<u>\$ 1,286,512</u>

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
SECOND JUDICIAL DISTRICT COURT

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

June 30, 2006

Total fund balances for governmental funds	\$ 334,685
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Amounts reported for governmental activities in the statement of net assets 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 the following:

Property, plant & equipment	\$ 2,977,431	
Accumulated depreciation	<u>(1,763,784)</u>	
Total capital assets		1,213,647

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	<u>(775,404)</u>
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Net Assets of Governmental Activities	<u><u>\$ 772,928</u></u>
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The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
SECOND JUDICIAL DISTRICT COURT**

**Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds**

For the Year Ended June 30, 2006

	<u>Major Funds</u>			<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Mediation Fund</u>	<u>Alternative Dispute Resolution</u>	
REVENUES				
Charges for services	\$ 180,007	\$ -	\$ -	\$ 180,007
Court fees	-	260,129	174,585	434,714
Federal grants - operating	675,843	-	-	675,843
Other grants	638,377	-	-	638,377
Total revenues	<u>1,494,227</u>	<u>260,129</u>	<u>174,585</u>	<u>1,928,941</u>
EXPENDITURES				
Current:				
Administrative services	20,109,205	176,859	91,044	20,377,108
Capital outlay	128,663	-	-	128,663
Total expenditures	<u>20,237,868</u>	<u>176,859</u>	<u>91,044</u>	<u>20,505,771</u>
Excess (deficiency) of revenues over expenditures	(18,743,641)	83,270	83,541	(18,576,830)
OTHER FINANCING SOURCES (USES)				
Transfers out:				
University of NM	(3,200)	-	-	(3,200)
Reversions to City of Albuquerque	(43,595)	-	-	(43,595)
Reversions to the State General Fund:				
FY2006	(75,866)	-	-	(75,866)
Transfers in:				
General fund appropriation	18,203,829	-	-	18,203,829
Other state funds	514,839	26,553	-	541,392
Bond proceeds appropriation	70,940	-	-	70,940
Total other financing sources (uses)	<u>18,666,947</u>	<u>26,553</u>	<u>-</u>	<u>18,693,500</u>
Net change in fund balances	(76,694)	109,823	83,541	116,670
Fund balances - June 30, 2005	<u>81,020</u>	<u>63,949</u>	<u>73,046</u>	<u>218,015</u>
Fund balances - June 30, 2006	<u>\$ 4,326</u>	<u>\$ 173,772</u>	<u>\$ 156,587</u>	<u>\$ 334,685</u>

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
SECOND JUDICIAL DISTRICT COURT

RECONCILIATION OF THE CHANGE IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2006

Net Change in fund balances - total governmental funds	\$ 116,670
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the

Capital outlay	\$ 128,663	
Depreciation expense	(318,645)	
Loss on disposal of capital assets	<u>(1,363)</u>	
Excess of depreciation expense over capital outlay		(191,345)

Expenses recognized in the Statement of Activities, not reported in governmental funds:

Increase in compensated absences	<u>(47,936)</u>
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Change in Net Assets of Governmental Activities	<u>\$ (122,611)</u>
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The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
SECOND JUDICIAL DISTRICT COURT**

**Statement of Revenues and Expenditures-Budget and Actual
(Budgetary Basis)
GENERAL FUND**

For the Year Ended June 30, 2006

	GENERAL FUND			
	Budget Original	Budget Final	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Other grants	\$ 162,200	\$ 70,595	\$ -	\$ (70,595)
Local govt's grants	137,800	-	-	-
Private gifts	-	5,000	5,000	-
Bond proceeds	70,940	70,940	70,940	-
Misc. revenue	51,000	180,011	180,007	(4)
Appropriations	18,203,829	18,203,829	18,203,829	-
Federal grants	1,101,300	932,278	939,387	7,109
Other grants	158,000	369,833	369,833	-
Other financing sources	579,142	579,142	514,839	(64,303)
Total revenues	20,464,211	20,411,628	\$ 20,283,835	\$ (127,793)
Cash balance	30,000	30,000		
Total	\$ 20,494,211	\$ 20,441,628		
EXPENDITURES				
Administrative Services:				
Personal services & benefits	\$ 18,256,021	\$ 18,264,941	\$ 18,195,401	\$ 69,540
Contractual services	729,700	659,164	565,580	93,584
Other costs	1,272,540	1,514,323	1,476,887	37,436
Other financing uses	235,950	3,200	3,200	-
Total expenditures	\$ 20,494,211	\$ 20,441,628	\$ 20,241,068	\$ 200,560

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
SECOND JUDICIAL DISTRICT COURT**

**Statement of Revenues and Expenditures-Budget and Actual
(Budgetary Basis)
MAJOR FUND**

For the Year Ended June 30, 2006

	MEDIATION FUND			
	<u>Budget Original</u>	<u>Budget Final</u>	<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Court costs	\$ 95,100	\$ 95,100	\$ 126,863	\$ 31,763
Pay/care individual	95,000	95,000	133,266	38,266
Other financing sources	27,300	27,300	26,553	(747)
Total revenues	217,400	217,400	\$ 286,682	\$ 69,282
Cash balance	<u>116,300</u>	<u>116,300</u>		
Total resources	\$ 333,700	\$ 333,700		
EXPENDITURES				
Administrative Services:				
Personal services & benefits	\$ 306,400	\$ 306,400	\$ 150,305	\$ 156,095
Contractual services	27,300	27,300	26,554	746
Total expenditures	\$ 333,700	\$ 333,700	\$ 176,859	\$ 156,841

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
SECOND JUDICIAL DISTRICT COURT**

