



**KRIEGEL/GRAY/SHAW & CO., P.C.**

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

**FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**JUNE 30, 2010**

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

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JUNE 30, 2010**

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

**OFFICIAL ROSTER  
JUNE 30, 2010**

**JUDGES**

<i>Honorable Manuel I. Arrieta</i>	<i>Division I</i>
<i>Honorable Stephen Bridgforth</i>	<i>Division II</i>
<i>Honorable Michael T. Murphy</i>	<i>Division III</i>
<i>Honorable Jerald A. Valentine</i>	<i>Chief Judge, Division IV</i>
<i>Honorable Lisa C. Schultz</i>	<i>Division V</i>
<i>Honorable James T. Martin</i>	<i>Division VI</i>
<i>Honorable Douglas R. Driggers</i>	<i>Division VII</i>
<i>Honorable Fernando R. Macias</i>	<i>Division VIII</i>

**ADMINISTRATIVE OFFICIALS**

<i>Vacant</i>	<i>Court Executive Officer</i>
<i>Candace E. Brown</i>	<i>Court Financial Manager</i>

**INDEPENDENT AUDITORS' REPORT**

Mr. Hector H. Balderas, State Auditor and  
Honorable Jerald A. Valentine, Chief Judge  
State of New Mexico  
Third Judicial District Court  
Las Cruces, New Mexico

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information, and the budgetary comparisons for the general fund and major special revenue funds of the Third Judicial District Court, as of and for the year ended June 30, 2010, which collectively comprise the Court's basic financial statements as listed in the table of contents. We also have audited the financial statements of the Court's nonmajor governmental fund and the budgetary comparison for the nonmajor fund presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2010, as listed in the table of contents. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Court's internal control over financial reporting. Accordingly, we express no such opinion. 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 basic 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 Third Judicial District Court, are intended to present the financial position, the changes in financial position, and the respective budgetary comparisons of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State of New Mexico that is attributable to the transactions of the Third Judicial District Court. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2010, 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.

Mr. Hector H. Balderas, State Auditor and  
Honorable Jerald A. Valentine, Chief Judge  
State of New Mexico  
Third Judicial District Court  
Las Cruces, New Mexico  
Page Two

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Third Judicial District Court, as of June 30, 2010, and the respective changes in financial position and the respective budgetary comparisons for the general fund, and 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 nonmajor governmental fund of the Court as of June 30, 2010, and the respective changes in financial position and the respective budgetary comparison for the nonmajor fund 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 our report dated November 9, 2010, on our consideration of the Third Judicial District Court's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 4 through 12 are not a required part of the basic financial statements but is supplementary 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 required supplementary information. 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, and the combining and individual fund financial statements. The additional schedules listed as "other supplementary information" in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

*Kriegel/Gray/Shaw & Co., P.C.*  
Kriegel/Gray/Shaw & Co., P.C.

November 9, 2010

**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2010**

The following is a discussion and analysis of the State of New Mexico Third Judicial District Court's (the District Court's) financial performance, providing an overview of the activities for the fiscal year ended June 30, 2010. Please read it in conjunction with the transmittal letter at the front of this report and with the District Court's financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS - PRIMARY GOVERNMENT**

**Government-Wide Highlights**

- The assets of the District Court exceeded its liabilities at the close of the fiscal year by \$465,367 (reported as net assets). Of this amount, \$145,175 (unrestricted net assets) may be used to meet the District Court's ongoing obligations to citizens and creditors and \$320,192 is invested in capital assets, net of related debt.
- The District Court's total net assets decreased in fiscal year 2010 by \$235,037, all of which are governmental activities. The District Court does not engage in business-type activities.

**Fund Highlights**

- At the close of fiscal year 2010, the District Court's governmental funds reported combined ending fund balances of \$377,005, a decrease of \$110,078 from the beginning of the year. This decrease was primarily due to a transfer to the state's general fund of \$150,000, from the court's Alternative Dispute Resolution Fund as part of increasing funding solvency within the State of New Mexico. The remaining fund balance is available to meet the District Court's current and future needs of specific programs.

**Long-Term Debt**

- As in prior years, the Third Judicial District Court has not participated in the financing of capital assets through the sale of bonds or issuance of long-term notes. The only long-term debt incurred by the District Court is Accrued Compensated Absences. Compensated Absences increased by \$18,737 (8.8%) during the fiscal year.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The District Court's annual report consists of four parts -- management's discussion and analysis, the basic financial statements, required supplementary information, and a section that presents combining statements for nonmajor governmental funds. The basic financial statements include two kinds of statements that present different views of the District Court:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the District Court's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District Court, reporting the District Court's operations in more detail than the government-wide statements.
  - The governmental funds statements tell how general government services (the primary function of the District Court) were financed in the short-term as well as what remains for future spending or reversions.
  - Fiduciary fund statements provide information about the financial relationships in which the District Court acts solely as a trustee or agent for the benefit of others to whom the resources in question belong.

**STATE OF NEW MEXICO**  
**THIRD JUDICIAL DISTRICT COURT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2010**

- The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. Figure 1 shows how the required parts of this annual report are arranged and related to one another. In addition to these required elements, we have included a section with combining statements that provide details about our nonmajor governmental funds, each of which are added together and presented in a single column in the basic financial statements.

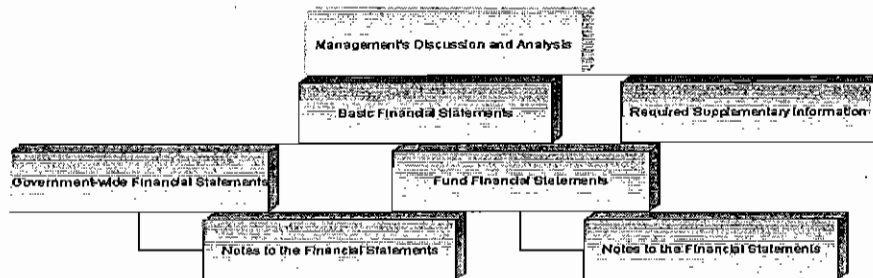


Figure 1. Required Components of the District Court's  
Annual Financial Report

#### Government-Wide Statements

The government-wide statements report information about the District Court as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District Court'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.

The two government-wide statements report the District Court's net assets and how they have changed. Net assets (the difference between the District Court's assets and liabilities) are one way to measure the District Court's financial health or position.

- Over time, increases or decreases in the District Court's net assets are indicators of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District Court, you need to consider additional non-financial factors such as changes in the District Court's grant funding or the addition of a new program.

**STATE OF NEW MEXICO**  
**THIRD JUDICIAL DISTRICT COURT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2010**

**Fund Financial Statements**

The fund financial statements provide more detailed information about the District Court's most significant funds, not the District Court as a whole. Funds are accounting devices that the District Court uses to keep track of specific sources of funding and spending for particular purposes. State law requires the establishment of certain funds. The State of New Mexico legislature establishes other funds to control and manage money for particular purposes or to show that it is properly using certain grants.

The District Court has two types of funds, Governmental and Fiduciary. The District Court does not have business-type activities and, therefore, does not maintain proprietary funds.