**Statement of Revenues and Expenditures-Budget and Actual
(Budgetary Basis)
MAJOR FUND**

For the Year Ended June 30, 2006

ALTERNATIVE DISPUTE RESOLUTION

	<u>Budget Original</u>	<u>Budget Final</u>	<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Court costs	\$ 222,600	\$ 222,600	\$ 174,525	\$ (48,075)
Pay/care individual	-	-	60	60
Total revenues	222,600	222,600	<u>\$ 174,585</u>	<u>\$ (48,015)</u>
Cash balance	<u>44,500</u>	<u>44,500</u>		
Total resources	<u>\$ 267,100</u>	<u>\$ 267,100</u>		
EXPENDITURES				
Administrative Services:				
Personal services & benefits	<u>\$ 267,100</u>	<u>\$ 267,100</u>	<u>\$ 91,044</u>	<u>\$ 176,056</u>

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
SECOND JUDICIAL DISTRICT COURT

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2006

AGENCY
FUND

ASSETS

Cash and cash equivalents

\$ 5,928,982

LIABILITIES

Due to external parties

\$ 5,928,982

NET ASSETS

Total net assets

\$ -

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
SECOND JUDICIAL DISTRICT COURT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Financial Reporting Entity

The Second Judicial District Court operates under Section 34-6-1, 34-6-2, 34-6-5 and 34-6-17 through 34-6-46, NMSA-1978 Compilation. ~~The Second Judicial District Court covers Bernalillo County, New Mexico.~~ The District Court is comprised of twenty four divisions as authorized in the above sections. The District Court is the State Court of general jurisdiction and is authorized to hear and determine all civil and criminal cases which are not specifically exempted from its jurisdiction. Financing of the court is by state appropriation.

The financial reporting entity as defined by GASB Statement 14 consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. This definition of the reporting entity is based primarily on the notion of financial accountability as the "cornerstone of all financial reporting in government."

The Second Judicial District Court is a component unit of the Judicial Branch and these financial statements include all funds and activities over which the Court has oversight responsibility. The Court is part of the primary government of the State of New Mexico and its financial data should be included with the financial data of the state. However, New Mexico does not at present issue an audited Comprehensive Annual Financial Report inclusive of all agencies of the primary government. The District Court has decision-making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters. The Court has no component units that are required to be reported in its financial statements.

The accounting policies of the Second Judicial District Court conform to generally accepted accounting principles (GAAP) as applicable to governments. A summary of the Court's significant accounting policies follows:

A. Basis of Accounting- GASB Statement No. 34

The basic financial statements include both government-wide and fund financial statements. Both the government-wide and fund financial statements categorize primary activities as governmental activities.

STATE OF NEW MEXICO
SECOND JUDICIAL DISTRICT COURT
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation - Fund Accounting

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Court, the primary government, as a whole, without displaying individual funds or fund types. Generally, these statements distinguish between activities that are governmental and those that are considered business-type activities. The Court has no business-type activities; therefore these statements only reflect governmental activities. Government-wide financial statements exclude information about fiduciary funds and component units that are fiduciary in nature.

The government-wide 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 asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB 33. Grants revenue is recorded when all applicable eligibility or reimbursement requirements are met.

Fund Financial Statements

The governmental fund financial statements are presented on the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days in order to pay current liabilities. Expenditures (including capital outlay) are recorded when the related fund liability is incurred.

This presentation is deemed appropriate to (a) demonstrate legal compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the Courts actual experience confirms 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, a reconciliation is presented on the page following each fund statement, which briefly explains the adjustment necessary to transform the fund based financial statements into the government-wide presentation.

STATE OF NEW MEXICO
SECOND JUDICIAL DISTRICT COURT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation - Fund Accounting (continued)

The Court's fiduciary fund (agency funds) is presented in the fund financial statements. The agency fund is presented on the accrual basis of accounting. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated in the government-wide financial statements.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Court first uses restricted resources then unrestricted resources.

Fund Financial Statements

The accounts of the Court are organized on a fund basis, 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, liabilities, fund equity, revenues and expenditures, or expenses as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which spending activities are controlled. The following fund types are used by the Court:

Governmental Funds

General Fund - The General Fund is the general operating fund of the District Court. It is used to account for all financial resources except those required to be accounted for in another fund. Any unencumbered balance remaining in the General Fund at the end of the fiscal year reverts to the General Fund of the State of New Mexico. The Central Accounting System number and description of the General Fund of the Court is #142 - Court Regular.

Capital Outlay - The Capital Outlay Fund is a component of the General Fund. It was created by a fiscal year 2001 state general fund appropriation to the Court to purchase data and telecommunications equipment, wiring, furniture and equipment and moving costs for the new courthouse facility occupied in fiscal year 2002. The Central Accounting System number is #517.

Hearing Officer - The Child Support Enforcement Hearing Officer Fund is a component of the General Fund. It was created through a contract with the Human Services Department. Unused funds are to be refunded to the Human Services Department at program termination. The Central Accounting System number is #679.

STATE OF NEW MEXICO
SECOND JUDICIAL DISTRICT COURT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation - Fund Accounting (continued)

Court Automation Transcripts - The Court Automation Transcripts Fund is a component of the General Fund. It accounts for fees charged when the Court provides transcripts of case proceedings utilizing an automated system that is designed to speed the delivery of the transcripts. There were no activities posted in this fund in FY2006. The Central Accounting System number is #921.

Special Revenue Funds - Special Revenue Funds account for revenue sources that are legally restricted to expenditures for specific purposes. No expenditures can be made from special revenue funds for operations of the Court.

Court Mediation - The Court has established a domestic relations mediation program pursuant to Section 5 (40-12-5, NMSA 1978 Comp.) of the Domestic Relations Mediations Act. Deposits to this fund shall include payments made through the imposition of a sliding fee scale and the collection of a surcharge provided for in the Domestic Relations Mediation Act. The fund is non-reverting. The Central Accounting System number of the Mediation Fund is # 920. This fund is considered a major fund.

Alternative Dispute Resolution - The Court has established an Alternative Dispute Resolution Fund pursuant to Section 34-6-45 NMSA 1978. The fund obtains its resources from the imposition of a \$15 fee on all new and reopened civil cases. The fund is non-reverting. The Central Accounting System number is # 922. This fund is considered a major fund.

Fiduciary Funds

Agency Funds - Agency Funds are used to account for assets held by the Court in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency fund is used to collect and distribute court fees assessed per State Statute.