- **Governmental Funds**

Most of the District 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. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District Court's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information with the governmental funds statements that explain the relationship (or differences) between them.

- **Fiduciary Funds**

The District Court is the trustee, or fiduciary, for bond, restitution and other deposits made with the District Court in compliance with District Court orders.

The District Court is responsible for those assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The District Court is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District Court's fiduciary activities are reported in a separate statement of fiduciary assets and liabilities and a statement of changes in fiduciary assets and liabilities. We exclude these activities from the District Court's government-wide financial statements since the District Court cannot use these assets to finance its operations.



**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2010**

**FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE**

Net Assets

Net assets measure the difference between what the District Court owns (assets) and what the District Court owes (liabilities). Net assets may serve over time as a useful indicator of the District Court's financial position. The amount of total net assets is one measure of the health of the District Court's finances. This measure must be used with care because large portions of the balances related to capital assets that are unavailable to meet the day-to-day payments of the District Court.

The District Court's overall financial position and operations for the past year are summarized as follows based on the information included in the government-wide financial statements.

**State of New Mexico - Third Judicial District Court  
Assets, Liabilities and Net Assets as of June 30,**

	<b>Governmental Activities</b>		
	<b>2010</b>	<b>Restated 2009</b>	<b>Percent Change</b>
Current Assets	\$906,973	\$963,005	(5.8%)
Capital Assets	320,192	426,414	(24.9%)
<i>Total Assets</i>	<u>1,227,165</u>	<u>1,389,419</u>	<u>(11.7%)</u>
Current Liabilities	529,968	466,626	13.6%
Long-term Liabilities	231,830	213,093	8.8%
<i>Total Liabilities</i>	<u>761,798</u>	<u>679,719</u>	<u>12.1%</u>
Net Assets:			
Invested in Capital Assets	320,192	426,414	(24.9%)
Unrestricted Net Assets	145,175	283,286	(48.7%)
<i>Total Net Assets</i>	<u>\$465,367</u>	<u>\$709,700</u>	<u>(34.4%)</u>

The largest portion of the District Court's net assets, \$320,192 or 68.8%, represents capital assets. The District Court uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

The remaining balance of the District Court's net assets, \$145,175 or 31.2%, represents unrestricted net assets that may be used to meet the District Court's ongoing obligations to citizens and creditors. These assets may be used at the State's discretion but often have limitations on use based on state statutes.

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the State's net assets changed during the fiscal year. As previously noted, the District Court does not engage in business-type activities and, therefore, only reports governmental and fiduciary activities.

**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2010**

**State of New Mexico - Third Judicial District Court  
Changes in Net Assets  
For the Fiscal Years ended June 30,**

	<u>Governmental Activities</u>		
	2010	Restated 2009	Percent Change
<b>Revenues</b>			
<b>Program Revenues</b>			
Charges for Services	\$155,255	\$142,643	8.8%
Operating Grants and Contributions	427,113	427,113	-
Capital Grants and Contributions	0	170,000	100%
<b>Grant Revenues</b>			
State Appropriations	6,434,400	6,504,600	(1.1%)
Transfer in/out, net	74,972	329,094	(77.2%)
<b>Total Revenues</b>	<b>7,091,740</b>	<b>7,573,450</b>	<b>(6.4%)</b>
<b>Expenses</b>			
General Government	7,336,073	7,571,842	(3.1%)
<b>Total Expenses</b>	<b>7,336,073</b>	<b>7,571,842</b>	<b>(3.1%)</b>
Increase (Decrease) in Net Assets	(244,333)	1,608	(15,294.8%)
Net Assets, July 1, as Restated	709,700	698,796	1.6%
<b>Net Assets, June 30</b>	<b>\$465,367</b>	<b>\$709,700</b>	<b>(34.4%)</b>

<sup>1</sup>The Percent Change column shows the percentage change in operations from fiscal year 2009 to 2010 for each line item. The reader should be cautious when using this column to evaluate the overall change in net assets. Although a line may show a large percentage change, it may not have as significant effect as a change in a more material line item with a smaller percentage change.

General Revenues for the District Court consist primarily of State general fund appropriations. State general fund appropriations reported in fiscal year 2009 were \$6,504,600 and \$6,434,400 in 2010, a decrease of \$70,200. This decrease was the result of a general fund appropriation reductions reflecting declining state revenues and declining economic position statewide, as well as nationally.

Total expenses for the District Court are all categorized as Primary government/Governmental activities. The District Court does not participate in any business-type activities.

General government expenses decreased by \$235,769 from \$7,571,842 in fiscal year 2009 to \$7,336,073 in fiscal year 2010. This represents a decrease of 3.1% and is primarily due to constricted State budgets due to the economic climate statewide.

Depreciation expenses decreased from \$113,288 in fiscal year 2009 to \$106,222 in fiscal year 2010, a decrease of 6.2%.

**STATE OF NEW MEXICO**  
**THIRD JUDICIAL DISTRICT COURT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2010**

**FINANCIAL ANALYSIS OF THE STATE'S FUNDS**

**Governmental Funds**

As noted earlier, the District Court uses fund accounting to ensure and demonstrate compliance with legal requirements. The general government functions are contained in the General and Special Revenue funds. The focus of the District Court's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources.

**General Fund**

The general fund is the chief operating fund of the District Court. At June 30, 2010, the District Court's general fund reported a fund balance of \$83,615.

**Alternative Dispute Fund**

The Alternative Dispute (ADR) Fund is used to account for fees collected and expenses incurred pursuant to Section 34-6-45 of the New Mexico State Statutes. The District Court collects a fee of fifteen dollars on all new and reopened civil cases except domestic relations cases. The fee is deposited into the Alternative Dispute Resolution fund to be used to defray the cost of operating the District Court's Alternative Dispute Resolution program. Total fund balance decreased by \$128,476 or 33.7% over the June 30, 2009 fund balance. The fund balance decrease is due to a transfer of \$150,000 of fund balance to the state general fund per HB3 Ch2 S1 I6 in Court fees collected. This fund is non-reverting.

**Human Services Division Fund**

The Human Services Division Fund is used to account for the proceeds and related expenditures from an interagency agreement between the Court and the New Mexico State Department of Human Services pursuant to Section 40-4B-1 (Child Support Hearing Officer Act) of the New Mexico Statutes. The purpose of the Child Support Hearing Officer Act is to provide the personnel necessary to insure prompt and full payment by obligated parties of child support obligations for their dependent children and, where applicable, attendant spousal support obligations. All unexpended funds are reverted.

The contract from the New Mexico State Department of Human Services of \$427,113 did not change in fiscal year 2009.

**STATE OF NEW MEXICO**  
**THIRD JUDICIAL DISTRICT COURT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2010**

**Nonmajor Funds**

The District Court maintains one other fund listed on the Governmental Funds statements as a nonmajor fund - Mediation Fund.