C. Assets, Liabilities and Equity

Cash and Investments

The Court's cash and cash equivalents are demand deposits and savings accounts.

STATE OF NEW MEXICO
SECOND JUDICIAL DISTRICT COURT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Assets, Liabilities and Equity (continued)

Capital Assets

In the government-wide financial statements, property, plant and equipment is accounted for as capital assets. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated assets which are recorded at their estimated fair value at the date of donation. Capital assets with a value exceeding \$5,000 are capitalized and depreciated. Any software acquired is also included in capital assets and depreciated.

Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Furniture and Fixtures	10	years
Equipment and Machinery	5-10	years
Data Processing	3-5	years
Vehicles	7	years
Software	3	years

The Court does not depreciate its art collection to reflect the inexhaustible nature of art work.

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

Long-Term Liabilities

Compensated Absences

The Court's policies regarding annual leave permits employees to accumulate earned but unused annual leave. The liability for these compensated absences is recorded as current and noncurrent liabilities in the government-wide statements. In the fund financial statements, governmental funds report only the compensated absences liability payable from expendable available financial resources.

Equity

Government-Wide Statements

Equity is classified as net assets and displayed in three components:

STATE OF NEW MEXICO
SECOND JUDICIAL DISTRICT COURT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Assets, Liabilities and Equity (continued)

- i. *Invested in capital assets*, net of related debt, consists of capital assets net of accumulated depreciation and reduced by any outstanding debt. The Court has no outstanding debt relating to capital assets.
- ii. *Restricted net assets*, consists of net assets with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- iii. *Unrestricted net assets* are all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt." The deficit reflected in the statement is caused primarily by accrued compensated absences at year end that have not been funded.

Fund Financial Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved. Reserved fund balances at year end represent amounts reserved for future program specific expenditures.

D. Budgets and Budgetary Accounting

The Second Judicial District Court follows these procedures in establishing the budgetary data reflected in the financial statements:

1. No later than September 1, the Second Judicial District Court submits to the Judicial Budget Office (JBO), the Legislative Finance Committee (LFC) and the Department of Finance and Administration an appropriation request for the fiscal year commencing the following July. The appropriation includes proposed expenditures and the means of financing them.
2. Appropriation request hearings are scheduled by the JBO. Recommendations are made by the JBO to the Supreme Court for their approval. The Supreme Court approved appropriation request is then submitted to the Legislature as the Supreme Court's recommended appropriation request for the Second District.
3. Budget hearings are scheduled before the New Mexico House Appropriations and Senate Finance Committees. The final outcome of these hearings is incorporated into the General Appropriations Act.

STATE OF NEW MEXICO
SECOND JUDICIAL DISTRICT COURT
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

D. Budgets and Budgetary Accounting (continued)

4. The Act is signed into law by the Governor of the State of New Mexico within the legally prescribed time limit.
5. The Second Judicial District Court submits, no later than May 1, to DFA an annual operating budget by category and line item based upon the appropriations made by the Legislature. The DFA - Budget Division reviews and approves the operating budget which becomes effective in July.

All subsequent budget adjustments must be approved by the JBO and the director of the DFA - Budget Division. The current year budget was revised in a legal manner.
6. Legal budget control for expenditures and encumbrances is by category.
7. Formal budgetary integration is employed as a management control device during the fiscal year for the Governmental Funds.
8. The budget for the Governmental Funds is adopted on a basis consistent with generally accepted accounting principles (GAAP) and the modified accrual basis of accounting. Under the modified accrual basis of accounting encumbrances are excluded from budgeted expenditures. Budgetary comparisons presented for these funds in this report are on that basis.
9. Appropriations lapse at the end of the fiscal year unless specifically re-appropriated by the legislature. Unexpended amounts within the General Fund revert to the State General Fund.

E. Compensated Absences Payable

Vacation and sick leave earned and not taken is cumulative; however, upon termination of employment, sick pay for such leave hours accumulated up to 600 hours is forfeited, and vacation pay is limited to payment of 240 hours. Vacation leave up to the maximum of 240 hours is payable upon separation from service at the employee's current hourly rate. Sick leave is payable semiannually to qualified employees for hours accumulated above 600 hours at a rate equal to 50 percent of their hourly rate, not to exceed 120 hours each semiannual period. Upon retirement, payment for sick leave is limited to 400 hours accumulated in excess of 600 hours at

STATE OF NEW MEXICO
SECOND JUDICIAL DISTRICT COURT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

the 50 percent hourly rate. Accrued vacation and sick leave pay are recorded as a liability and as an increase or decrease in expenses in the Government-Wide financial statements. Qualified employees accumulate annual leave as follows:

<u>Years of Service</u>	<u>Hours Earned Per Month</u>
1 month - 3 yrs	10
Over 3 - 7 yrs	12
Over 7 - 14 yrs	14
Over 14 yrs - beyond	16

The maximum accrued annual leave may be carried forward into the beginning of the next calendar year and any excess is lost.

In addition, the Second Judicial District Court 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.

Court General Fund resources have been used to liquidate accrued compensated absences in the past.

F. Program Revenues

Program revenues include federal and state grants, charges for tapes and copies of court proceedings and court fees collected per statute designated for court operations. Grant revenues are recognized when all eligibility requirements have been met.

G. 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.

H. Interfund Activity

Amounts due to and due from other funds were created because general fund money was used to pay for special projects of other funds which was then reimbursed by grantors. Interfund receivables or payables at year end are netted as part of the reconciliation to the government-wide financial statements.

**STATE OF NEW MEXICO
SECOND JUDICIAL DISTRICT COURT**

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

(2) COLLATERAL PLEDGED BY FINANCIAL INSTITUTIONS

Section 6-10-17, NMSA 1978 compilation requires that banks or savings and loans provide additional collateral on funds held that exceed the FDIC insurance limit. These excess funds are required to be fifty percent collateralized. The collateralization of the Court's bank accounts is monitored by the State Treasurer's Office. ~~The State Treasurer issues separate financial statements which disclose the collateral pledged to secure these deposits.~~

(3) CASH AND CASH EQUIVALENTS

Cash and cash equivalents at year end are classified as follows:

	<u>Bank Balance</u>	<u>Book Balance</u>
Governmental Funds:		
Cash at State Treasurer	\$ <u>1,251,841</u>	\$ <u>1,251,841</u>
Agency Funds:		
Cash at State Treasurer	\$ 4,834,263	\$ 4,852,861
Cash in Bank:		
FDIC insured	100,000	
Collateralized	540,633	
Uncollateralized	<u>540,633</u>	
Total cash in bank	<u>1,181,266</u>	<u>1,076,121</u>
Total cash - agency funds	\$ <u>6,015,529</u>	\$ <u>5,928,982</u>

Detail of pledged collateral for the \$1,081,266 is not available because the bank commingles pledged collateral for all state funds they hold. The collateralization of these accounts is monitored by the State Treasurer's Office. The State Treasurer issues separate financial statements which disclose the collateral pledged to secure these deposits.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure the Court's deposits may not be returned. The Court does not have a policy for custodial credit risk. As of June 30, 2006 \$1,081,266 of the Court's agency fund bank balance total of \$1,181,266 was exposed to custodial credit risk as follows:

Uninsured and collateral held by pledged bank not in the name of the Court or the State of New Mexico.	\$ <u>1,081,266</u>
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**STATE OF NEW MEXICO
SECOND JUDICIAL DISTRICT COURT**

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

(4) CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006
Depreciable				
		\$		
Furniture & Fixtures	\$ 1,574,790	15,331	\$ -0-	\$ 1,590,121
Data Processing	793,145	1,107	(1,752)	792,500
Machinery & Equipment	400,735	112,225	-0-	512,960
Vehicles	51,850	-0-	-0-	51,850
Sub-total	<u>2,820,520</u>	<u>128,663</u>	<u>(1,752)</u>	<u>2,947,431</u>
Non-depreciable				
Artwork	<u>30,000</u>	<u>-0-</u>	<u>-0-</u>	<u>30,000</u>
		\$		
Total	<u>\$ 2,850,520</u>	<u>128,663</u>	<u>\$ (1,752)</u>	<u>\$ 2,977,431</u>
Accumulated Depreciation:				
				\$
Furniture & Fixtures	\$ (641,360)	\$ (156,628)	\$ -0-	(797,988)
Data Processing	(678,035)	(74,674)	389	(752,320)
Machinery & Equipment	(104,584)	(79,936)	-0-	(184,520)
Vehicles	(21,549)	(7,407)	-0-	(28,956)
Total	<u>\$ (1,445,528)</u>	<u>(318,645)</u>	<u>389</u>	<u>(1,763,784)</u>
Total (Net Asset)	<u>\$ 1,404,992</u>	<u>\$ (189,982)</u>	<u>\$ (1,363)</u>	<u>\$ 1,213,647</u>

Current year depreciation expense is \$318,645.

(5) DUE TO STATE GENERAL FUND

The Due to State General Fund in the Statement of Net Assets includes \$75,866 in 2006 reversion that will be remitted to the state general fund for fiscal year ending June 30, 2007.

(6) OPERATING LEASES

The Court leases office equipment under operating leases with third party vendors. The contracts for lease include annual nonappropriation clauses which can terminate the respective leases. Lease expense under these leases amounted to \$138,348 for the year ending June 30, 2006. Annual future minimum lease payments are as follows:

June 30, 2007	\$ 127,211
June 30, 2008	127,211
June 30, 2009	44,878
June 30, 2010	6,367
June 30, 2011	-0-
Total	<u>\$ 305,667</u>

**STATE OF NEW MEXICO
SECOND JUDICIAL DISTRICT COURT**

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

(7) COMPENSATED ABSENCES

The following is a summary of changes in compensated absences:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Annual Leave	\$ 694,775	\$ 898,136	\$ (845,933)	\$ 746,978	\$ 648,803
Sick Leave	20,285	16,229	(16,066)	20,448	20,448
Compensatory Leave	<u>12,408</u>	<u>-0-</u>	<u>(4,430)</u>	<u>7,978</u>	<u>7,978</u>
Total	<u>\$ 727,468</u>	<u>\$ 914,365</u>	<u>\$ (866,429)</u>	<u>\$ 775,404</u>	<u>\$ 677,229</u>

(8) PERA RETIREMENT PLAN

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

Funding Policy

Plan members are required to contribute 7.42% of their gross salary. The Second Judicial District Court is required to contribute 16.59% of the gross covered salary. The contribution requirements of plan members and the Second Judicial District Court are established under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The Second Judicial District Court's contributions to PERA for the years ending June 30, 2006, 2005 and 2004 were \$1,825,843, \$1,734,122, and \$1,625,464, respectively, equal to the amount of the required contributions for each year.

**STATE OF NEW MEXICO
SECOND JUDICIAL DISTRICT COURT**

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

(9) JRA RETIREMENT PLAN

All of the Second Judicial District Court's Judges or Justices participate in a public employee retirement system authorized under the Judicial Retirement Act. The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. ~~The plan provides for retirement, disability benefits and cost-of-living adjustments to plan members and beneficiaries.~~ PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, NM 87504-2123.

Funding Policy

Plan members are required to contribute 6.5% of their gross salary. The Second Judicial District Court is required to contribute 10.5% of the gross covered salary. The Second Judicial District Court's contributions to JRA for the years ending June 30, 2006, 2005 and 2004 were \$236,670, \$195,098 and \$180,317, respectively, equal to the amount of the required contributions for each year.

In addition to the above, the Court remits \$38 of each filing fee collected by the Court into the Judicial Retirement Act plan as required by Section 10-12b-11, NMSA 1978. These fees are remitted directly to PERA and are not included within the accompanying financial statements. The Court remitted \$599,222, \$557,422 and \$549,784 in filing fees for the year ending June 30, 2006, 2005 and 2004 respectively.