The Mediation Program Fund is used to account for fees collected and expenses incurred pursuant to Section 40-12-4 of the New Mexico State Statutes. The District Court collects a surcharge of thirty dollars on all new and reopened domestic relations cases. Parents involved in domestic relations cases and utilize mediation services also pay a portion of the cost of domestic relations mediation pursuant to a sliding fee scale approved by the Supreme Court and is based upon the parent's ability to pay for the specific service rendered. Money in this fund is used to offset the cost of operating the domestic relations mediation program and the supervised visitation program. The Mediation Program fund balance increased from \$38,755 as of June 30, 2009 to \$41,199 as of June 30, 2010. The amount, \$2,444 represents a 6.3% decrease over fiscal year 2009. Court fees increased in 2010 by \$12,444 (24.4%) due predominantly to an increase in the number of cases. Fiscal year 2010 expenditures of \$61,046, indicates a decrease in spending compared with fiscal year 2009 expenditures of \$65,624 (decrease of \$4,578 (6.9%)). Expenditures decrease was due to a decline mediation services. This fund is non-reverting.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The State of New Mexico Legislature makes annual appropriations to the District Court for general operations and drug court programs. Additionally, appropriations are made to the Administrative Office of the Courts for the Court Appointed Special Advocate (CASA) and Water Adjudication programs that are then transferred to the District Court. The District Court's original fiscal year 2010 budget included \$6,571,200, including funding for four new employees, in legislative appropriations for general operations and drug court programs, \$100,000 for CASA, \$133,000 for Water Adjudication, \$30,000 for copies and tapes reimbursement, and \$11,100 for Drug Court program fees all of which are included in the General Fund.

During fiscal year 2010, the District Court's overall general fund revenue budget decreased by \$154,071 or 2.2%. The decrease was predominantly a reduction in the legislative appropriation.

The variance between the final budget and actual in the expenditures section of the General Fund budgetary comparison was a favorable \$2,965. This was primarily due to non-expenditure for contractual services.

All increases to the District Court's budget were made with the approval of the State Budget Division.

**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2010**

**CAPITAL ASSET AND DEBT ADMINISTRATION**

Capital Assets

As of June 30, 2010, the Third Judicial District Court had \$320,192 invested in capital assets, net of accumulated depreciation, including furniture, fixtures, equipment, data processing equipment, and vehicles (see table below). This amount represents a net decrease of \$106,222 or 24.9% over fiscal year 2009 figures. While governmental standards do not prescribe a minimum level for the capitalization of assets, the District Court has followed the Department of Finance and Administration's capitalization policy of \$5,000. This is the dollar value above which asset acquisitions are added to the capital accounts. As such, all capital assets with an original cost of less than \$5,000 that were purchased in the current fiscal year are not included on the reportable fixed asset list; however, remain on the physical inventory list for the District Court. During fiscal year 2010, the Court did not make any capital acquisitions.

Depreciation charges for this fiscal year totaled \$106,222.

**State of New Mexico - Third Judicial District Court  
Capital Assets as of June 30**

	<u>Governmental Activities</u>		<b>Percent Change</b>
	<b>2010</b>	<b>2009</b>	
Furniture and Fixtures	\$258,507	\$258,507	-
Equipment	734,796	734,796	-
Data Processing	150,630	150,630	-
Vehicles	184,298	184,298	-
<i>Total</i>	<b>\$1,328,231</b>	<b>\$1,328,231</b>	-

As part of GASB 34 implementation, the District Court depreciated its capital assets using the straight-line depreciation method for all assets for which depreciation is applicable as instructed by the Department of Finance and Administration. In determining the estimated useful life, the District Court considered the asset's class, present condition, use of the asset and how long the asset was expected to meet service and technology standards. In all cases, salvage value was assumed to be zero.

Long-Term Debt

As in prior years, the Third Judicial District Court has not participated in the financing of capital assets through the sale of bonds or issuance of long-term notes.

**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2010**

**Infrastructure Assets**

Infrastructure assets are defined as long-lived capital assets that are normally stationary in nature and that can normally be maintained for a significantly greater number of years than most capital assets. Infrastructure assets include roads, bridges, tunnels, drainage systems, water and sewer systems, dams and lighting systems. GASB 34 requires agencies with infrastructure assets to capitalize them and report major general infrastructure assets that were acquired in fiscal years ending after June 30, 1980, or that received major renovations, restorations or improvements during that period.

The Third Judicial District Court does not own any infrastructure assets and, as such, does not include any information under this heading.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The Third Judicial District Court requested a total budget of \$7,756,500 for Fiscal Year 2011 for base budgets of all programs managed by the District Court including the General Court, Juvenile and Adult Drug Courts, Water Rights Adjudication, Court Appointed Special Advocate Program, Alternative Dispute Resolution, Mediation and Human Services Division (Child Support Hearing Officer Program). The Court received \$7,030,200 for fiscal year 2011. The General Fund has been further reduced by \$201,000 since July 1, 2010.

**CONTACTING THE DISTRICT COURT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, creditors and the general public with a general overview of the District Court's finances and to show the District Court's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the Court Executive Officer, 201 W. Picacho, Las Cruces, New Mexico 88005 (575) 523-8283.

**STATE OF NEW MEXICO**  
**THIRD JUDICIAL DISTRICT COURT**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2010**

**ASSETS**

**Current Assets:**

Investment in the State Treasurer General Fund Investment Pool	\$827,579
Petty cash	100
Uncollectible receivable	8,108
Due from other state agencies	71,186
<i>Total current assets</i>	<u>906,973</u>

**Noncurrent Assets:**

Capital assets	1,328,231
Less: accumulated depreciation	(1,008,039)
<i>Total capital assets, net of depreciation</i>	<u>320,192</u>
<i>Total noncurrent assets</i>	<u>320,192</u>

<i>Total assets</i>	<u>1,227,165</u>
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**LIABILITIES**

**Current Liabilities:**

Accounts payable	170,052
Accrued payroll and payroll liabilities	303,259
Due to external parties	2,522
Due to State general fund	3,007
Due to State Treasurer's Office	51,128
<i>Total current liabilities</i>	<u>529,968</u>

**Long-Term Liabilities:**

Compensated absences - long term	231,830
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<i>Total liabilities</i>	<u>761,798</u>
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**NET ASSETS**

Invested in capital assets	320,192
Unrestricted	145,175

<i>Total net assets</i>	<u>\$465,367</u>
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The Notes to Financial Statements are an integral part of these statements.

**STATE OF NEW MEXICO**  
**THIRD JUDICIAL DISTRICT COURT**  
STATEMENT OF ACTIVITIES  
JUNE 30, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary Government:</b>					
<b>Governmental Activities:</b>					
Judiciary	\$7,229,851	\$155,255	\$427,113	\$0	(\$6,647,483)
Depreciation expense - unallocated	106,222	0	0	0	(106,222)
<i>Total governmental activities</i>	7,336,073	155,255	427,113	0	(6,753,705)
<b>Business-type activities:</b>	0	0	0	0	0
<b><i>Total primary government</i></b>	<b>\$7,336,073</b>	<b>\$155,255</b>	<b>\$427,113</b>	<b>\$0</b>	<b>(\$6,753,705)</b>

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Change in Net Assets:</b>			
Net (expense) revenue	(\$6,753,705)	\$0	(\$6,753,705)
<b>General Revenues and Transfers:</b>			
State general fund appropriations	6,434,400	0	6,434,400
Transfers, net	77,979	0	77,979
Reversions to State General Fund - 2009	(3,007)	0	(3,007)
<i>Total revenues and transfers</i>	6,509,372	0	6,509,372
<i>Change in net assets</i>	(244,333)	0	(244,333)
Net assets - June 30, 2009, as previously stated	700,404	0	700,404
Restatements	9,296	0	9,296
Net assets - June 30, 2009, as restated	709,700	0	709,700
<b><i>Net assets - June 30, 2010</i></b>	<b>\$465,367</b>	<b>\$0</b>	<b>\$465,367</b>

The Notes to Financial Statements are an integral part of these statements.



**STATE OF NEW MEXICO**  
**THIRD JUDICIAL DISTRICT COURT**  
**GOVERNMENTAL FUNDS**  
**BALANCE SHEET**  
**JUNE 30, 2010**

	Major Funds			Nonmajor Fund	Total
	General Fund	Alternative Dispute Fund	Human Services Division Fund		
<b>ASSETS</b>					
Investment in the State Treasurer					
General Fund Investment Pool	\$522,641	\$262,590	\$0	\$42,348	\$827,579
Petty cash	100	0	0	0	100
Uncollectible receivable	8,108	0	0	0	8,108
Due from other state agencies	0	0	71,186	0	71,186
Due from other funds	0	0	167	0	167
<b>Total assets</b>	<b>\$530,849</b>	<b>\$262,590</b>	<b>\$71,353</b>	<b>\$42,348</b>	<b>\$907,140</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts payable	\$157,920	\$10,399	\$584	\$1,149	\$170,052
Accrued payroll and payroll liabilities	283,660	0	19,599	0	303,259
Due to State general fund	2,965	0	42	0	3,007
Due to State Treasurer - GF Investment Pool	0	0	51,128	0	51,128
Due to other funds	2,689	0	0	0	2,689
<b>Total liabilities</b>	<b>447,234</b>	<b>10,399</b>	<b>71,353</b>	<b>1,149</b>	<b>530,135</b>
<b>FUND BALANCES</b>					
Unreserved, Designated for future expenditures:					
Reported in:					
General fund	83,615	0	0	0	83,615
Special revenue funds	0	252,191	0	41,199	293,390
<b>Total fund balances</b>	<b>83,615</b>	<b>252,191</b>	<b>0</b>	<b>41,199</b>	<b>377,005</b>
<b>Total liabilities and fund balances</b>	<b>\$530,849</b>	<b>\$262,590</b>	<b>\$71,353</b>	<b>\$42,348</b>	<b>\$907,140</b>

The Notes to Financial Statements are an integral part of these statements.

**STATE OF NEW MEXICO**  
**THIRD JUDICIAL DISTRICT COURT**  
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2010

<b>FUND BALANCE of Governmental Funds</b>	<b>\$377,005</b>
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.	320,192
Long-term liabilities, including compensated absences, are not due and payable in the current period and therefore are not reported in the funds.	(231,830)
<hr/> <b><i>Net assets of governmental activities</i></b> <hr/>	<hr/> <b>\$465,367</b> <hr/>

**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
GOVERNMENTAL FUNDS**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	Major Funds				Total
	General Fund	Alternative Dispute Fund	Human Services Division Fund	Nonmajor Fund	
<b>REVENUES</b>					
HSD contract revenue	\$0	\$0	\$427,113	\$0	\$427,113
Court fees	43,735	48,030	0	63,490	155,255
<i>Total revenues</i>	43,735	48,030	427,113	63,490	582,368
<b>EXPENDITURES</b>					
Current:					
Personal services	5,592,695	0	382,731	0	5,975,426
Contractual services	783,138	14,507	3,500	57,490	858,635
Other costs	320,659	11,999	40,840	3,556	377,054
<i>Total expenditures</i>	6,696,492	26,506	427,071	61,046	7,211,115
<b>OTHER FINANCING SOURCES (USES)</b>					
State general fund appropriations	6,434,400	0	0	0	6,434,400
Transfers from (to) other state agencies	227,979	(150,000)	0	0	77,979
Transfers - reversion to State General Fund 2010	(2,965)	0	(42)	0	(3,007)
<i>Total other financing sources (uses)</i>	6,659,414	(150,000)	(42)	0	6,509,372
<i>Net change in fund balance</i>	6,657	(128,476)	0	2,444	(119,375)
Fund balance, beginning of year, as previously stated	67,662	380,667	0	38,755	487,084
Restatement	9,296	0	0	0	9,296
Fund balance, beginning of year, as restated - 6/30/2009	76,958	380,667	0	38,755	496,380
<b><i>Fund balance, end of year - 6/30/2010</i></b>	<b>\$83,615</b>	<b>\$252,191</b>	<b>\$0</b>	<b>\$41,199</b>	<b>\$377,005</b>

The Notes to Financial Statements are an integral part of these statements.

**STATE OF NEW MEXICO**  
**THIRD JUDICIAL DISTRICT COURT**  
RECONCILIATION OF THE CHANGE IN FUND BALANCES  
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

**Net Change in Fund Balances - Governmental Funds** **(\$119,375)**

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 as depreciation expense.

Capital outlays and depreciation in the current period are:

Depreciation expense	(106,222)
Capital outlay	0

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds.

Change in compensated absences (18,736)

**Change in net assets of governmental activities** **(\$244,333)**

**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
GENERAL FUND**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	Budget Original	Budget Final	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>				
State general fund appropriations	\$6,565,900	\$6,434,400	\$6,434,400	\$0
Court fees	41,100	49,850	43,735	(6,115)
Other financing sources	248,200	227,979	227,979	0
<i>Total revenues</i>	<u>6,855,200</u>	<u>6,712,229</u>	<u>6,706,114</u>	<u>(6,115)</u>
<b>EXPENDITURES</b>				
Personal services	5,610,900	5,603,000	5,592,695	10,305
Contractual services	849,100	785,779	783,138	2,641
Other costs	395,200	323,450	322,331	1,119
<i>Total expenditures</i>	<u>6,855,200</u>	<u>6,712,229</u>	<u>6,698,164</u>	<u>14,065</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>\$0</u>	<u>\$0</u>	<u>\$7,950</u>	<u>\$7,950</u>

Budgetary - GAAP Reporting Reconciliation:

Excess (deficiency) of revenues over expenditures and other financing sources (uses)	\$7,950
Adjustments for current year reversions	(2,965)
Adjustments for current portion of accrued compensated absences accrued in prior year	0
Adjustment for unrealized gains - investments	1,672
<u>Net change in fund balance</u>	<u>\$6,657</u>

The Notes to Financial Statements are an integral part of these statements.