(10) DEFERRED COMPENSATION

The State of New Mexico offers state, local government and school district employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan available to all State employees and those local government and school district employees whose employers have elected participation in the plan permits participants to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

There are employees that are making contributions to a Deferred Compensation Plan. Neither the Second Judicial District Court nor the State of New Mexico makes any contributions to the Deferred Compensation Plan. All contributions withheld from participants by the Second Judicial District Court have been paid to the New Mexico Public Employee's Retirement Association, which administers the plan.

STATE OF NEW MEXICO
SECOND JUDICIAL DISTRICT COURT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

(11) RETIREE HEALTH CARE ACT CONTRIBUTION

The Retiree Health Care Act (Act) (Chapter 10, Article 7C, NMSA 1978) provides comprehensive core group health insurance for persons who have retired from certain public service in New Mexico. The Retiree Health Care Authority is the administrator of the plan. The purpose is to provide eligible retirees, their spouses, dependents and surviving spouses and dependents with health insurance consisting of a plan, or optional plans, of benefits that can be purchased by funds flowing into the Retiree Health Care Fund and by co-payments or the out-of-pocket payments of eligible retirees.

Monies flow to the Retiree Health Care Fund on a pay-as-you-go basis from eligible employers and eligible retirees. Eligible employers consist of institutions of higher education, school districts, or other entities participating in the Public School Insurance Authority, state agencies, state courts, magistrate courts, municipalities or counties, which are affiliated under or covered by the Educational Retirement Act, Public Employees Retirement Act, Volunteer Firefighters Retirement Act, Judicial Retirement Act or the Magistrate Retirement Act.

Eligible retirees are: (1) retirees who make contributions to the fund for a least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the Retiree Health Care Act on the person's behalf, unless that person retires before the employer's NMRHCA effective date, in which 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; or (2) retirees defined by the Act who retired prior to July 1, 1990; and former legislators who served at least two years.

Each participating employer makes contributions to the fund in the amount of 1.30% of each participating employee's annual salary. Each participating employee contributes to the fund an employee contribution equal to .65% of the employee's annual salary. Each participating retiree pays a monthly premium for the medical plus basic life and an additional participation fee of five dollars (\$5.00) if the eligible participant retired prior to the employer's NMRHCA effective date or is a former legislator. Participants may also enroll in optional plans of coverage.

Contributions from participating employers and participating employees become the property of the Retiree Health Care Fund and are not refundable under any circumstances, including termination of employment or termination of the participating employer's operation or participation in the Retiree Health Care Act. The employer, employee and retiree contributions are required to be remitted to the Retiree Health Care Authority on a monthly basis.

**STATE OF NEW MEXICO
SECOND JUDICIAL DISTRICT COURT**

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

(11) RETIREE HEALTH CARE ACT CONTRIBUTION (continued)

The Retiree Health Care Authority issues a separate, publicly available audited financial report that includes post employment benefit expenditures of premiums and claims paid, participant contributions (employer, employee and retiree) and net expenditures for the fiscal year. The report also includes the approximate number of retirees participating in the plan. That report may be obtained by writing to the Retiree Health Care Authority, 4308 Carlisle Blvd. NE, Suite 104, Albuquerque, NM 87107.

For the fiscal year ended June 30, 2006, the Second Judicial District Court remitted \$171,378 in employer contributions and \$85,689 in employee contributions to the Retiree Health Care Authority.

(12) RECONCILIATION BETWEEN BUDGETARY BASIS AND GAAP

Budget basis expenditures differ from expenditures for generally accepted accounting principles (GAAP). Expenditures on the budget basis include current year expenditures paid plus accounts payable at year end. Expenditures on a GAAP basis include accounts payable and prior period encumbrances paid.

A reconciliation of revenues and expenditures on the budgetary basis to revenues and expenditures on a GAAP basis for the fiscal year ended June 30, 2006 follows:

	<u>Expenditures</u>	<u>Revenue</u>
<u>General Fund</u>		
Budgetary Basis	\$ 20,241,068	\$ 20,333,835
Prior year accounts receivable	-0-	(50,000)
Reclassified to other financing source	<u>(3,200)</u>	<u>(18,789,608)</u>
GAAP basis	<u>\$ 20,237,868</u>	<u>\$ 1,494,227</u>
<u>Mediation Fund</u>		
Budgetary basis	\$ 176,859	\$ 286,682
Reclassified to other financing sources	<u>-0-</u>	<u>(26,553)</u>
GAAP basis	<u>\$ 176,859</u>	<u>\$ 260,129</u>

STATE OF NEW MEXICO
SECOND JUDICIAL DISTRICT COURT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

(13) RISK OF LOSS

The Court obtains coverage through Risk Management Division of the State of New Mexico General Services Department. This coverage includes liability and civil rights, property, vehicle, employer bond, workers' compensation, group insurance and state unemployment. ~~These coverages are designed to satisfy the requirements of the State Tort Claims Act.~~ All employees of the Court are covered by a blanket fidelity bond with a \$5,000,000 coverage limit with a \$1,000 deductible per occurrence by the State of New Mexico for the period July 1, 2005 through June 30, 2006.

**STATE OF NEW MEXICO
SECOND JUDICIAL DISTRICT COURT**

COMBINING BALANCE SHEET - GENERAL FUND

June 30, 2006

ASSETS	<u>COURT REGULAR</u>	<u>CAPITAL PROJECTS</u>	<u>HEARING OFFICER</u>	<u>TOTAL</u>
Cash and cash equivalents	\$ 864,782	\$ -	\$ 37,757	\$ 902,539
Due from external parties	8,706	-	-	8,706
Due from other state agencies	<u>7,120</u>	<u>-</u>	<u>-</u>	<u>7,120</u>
Total assets	<u>\$ 880,608</u>	<u>\$ -</u>	<u>\$ 37,757</u>	<u>\$ 918,365</u>
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 81,983	\$ -	\$ 1,536	\$ 83,519
Accrued payroll	686,145	-	24,914	711,059
Due to local governments	43,595	-	-	43,595
Due to State General Fund	<u>64,559</u>	<u>-</u>	<u>11,307</u>	<u>75,866</u>
Total liabilities	<u>876,282</u>	<u>-</u>	<u>37,757</u>	<u>914,039</u>
Fund Balances:				
Reserved for:				
Petty cash	1,300	-	-	1,300
Program expenditures	<u>3,026</u>	<u>-</u>	<u>-</u>	<u>3,026</u>
Total fund balances	<u>4,326</u>	<u>-</u>	<u>-</u>	<u>4,326</u>
Total liabilities and fund balances	<u>\$ 880,608</u>	<u>\$ -</u>	<u>\$ 37,757</u>	<u>\$ 918,365</u>

See Auditor's Report.