**STATE OF NEW MEXICO**  
**THIRD JUDICIAL DISTRICT COURT**  
**ALTERNATIVE DISPUTE RESOLUTION FUND**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	Budget Original	Budget Final	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>				
Court costs	\$30,000	\$30,000	\$48,030	\$18,030
<b>EXPENDITURES</b>				
Current:				
Personal services	0	18,000	0	18,000
Contractual services	33,800	20,000	14,507	5,493
Other costs	16,200	12,000	11,999	1
Other financing uses	0	150,000	150,000	0
<i>Total expenditures</i>	50,000	200,000	176,506	23,494
<i>Excess (deficiency) of revenues over expenditures</i>	(20,000)	(170,000)	(128,476)	41,524
Budgeted fund balance	20,000	170,000	170,000	0
	\$0	\$0	\$41,524	\$41,524

The Notes to Financial Statements are an integral part of these statements.

**STATE OF NEW MEXICO**  
**THIRD JUDICIAL DISTRICT COURT**  
HUMAN SERVICES DIVISION FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Budget Original	Budget Final	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>				
Other financing sources	\$479,600	\$427,113	\$427,113	\$0
<b>EXPENDITURES</b>				
Current:				
Personnel services	444,100	382,731	382,731	0
Contractual services	1,000	3,500	3,500	0
Other costs	34,500	40,882	40,840	42
<i>Total expenditures</i>	479,600	427,113	427,071	42
<i>Excess (deficiency) of revenues over expenditures</i>	\$0	\$0	\$42	\$42

Budgetary - GAAP Reporting Reconciliation:

Excess (deficiency) of revenues over expenditures and other financing sources (uses)	\$42
Adjustments for current year reversions	(42)
<b>Net change in fund balance</b>	<b>\$0</b>

The Notes to Financial Statements are an integral part of these statements.

**STATE OF NEW MEXICO**  
**THIRD JUDICIAL DISTRICT COURT**  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - AGENCY FUNDS  
JUNE 30, 2010

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash	\$2,764,546
Due from general fund	1,356
Due from other funds	2,522
<hr/>	
<b><i>Total assets</i></b>	<b>\$2,768,424</b>
<hr/>	
<b>LIABILITIES</b>	
Deposits held in custody for others	\$2,768,424
<hr/>	
<b><i>Total liabilities</i></b>	<b>\$2,768,424</b>
<hr/>	

The Notes to Financial Statements are an integral part of these statements.



**STATE OF NEW MEXICO**  
**THIRD JUDICIAL DISTRICT COURT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

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

Third Judicial District Court (District Court) operates under Section 34-6-1 through 34-6-3, 34-6-6, and 34-6-17 through 34-6-46, NMSA, 1978 Compilation. The Third Judicial district covers Dona Ana County. The Third Judicial District Court is the state court of general jurisdiction and is authorized to hear and determine all civil and criminal cases that are not specifically exempted from its jurisdiction. Financing of the court is by state appropriation.

The accounting policies of the Third Judicial District Court conform to generally accepted accounting principles (GAAP) as applicable to governments.

**Reporting Entity**

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the section of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential components units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Based upon the application of these criteria, the District Court has no component units, and is not a component unit of another governmental agency.

**Basis of Accounting**

The accounts of the District 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 various funds are grouped into two broad fund categories and two generic fund types as follows:

**Governmental Fund Type**

**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 with the exception of certain fees generated by the court, certain contracts related to grants of another agency and appropriations related to capital projects. The SHARE number for the General Fund of the District Court is 14300. Because reverting and non-reverting funds are in the same fund class coding in the SHARE system is used to identify each type.

**STATE OF NEW MEXICO**  
**THIRD JUDICIAL DISTRICT COURT**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Alternative Dispute Resolution Fund - The Alternative Dispute Resolution Fund is used to account for proceeds from surcharges on all civil cases except for domestic relations and children's cases. These fees do not revert to the State of New Mexico; rather they are used to provide arbitration for civil cases except for domestic relations and children's cases. The authority to establish the fund is NM State Statute 34-6-45. The Third Judicial District Court has determined this fund to be a major fund whose SHARE number is 87700.

Human Services Division Fund - The Human Services Division Fund is used to account for the proceeds from state grants through the New Mexico State Department of Human Services and the expenditures there from. These funds are used to provide for the enforcement of child support payments and prohibitions against domestic violence. Any unencumbered balance remaining is reverted to the General Fund of the State of New Mexico. The authority for the creation and maintenance of the fund is given under New Mexico State Statute 40-4b-1. The Third Judicial District Court has determined this fund to be a major fund whose SHARE number is 92400.

Mediation Program Fund - The Mediation Program Fund is used to account for proceeds from surcharges on domestic filing fees. The authority for the creation and maintenance of the fund is given under New Mexico State Statute 40-12-5. These fees are used to provide mediation services and counseling for cases involving children or contested divorces. These funds do not revert to the State of New Mexico. The Third Judicial District Court has determined this fund to be a nonmajor fund whose SHARE number is 92300.

Fiduciary Funds

Agency Funds - Agency Funds are used to account for assets held by the District 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.

Litigant's Fund - These monies are amounts collected from persons involved in pending lawsuits. The court has custody and, if directed by the court, may invest these monies until refunded to litigants. The interest earned, if stated in the court order, is refunded and, if not stated, the interest earned is transferred to the state general fund.

**Basis of Presentation - Fund Accounting**

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the District Court, the primary government, as a whole, without displaying individual funds or fund types. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the District Court. The District 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 in the accounting period in which they are earned and become measurable, and expenses are recognized in the period incurred, if measurable. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

**STATE OF NEW MEXICO**  
**THIRD JUDICIAL DISTRICT COURT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Private-sector standards of accounting and financial reporting (FASB pronouncements) issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Non-exchange transactions, in which the Court gives (or receives) value without directly receiving (or giving) equal value in exchange include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Program revenues derive directly from the program itself or from parties outside the court or citizenry, as a whole; they reduce the net cost of the function to be financed from the court's general revenues. These statements report three categories of program revenues as follows:

Charges for service, which arise from charges to customers or applicants who purchase, use or directly benefit from the service provided. The Court charges for various court costs.

Operating grants and contributions arising from other governments, organizations, or individuals that are restricted for use in a particular program. The category includes contract receipts received for the operations of the Juvenile Drug Court and Family Dependency Court.

Capital grants and contributions arising from other governments, organizations, or individuals that are restricted for capital purposes - to purchase, construct or renovate capital assets associated with a specific program. This category consists of state capital outlay bonds received by the Court.

It is the Court's policy to first apply restricted resources (grant funds) when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

Fund Financial Statements

The governmental fund and agency fund financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Under this measurement focus and basis of accounting, revenues are recognized in the accounting period in which they become available and measurable; expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay current liabilities of the current period.

Those revenues susceptible to accrual are federal and state grants and as such are recognized in the accounting period when they become both measurable and available. A reconciliation is provided with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

**STATE OF NEW MEXICO**  
**THIRD JUDICIAL DISTRICT COURT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Assets, Liabilities, and Equity**

**Cash and Investments**

The District Court cash and cash equivalents are considered to be demand deposits, savings accounts and certificates of deposits.

**Capital Assets**

In the government-wide financial statements, fixed assets are accounted for as capital assets. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets, which are recorded at their estimated fair value at the date of donation. The court defines capital assets as assets with lives of greater than one year and a cost or donated value of \$5,000 or greater. The court includes software in capital assets under the data processing category.

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 years
Automotive	5 years
Data Processing	3 years

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

**Equity**

**Government-Wide Statements**

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

1. Invested in capital assets, net of related debt, consists of capital assets net of accumulated depreciation and reduced by any outstanding debt. The District Court has no outstanding debt relating to capital assets.
2. Restricted net assets, consists of net assets with constraints placed on the 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.
3. 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."

**Fund Financial Statements**

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved.

**STATE OF NEW MEXICO**  
**THIRD JUDICIAL DISTRICT COURT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Budgets and Budgetary Accounting**

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

1. Prior to September 1<sup>st</sup>, the District Court submits to the Department of Finance and Administration (DFA) an appropriation request for the fiscal year commencing the following July 1<sup>st</sup>. The appropriation request includes proposed expenditures and the means of financing them.
2. 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.
3. The Governor of the State of New Mexico within the legally prescribed time limit signs the Act into law.
4. The District Court submits, no later than May 1<sup>st</sup>, to DFA 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<sup>st</sup>. The Director of the DFA - Budget Division must approve all subsequent budget adjustments. The budget for the current year was amended in a legal manner.
5. Legal budget control for expenditures is by expenditure category.
6. Formal budgetary integration is employed as a management control device during the fiscal year for the General Fund.
7. The budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP) modified accrual basis. The District Court changed its method of budgeting for the fiscal year ending June 30, 2010 to the modified accrual basis from a non-GAAP method where encumbrances are treated as expenditures. The budget for this State Agency 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 the next years budget.
8. Appropriations lapse at the end of the fiscal year. All unexpended amounts within the General Fund revert to the State General Fund.

**Encumbrances**

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the Governmental Funds. Encumbrances related to single year appropriations lapse at year-end. The portion of an encumbrance representing goods and services received by the last day of the fiscal year are reclassified as accounts payable. Any remaining encumbrances related to single year appropriations are reclassified as unreserved fund balance and a liability recorded to recognize any amounts subject to reversion.

**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Accrued Annual Leave**

Qualified employees accumulate annual leave as follows:

Years of Service	Hours Earned Per Month
Less than 3 years	10
Over 3 - 7 years	12
Over 7 - 14 years	14
14 years and greater	16

A maximum of 240 hours of 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 aforementioned maximums.

**NOTE 2. COLLATERAL PLEDGED BY FINANCIAL INSTITUTIONS**

The District Court's deposits at year-end were covered by federal depository insurance or by collateral held in the financial institution's name. The collateral is placed in safekeeping and pledged to the District Court. The District Court invests all money in interest or non-interest bearing savings accounts, checking accounts, certificates of deposit, and short-term investment funds held by the State of New Mexico Treasurer.

Section 6-10-16, NMSA 1978 Compilation requires that fifty percent of the balance not covered by FDIC or FSLIC to be pledged. If the securities pledged are U.S. government securities, they are pledged at market value; if they are New Mexico municipal bonds, they are pledged at par value. The State Treasurer issues separate financial statements that disclose the collateral pledged to secure the short-term investment deposits and the categories of risk involved.

\*\*The Litigant Agency Funds are in the State Investment Pool, which is not rated, although the securities within the pool are rated.

- a. The investments are valued at fair value based on quoted market prices as of the valuation date;
- b. The State Treasurer Local Government Investment Pool is not SEC registered. The State Treasurer is authorized to invest the short-term investment funds with the advice and consent of the State Board of Finance in accordance with Sections 6-10-10 I through 6-10-10 P and Sections 6-10-10 1A and E, NMSA 1978.
- c. The pool does not have unit shares. Per Section 6-10-10.1F, NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the amounts fund were invested; and
- d. Participation in the local government investment pool is voluntary.
- e. Separately issued financial statements are available from the New Mexico State Treasurer that does disclose the collateral pledged to secure State Treasurer cash and investments.

**STATE OF NEW MEXICO**  
**THIRD JUDICIAL DISTRICT COURT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 2. COLLATERAL PLEDGED BY FINANCIAL INSTITUTIONS (CONTINUED)**

<u>Litigant's Fund – LGIP</u>	<u>Cost Basis</u>	<u>Market Value</u>	<u>Credit Risk- Rating</u>	<u>Weighted Average Maturity Days</u>
State Investment Pool** - LGIP	\$1,390,801	\$1,390,801	AAAm	50
State Investment Pool – Reserve Contingency Fund	2,146	1,824		♦
	<u>\$1,392,947</u>	<u>\$1,392,625</u>		

♦ The Reserve Contingency Fund was established from the State Investment Pool LGIP's remaining position in the Reserve Primary Fund. The Reserve Contingency Fund, which is not rated, is a non-performing asset and, as such, a WAM cannot be calculated. The remaining balance of the fund has been written down to 85% based on the estimated recoverable amount. An unrealized loss of \$322 was recorded in the general fund as well as a due to the Litigant's Fund for the same amount.

**NOTE 3. RETIREMENT PLANS**

Public Employees Retirement Act (PERA)

Substantially all of the District Court 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, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, New Mexico 87504-2123. The report is also available on PERA's website at [www.pera.state.nm.us](http://www.pera.state.nm.us).

Retirement Plan (JRA)

Substantially all of the District Court judges or justices participate in a judicial retirement system authorized under the Judicial Retirement Act (10-12B-1 TO 10-12B-19 NMSA 1978). The retirement board provided for in the Public Employee Retirement Act is the administrator of the plan, which is a cost sharing multiple employer defined benefit retirement plan. The plan provides for retirement, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, New Mexico 87504-2123. The report is also available on PERA's website at [www.pera.state.nm.us](http://www.pera.state.nm.us).

**STATE OF NEW MEXICO**  
**THIRD JUDICIAL DISTRICT COURT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 3. RETIREMENT PLANS (CONTINUED)**

Funding Policy

**PERA**

Plan members are required to contribute 8.92% of their gross salary. The State of New Mexico Third Judicial District Court is required to contribute 15.09% of gross covered salary. The contribution requirements of plan members and the State of New Mexico Third Judicial District Court are established in state statute under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature.

The State of New Mexico Third Judicial District Court contributions to PERA for the years ending June 30, 2010, 2009, and 2008 were \$498,005, \$543,891, and \$517,033, respectively, which equals the amount of required contributions for the year.

**JRA**

Plan members, while in office, shall contribute 9% of salary to the member contribution fund. The State of New Mexico Third Judicial District Court shall contribute 10.5% of salary for each member in office to the fund. The contribution requirements of plan members and the State of New Mexico Third Judicial District Court are established in state statute under Chapter 10, Article 12B-10 and 12B-11 NMSA 1978. The requirements may be amended by acts of the legislature. The State of New Mexico Third Judicial District Court contributions to JRA for the years ending June 30, 2010, 2009, and 2008 were \$90,346, \$105,657, and \$105,083, respectively, equals to the amount of required contributions for the year.