**STATE OF NEW MEXICO
SECOND JUDICIAL DISTRICT COURT**

**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
GENERAL FUND
For the Year Ended June 30, 2006**

	<u>COURT REGULAR</u>	<u>CAPITAL PROJECTS</u>	<u>HEARING OFFICER</u>	<u>TOTAL</u>
REVENUES				
Charges for services	\$ 180,007	\$ -	\$ -	\$ 180,007
Federal grants - operating	143,296	-	532,547	675,843
Other grants	374,833	-	263,544	638,377
Total revenues	<u>698,136</u>	<u>-</u>	<u>796,091</u>	<u>1,494,227</u>
EXPENDITURES				
Current:				
Administrative services	19,297,877	28,776	782,552	20,109,205
Capital outlay	105,207	21,224	2,232	128,663
Total expenditures	<u>19,403,084</u>	<u>50,000</u>	<u>784,784</u>	<u>20,237,868</u>
Excess (deficiency) of revenues over expenditures	(18,704,948)	(50,000)	11,307	(18,743,641)
OTHER FINANCING SOURCES (USES)				
Transfers out:				
University of NM	(3,200)	-	-	(3,200)
Reversions to the City of Albuquerque	(43,595)	-	-	(43,595)
Reversions to the State General Fund:				
FY2006	(64,559)	-	(11,307)	(75,866)
Transfers in:				
General fund appropriation	18,203,829	-	-	18,203,829
Other state funds	514,839	-	-	514,839
Bond proceeds appropriation	70,940	-	-	70,940
Total other financing sources (uses)	<u>18,678,254</u>	<u>-</u>	<u>(11,307)</u>	<u>18,666,947</u>
Net change in fund balances	(26,694)	(50,000)	-	(76,694)
Fund balances - June 30, 2005	31,020	50,000	-	81,020
Fund balances - June 30, 2006	<u>\$ 4,326</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,326</u>

See Auditor's Report

**STATE OF NEW MEXICO
SECOND JUDICIAL DISTRICT COURT**

**COMBINING STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (BUDGETARY BASIS)
GENERAL FUND**

For the Year Ended June 30, 2006

	<u>COURT REGULAR</u>			
	<u>Budget Original</u>	<u>Budget Final</u>	<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Other grants	\$ 162,200	\$ 70,595	\$ -	\$ (70,595)
Local govt's grants	137,800	-	-	-
Private gifts	-	5,000	5,000	-
Bond proceeds	70,940	70,940	70,940	-
Misc. revenue	51,000	180,011	180,007	(4)
Appropriations	18,203,829	18,203,829	18,203,829	-
Federal grants	314,300	136,187	143,296	7,109
Other grants	158,000	369,833	369,833	-
Other financing sources	529,142	529,142	514,839	(14,303)
Total revenues	<u>19,627,211</u>	<u>19,565,537</u>	<u>\$ 19,487,744</u>	<u>\$ (77,793)</u>
Cash balance	<u>30,000</u>	<u>30,000</u>		
Total	<u>\$ 19,657,211</u>	<u>\$ 19,595,537</u>		
EXPENDITURES				
Administrative Services:				
Personal services & benefits	\$ 17,581,821	\$ 17,514,650	\$ 17,452,405	\$ 62,245
Contractual services	723,600	659,164	565,580	93,584
Other costs	1,115,840	1,418,523	1,385,099	33,424
Other financing uses	235,950	3,200	3,200	-
Total expenditures	<u>\$ 19,657,211</u>	<u>\$ 19,595,537</u>	<u>\$ 19,406,284</u>	<u>\$ 189,253</u>

See Auditor's Report.

STATE OF NEW MEXICO
SECOND JUDICIAL DISTRICT COURT

COMBINING STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (BUDGETARY BASIS)
GENERAL FUND

For the Year Ended June 30, 2006

	<u>CAPITAL PROJECTS</u>			Variance with Final Budget Positive (Negative)
	<u>Budget Original</u>	<u>Budget Final</u>	<u>Actual Amounts (Budgetary Basis)</u>	
REVENUES				
Other financing sources	\$ 50,000	\$ 50,000	\$ -	\$ (50,000)
EXPENDITURES				
Administrative Services: Other costs	\$ 50,000	\$ 50,000	\$ 50,000	\$ -
HEARING OFFICER				
REVENUES				
Federal grants	\$ 787,000	\$ 796,091	\$ 796,091	\$ -
EXPENDITURES				
Administrative Services:				
Personal services & benefits	\$ 674,200	\$ 750,291	\$ 742,996	\$ 7,295
Contractual services	6,100	-	-	-
Other costs	106,700	45,800	41,788	4,012
Total expenditures	\$ 787,000	\$ 796,091	\$ 784,784	\$ 11,307

See Auditor's Report.

STATE OF NEW MEXICO
SECOND JUDICIAL DISTRICT COURT

SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES

For the Year Ended June 30, 2006

	Agency Fund			Ending Balance
	Beginning Balance	Increase	Decrease	
Court clerk account	\$ 108,634	\$ 3,958,660	\$ 3,959,234	\$ 108,060
Litigant accounts	6,559,419	27,499,105	28,237,602	5,820,922
	<u>\$ 6,668,053</u>	<u>\$ 31,457,765</u>	<u>\$ 32,196,836</u>	<u>\$ 5,928,982</u>
Due to mediation	\$ 14,517	\$ 260,129	\$ 262,056	\$ 12,590
Due to arbitration	7,275	174,585	175,605	6,255
Due to automated transcripts	1,687	-	1,687	-
Due to court operating	7,516	180,007	178,817	8,706
Due to state general fund	13,913	349,219	349,555	13,577
Due to other agencies	63,726	2,994,720	2,991,514	66,932
Due to litigants	6,559,419	27,499,105	28,237,602	5,820,922
	<u>\$ 6,668,053</u>	<u>\$ 31,457,765</u>	<u>\$ 32,196,836</u>	<u>\$ 5,928,982</u>

See Auditor's Report.

**STATE OF NEW MEXICO
SECOND JUDICIAL DISTRICT COURT**

SCHEDULE OF OPERATING TRANSFERS

For the Year Ended June 30, 2006

	CAS FUND	TITLE	TRANSFER	
			In	Out
(1)	617	Department of Finance & Administration	\$ 17,653,900	\$ -
(2)	617	Department of Finance & Administration	237,500	-
(3)	617	Department of Finance & Administration	253,992	-
(4)	617	Department of Finance & Administration	312,429	-
(5)	617	Department of Finance & Administration	42,400	-
(6)	617	Department of Finance & Administration	70,940	-
(7)	139	Administrative Office of the Courts	26,553	-
(8)	139	Administrative Office of the Courts	218,447	-
(9)	-	University of NM	-	3,200
			<u>\$ 18,816,161</u>	<u>\$ 3,200</u>

- (1) General Fund Appropriation, Laws of 2005, Chapter 33, Section 4.
- (2) Mental Health Court, Laws of 2005, Chapter 34, Section 3, Item B.
- (3) Compensation Package, Laws of 2005, Chapter 33, Section 8, Item A-1 & A-2.
- (4) One Judgeship, Laws of 2005, Chapter 284, Section 11, Item A-1.
- (5) Replace Federal Funds for Drug Courts, Laws of 2005, Chapter 33, Section 4.
- (6) Upgrade Security System at Judicial Complex, Laws of 2005, Chapter 347, Section 5-1. (Bond Proceeds)
- (7) Supervised Visitation, Laws of 2005, Chapter 33, Section 4, Item B-4.
- (8) Neutral Corner, Laws of 2005, Chapter 34, Section 3, Item A-5.
- (9) Payment for new judge training.

See Auditor's Report.

**STATE OF NEW MEXICO
SECOND JUDICIAL DISTRICT COURT**

SCHEDULE OF DEPOSITS AND INVESTMENTS

June 30, 2006

	<u>Type of Account</u>	<u>Bank Balance</u>	<u>Reconciled Balance</u>
Governmental Funds			
New Mexico State Treasurer			
Court Regular	Operating	\$ 955,684	\$ 863,482
Capital Project	Operating	8,967	-
Child Support Hearing Officer	Operating	39,540	37,757
Court Mediation	Operating	193,883	193,796
Court Automated Transcripts	Operating	-	-
Court Arbitration (Alternative Dispute)	Operating	155,506	155,506
Petty cash	N/A	1,300	1,300
Total governmental		<u>\$ 1,354,880</u>	<u>\$ 1,251,841</u>
AGENCY FUND			
Litigant Accounts:			
Wells Fargo	Checking	\$ 99,679	\$ 928
Wells Fargo	Checking	992,553	967,134
Held with New Mexico State Treasurer:	Savings	4,834,263	4,852,861
Court Clerk Account:			
Wells Fargo	Checking	89,034	108,059
Total Agency Fund		<u>\$ 6,015,529</u>	<u>\$ 5,928,982</u>

See Auditor's Report

**STATE OF NEW MEXICO
SECOND JUDICIAL DISTRICT COURT**

JOINT POWERS AGREEMENT

June 30, 2006

- a) Participants: The New Mexico Human Services Department and the Second Judicial District Court.
 - b) Responsible party for operations: The Second Judicial District Court.
 - c) Descriptions - For the provision of a Child Support Hearing Officer and related services pursuant to NMSA 1978, Section 40-4B-1 etseq. (1999 Repl. Pam)
-

The purpose of this Agreement is to provide additional personnel and procedures to promote prompt and full payment by obligated parties of child support obligations for their dependent children and, where applicable, attendant spousal support obligations. The Agreement has a further purpose of insuring that support payments are made in compliance with federal regulations governing the state's federally mandated program pursuant to Title IV-D of the Federal Social Security Act. Improved compliance will speed up the processing of cases and completion of enforcement actions, thereby reducing expenditures for the Temporary Aid to Needy Families Program (TANF). The Judicial District shall be the employer of any and all hearing officers, and any and all personnel employed to carry out the terms of this agreement for the Second Judicial District Court:

- d) Beginning and ending dates of agreement: July 1, 2003 to June 30, 2006.
- e) Total estimated amount of project is \$2,293,668.
- f) The Human Services Department contributed \$796,091 in the current fiscal year.
- g) The Second Judicial District Court has audit responsibility.
- h) The Second Judicial District Court is the fiscal agent.
- i) The Second Judicial District Court reports all revenues and expenditures.

**STATE OF NEW MEXICO
SECOND JUDICIAL DISTRICT COURT**

JOINT POWERS AGREEMENT

June 30, 2006

- a) Participants: The City of Albuquerque, University of New Mexico Hospital and the Second Judicial District Court.
- b) Responsible party for operations: The Second Judicial District Court
- c) Descriptions - The Second Judicial District Court shall:
 - 1) Provide pre-trial supervision of individuals accused of felonies who are released pending trial as an alternative to incarceration;
 - 2) Provide background investigations for felony arraignments; and
 - 3) Provide in-court presentations for felony preliminary hearings and felony arraignments held at District Courthouse.
- d) Beginning and ending dates of agreement: July 1, 2004 to June 30, 2006.
- e) Total estimated amount of project is \$489,766.
- f) The City of Albuquerque contributed \$320,700 and the University of New Mexico Hospital contributed \$49,133 in the current fiscal year.
- g) The Second Judicial District Court has audit responsibility.
- h) The Second Judicial District Court is the fiscal agent.
- i) The Second Judicial District Court reports all revenues and expenditures.