**NOTE 4. POST EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN**

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

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf unless that person retires before the employer's RHCA effective date, in which the event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the postemployment healthcare plan. That report and further information can be obtained by writing to the Retiree Health Care Authority at 4308 Carlisle NE., Suite 104, Albuquerque, New Mexico 87107.



**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 4. POST EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN (CONTINUED)**

*Funding Policy.* The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at [www.nmrhca.state.nm.us](http://www.nmrhca.state.nm.us).

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. During the fiscal year ended June 30, 2010, the statute required each participating employer to contribute 1.3% of each participating employee's annual salary; each participating employee is required to contribute .65% of their salary. In the fiscal years ending June 30, 2011 through June 30, 2013, the contribution rates for employees and employers will rise as follows:

(1)

For employees who are not members of an enhanced retirement plan the contribution rates will be:

Fiscal Year	Employer Contribution Rate	Employee Contribution Rate
FY11	1.666%	.833%
FY12	1.834%	.917%
FY13	2.000%	1.000%

(2)

For employees who are members of an enhanced retirement plan (members pursuant to the Judicial Retirement Act [10-12B-1 NMSA 1978]) the contribution rates will be:

Fiscal Year	Employer Contribution Rate	Employee Contribution Rate
FY11	2.084%	1.042%
FY12	2.292%	1.146%
FY13	2.500%	1.250%

Also, employers joining the program after January 1, 1998 are also required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

The RHCA plan is financed on a pay-as-you-go basis. The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the contributions can be changed by the New Mexico State Legislature.

The District Court's contributions to the RHCA for the years ended June 30, 2010, 2009 and 2008 were \$54,109, \$53,001, and \$51,090, respectively, which equal the required contributions for each year.

**STATE OF NEW MEXICO**  
**THIRD JUDICIAL DISTRICT COURT**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

**NOTE 5. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2010 was as follows:

	Balance June 30, 2009	Additions	Deletions	Balance June 30, 2010
Furniture and fixtures	\$258,507	\$0	\$0	\$258,507
Equipment	734,796	0	0	734,796
Data processing	150,630	0	0	150,630
Vehicles	184,298	0	0	184,298
<i>Totals</i>	1,328,231	0	0	1,328,231
<b>Less Accumulated Depreciation:</b>				
Furniture and fixtures	(95,623)	(21,448)	0	(117,071)
Equipment	(514,926)	(66,506)	0	(581,432)
Data processing	(150,630)	0	0	(150,630)
Vehicles	(140,638)	(18,268)	0	(158,906)
<i>Total accumulated depreciation</i>	(901,817)	(106,222)	0	(1,008,039)
<i>Net Capital Assets</i>	\$426,414	(\$106,222)	\$0	\$320,192

Depreciation expense for the year is \$106,222.

**NOTE 6. OPERATING LEASES**

The District Court has the following leases, which can be terminated due to lack of funding from the legislature with no penalty to the agency.

Hasler, Inc. lease for postal equipment for \$365 per month. This lease is annually renewable.

Water King lease for water dispensers for a total of \$35 per month, the lease expired in September 2009 and was not renewed.

Pure Water lease for water dispensers for \$54 per month on a month-to-month basis.

**STATE OF NEW MEXICO**  
**THIRD JUDICIAL DISTRICT COURT**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

**NOTE 7. CASH/INVESTMENT CREDIT RISK**

The amounts held in trust for other parties are insured and collateralized as follows:

	Citizens Bank
Balance per Bank:	
Demand deposits	\$3,573
Time deposits	0
	3,573
FDIC Coverage	(3,573)
<i>Uninsured balance</i>	\$0

Investment in the State Treasurer General Fund Investment Pool

The remaining amounts held in trust are held in accounts with the State Treasurers Office. In addition, the District Court's operating bank account is also maintained and monitored by the State Treasurer's Office. The State Treasurer issues separate financial statements that disclose the collateral pledged to secure their deposits.

The State Treasurer has the authority to invest money held in demand deposits and not immediately needed for the operation of state government in securities in accordance with Sections 6-10-10 I through O, NMSA 1978 as amended.

**NOTE 8. DUE TO STATE OF NEW MEXICO GENERAL FUND**

As of June 30, 2010, the amount due to the State General Fund is \$2,965. This amount is composed of the following:

	Agency #	Fund #	Reversions	Other	Total
<b>General Fund:</b>					
2010 Fiscal Year	34101	85300	\$2,965	\$0	\$2,965
2010 Fiscal Year -- HSD	63000	05200	42	0	42
			\$3,007	\$0	\$3,007

**STATE OF NEW MEXICO**  
**THIRD JUDICIAL DISTRICT COURT**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

**NOTE 9. DUE FROM/TO OTHER FUNDS**

Due From/To Other Funds

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due from/to other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." All balances are expected to be repaid within one year.

	Due to: General Fund
<b>Due From:</b>	
Human Services Fund	\$167
Litigant's Fund	2,522
Totals	\$2,689

**NOTE 10. RISK OF LOSS**

The District Court's Office is insured through the 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 funds to provide unemployment compensation, tort liability insurance, workman's compensation, general and property insurance, and attempts to reduce the number of suits against the State and state agencies through the risk management process. The actuarial gains and losses of Risk Management Division were not available and are not included in this report. However, the District Court is not liable for more than the premiums paid.

**NOTE 11. RESTATEMENT OF NET ASSETS**

The General Fund June 30, 2010 Fund Balance was adjusted for:

Reversal of prior year write off of receivable to be written off in 2011 per Department of Finance and Administration (DFA)	\$8,108
Reversal of prior year correction of prepaid expenses, corrected per DFA in 2010	1,188
	\$9,295

Restatement of Governmental Activities Net Assets at June 30, 2010:

Fund statement adjustments	\$9,295
Total restatements – Governmental Activities	\$9,295

**STATE OF NEW MEXICO**  
**THIRD JUDICIAL DISTRICT COURT**  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2010

**NOTE 12. LONG-TERM LIABILITIES**

The Court did not have any debt at any time during the fiscal year ended June 30, 2010, except for compensated absences.

	Balance June 30, 2009	Additions	Deletions	Balance June 30, 2010	Due Within One Year
Compensated absences	\$213,093	\$202,574	\$183,837	\$231,830	\$0

The Court uses current operating funds (general fund) classified as wages and salaries to liquidate accrued compensated absences.