See Auditor's Report.

**STATE OF NEW MEXICO
SECOND JUDICIAL DISTRICT COURT**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2006

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass Through Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Justice</u>			
Truancy Project	16-541		\$ 48,090
Pass through program from:			
New Mexico Crime Victims Reparation Commission			
Violence Against Women Act	16-588	2005-WF-934	13,497
		2004-WF-736	19,643
Administrative Office of the Courts			
Family Dependency Drug Court	16-580	2004-DD-BX-1453	33,029
		2003-DD-BX-1049	29,037
Total U.S. Department of Justice			<u>143,296</u>
<u>U.S. Department of Health and Human Services</u>			
Pass through from New Mexico Human Services Department			
* Child Support Enforcement	93-563	GSA 06-630-6000-0008	<u>524,984</u>
			<u>\$ 668,280</u>

* Denotes Major Program

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Second Judicial District Court and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with requirements of OMB Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*.

See Auditor's Report.

GOVERNMENT AUDITING STANDARDS REPORT

Zlotnick, Laws & Sandoval, P.C.

CERTIFIED PUBLIC ACCOUNTANTS
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SANTA FE, NEW MEXICO 87505

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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

Domingo P. Martinez, CGFM
New Mexico State Auditor
and
Honorable William F. Lang, Chief Judge
Second Judicial District Court
Albuquerque, New Mexico

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the State of New Mexico, Second Judicial District Court (Court), as of and for the year ended June 30, 2006 which collectively comprise the Court's basic financial statements as listed in the table of contents. We also have audited the combining and individual fund financial statements of the Second Judicial District Court as of and for the year ended June 30, 2006 as listed in the table of content and have issued our reported thereon dated December 8, 2006. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Court's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we considered to be material weaknesses.

Compliance and Other Matters

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

We noted a certain matter that is required to be reported per section 12-6-5 NMSA 1978 that is described in the accompanying schedule of findings and questioned costs as item 06-1.

This report is intended solely for the information and use of management, the Office of the State Auditor, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Zloteck, Laws & Sandoval, P.C.

Zloteck, Laws & Sandoval, P.C.

December 8, 2006

Zlotnick, Laws & Sandoval, P.C.

CERTIFIED PUBLIC ACCOUNTANTS
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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Domingo P. Martinez, CGFM
New Mexico State Auditor
and
Honorable William F. Lang, Chief Judge
Second Judicial District Court
Albuquerque, New Mexico

Compliance

We have audited the compliance of the State of New Mexico, Second Judicial District Court (Court) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The Court's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Court's management. Our responsibility is to express an opinion on the Court's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Court's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Court's compliance with those requirements.

In our opinion, the Second Judicial District Court complied, in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the Court is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Court's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purposes of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the State of New Mexico, Second Judicial District Court, the Office of the New Mexico State Auditor, the New Mexico State Legislature and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Zlotnick, Laws & Sandoval, P.C.

Zlotnick, Laws & Sandoval, P.C.

December 8, 2006

STATE OF NEW MEXICO
SECOND JUDICIAL DISTRICT COURT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2006

Section I - Summary of Auditor's Results

Financial Statements

Type of auditors' report issued: Unqualified Opinion

Internal control over financial reporting:

A. Material weaknesses identified Yes No

B. Reportable conditions identified that are not considered to be material weaknesses? Yes No

Noncompliance material to the financial statements noted? Yes No

Federal Awards

Internal control over major programs:

A. Material weaknesses identified? Yes No

B. Reportable conditions identified that are not considered to be material weaknesses? Yes No

Type of auditors' report issued on compliance for major programs: Unqualified Opinion

Any audit findings disclosed that are required to be reported in accordance with 510(a) of Circular A-133? Yes No

Identification of major programs:

CFDA Numbers
93-563

Name of Federal Program or Cluster
Child Support Enforcement

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes No

STATE OF NEW MEXICO
SECOND JUDICIAL DISTRICT COURT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2006

Section II - Financial Statement Findings

06-1

PAYROLL TEST

Condition:

We selected 25 employees for testing of payroll and leave records. We found one employee where the sick leave record is understated by one hour compared to the attendance record.

Criteria:

Employees' attendance records should be posted accurately to the payroll and the leave tracking system.

Effect:

One employee's sick leave balance was overstated.

Cause:

Unknown

Recommendation:

We recommend that the Court have a review of the balances by someone independent of payroll at a reasonable interval i.e. semi-annually.

Agency Response:

The Human Resource Division has been utilizing an independent leave tracking system to check against the HRMS reports to ensure we are entering time correctly. Inconsistencies are investigated and corrected.

**STATE OF NEW MEXICO
SECOND JUDICIAL DISTRICT COURT**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2006

Section III - Federal Awards Findings

No matters were reported.

STATE OF NEW MEXICO
SECOND JUDICIAL DISTRICT COURT

PRIOR YEAR FINDINGS

Year Ended June 30, 2006

<u>Reference</u>		
<u>Number</u>	<u>Condition</u>	<u>Disposition</u>
04-01	Leave Balance Tracking	Revised and Repeated
04-02	Cash Reciepts	Resolved

The financial statements were prepared by the auditors, Zlotnick, Laws & Sandoval, P.C.

**STATE OF NEW MEXICO
SECOND JUDICIAL DISTRICT COURT**

EXIT CONFERENCE

June 30, 2006

The contents of this report were discussed at an exit conference held December 15, 2006 with the following in attendance:

2nd Judicial District Court

Honorable William F. Lang, Chief Judge

Art Gallegos, Deputy Court Administrator

Farah French, Fiscal Services Director

Zlotnick, Laws & Sandoval, P.C.

Asa Laws, CPA

We appreciate the opportunity to be of service to the Second Judicial District Court and also appreciated the assistance provided to us by the management and staff.