**NOTE 13. INTER AGENCY TRANSFERS**

	Agency #	SHARE Fund #	Agency #	SHARE Fund #	AMOUNT
	FROM		TO		
Reversions to the State General Fund – FY10	23300	14300	34101	85300	\$2,965
Reversions to the Human Services Division – FY10	23300	92400	63000	05200	\$42
Transfers from Administrative Office of the Courts	21800	13900	23300	14300	\$227,979
Transfer to State General Fund	23300	87700	34101	85300	\$150,000

**SUPPLEMENTARY FINANCIAL INFORMATION**

**STATE OF NEW MEXICO**  
**THIRD JUDICIAL DISTRICT COURT**  
NONMAJOR FUND  
BALANCE SHEET  
JUNE 30, 2010

	Mediation Fund
<b>ASSETS</b>	
Investment in the State Treasurer General Fund Investment Pool	\$42,348
Due from other funds	0
Due from other state agencies	0
<hr/>	
<i><b>Total assets</b></i>	<b>\$42,348</b>
<hr/>	
<b>LIABILITIES AND FUND BALANCE</b>	
<b>LIABILITIES</b>	
Due to other agencies	\$0
Due to other funds (including negative cash balance)	0
Accounts payable	1,149
Accrued payroll	0
<hr/>	
<i><b>Total liabilities</b></i>	<b>1,149</b>
<hr/>	
<b>FUND BALANCE</b>	
Unreserved, Designated for future expenditures:	
Special Revenue Fund	41,199
<hr/>	
<i><b>Total fund balance</b></i>	<b>41,199</b>
<hr/>	
<i><b>Total liabilities and fund balance</b></i>	<b>\$42,348</b>
<hr/>	

The Notes to Financial Statements are an integral part of these statements.

**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
NONMAJOR FUND**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	Mediation Fund
<b>REVENUES:</b>	
Other state funds - court fees	\$63,490
<i>Total revenues</i>	63,490
 <b>EXPENDITURES:</b>	
<b>Current:</b>	
Contractual services	57,490
Other costs	3,556
<i>Total expenditures</i>	61,046
 <i>Net change in fund balance</i>	 2,444
Fund balance, beginning of year	38,755
<b><i>Fund balance, end of year</i></b>	<b>41,199</b>

The Notes to Financial Statements are an integral part of these statements.



**STATE OF NEW MEXICO**  
**THIRD JUDICIAL DISTRICT COURT**  
**NONMAJOR - MEDIATION FUND**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Budget Original	Budget Final	Actual	Variance Favorable (Unfavorable)
<b>REVENUES:</b>				
Other state funds - court costs	\$50,000	\$50,000	\$63,490	\$13,490
<b>EXPENDITURES:</b>				
<b>Current:</b>				
Contractual services	60,000	60,000	57,490	2,510
Other costs	10,000	10,000	3,556	6,444
<i>Total expenditures</i>	70,000	70,000	61,046	8,954
<i>Excess (deficiency) of revenues over expenditures</i>	(20,000)	(20,000)	2,444	22,444
Budgeted fund balance	20,000	20,000	20,000	0
	\$0	\$0	\$22,444	\$22,444

The Notes to Financial Statements are an integral part of these statements.

**OTHER SUPPLEMENTARY INFORMATION**

**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
AGENCY FUNDS**

**SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES  
JUNE 30, 2010**

	June 30, 2009	Additions	Deletions	June 30, 2010
<b>LITIGANTS FUND:</b>				
<b>ASSETS</b>				
Cash	\$2,397,627	\$3,537,768	\$3,170,849	\$2,764,546
Due from the State Treasurer	1,356	0	0	1,356
Due from general fund	1,994	2,200	1,672	2,522
<b>Total assets</b>	<b>\$2,400,977</b>	<b>\$3,539,968</b>	<b>\$3,172,521</b>	<b>\$2,768,424</b>
<b>LIABILITIES</b>				
Deposits held in custody of others	2,400,977	3,539,968	3,172,521	2,768,424
<b>Total liabilities</b>	<b>\$2,400,977</b>	<b>\$3,539,968</b>	<b>\$3,172,521</b>	<b>\$2,768,424</b>

The Notes to Financial Statements are an integral part of these statements.

**STATE OF NEW MEXICO**  
**THIRD JUDICIAL DISTRICT COURT**  
**SCHEDULE OF CASH / INVESTMENT ACCOUNTS**  
**JUNE 30, 2010**

	Type of Account	Per Bank Balance June 30, 2009	Reconciling Items	Reconciled Balance June 30, 2010
<b><u>Investment in the State Treasurer General Fund Investment Pool:</u></b>				
<b>GENERAL FUND</b>				
New Mexico State Treasurer	Checking	\$522,641	\$0	\$522,641
<b>OTHER FUNDS</b>				
New Mexico State Treasurer	Checking	262,590	0	262,590
New Mexico State Treasurer	Checking	42,348	0	42,348
<b>Total</b>		<b>\$827,579</b>	<b>\$0</b>	<b>827,579</b>
Petty Cash				100
<b>Balance per statement of net assets</b>				<b>\$827,679</b>
<b>AGENCY FUNDS</b>				
<b>Litigant's Fund:</b>				
New Mexico State Treasurer	LGIP	\$1,390,801	\$0	\$1,390,801
New Mexico State Treasurer-Reserve Contingency Fund	LGIP	2,146	(322)	1,824
Citizen's Bank	Savings	3,573	0	3,573
Bank of the West	Checking	1,423,942	(55,593)	1,368,349
<b>Total Litigant's Fund</b>		<b>\$2,820,462</b>	<b>(\$55,915)</b>	<b>\$2,764,547</b>

The Notes to Financial Statements are an integral part of these statements.

**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***

Mr. Hector H. Balderas, State Auditor and  
Honorable Jerald A. Valentine, Chief Judge  
State of New Mexico  
Third Judicial District Court  
Las Cruces, New Mexico

We have audited the financial statements of the governmental activities, each major fund, the aggregate remaining fund information, the budgetary comparison for the general fund, and major special revenue funds, and the combining and individual funds and related budgetary comparisons presented as supplementary information of the Third Judicial District Court as of and for the year ended June 30, 2010, and have issued our report thereon dated November 9, 2010. 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 as a basis for designing our auditing procedures 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 Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Court's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses as items 2010-01, 2010-04, 2010-06, 2010-08, and 2009-02. *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.

Mr. Hector H. Balderas, State Auditor and  
Honorable Jerald A. Valentine, Chief Judge  
State of New Mexico  
Third Judicial District Court  
Las Cruces, New Mexico  
Page Two

### **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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2010-02, 2010-03, 2010-05, 2010-07, and 2009-04.

The Court's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Court's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the entity, the New Mexico Department of Finance and Administration, the State Auditor, the New Mexico Legislature, and applicable federal grantors, and is not intended to be and should not be used by anyone other than these specified parties.

*Kriegel/Gray/Shaw & Co., P.C.*

Kriegel/Gray/Shaw & Co., P.C.

November 9, 2010

**THIRD JUDICIAL DISTRICT COURT  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**CURRENT YEAR SIGNIFICANT DEFICIENCIES:**

**2010-01 Inadequate Review of Daily Sales Reports**

**Statement of Condition** – During testwork of receipts, we noted one instance in a sample of 40 in which the reported deposit amount and receipt total per the client’s “Banking Report” did not agree.

**Criteria** – Good internal controls require careful comparison and review of electronic output to supporting documentation.

**Cause** – Inadequate review of “banking report” attached to daily reconciliations.

**Effect** – Potential for errors to go undetected.

**Recommendation** – Daily reports supporting daily transactions should be carefully reviewed so as to catch discrepancies in a timely manner. Any discrepancies noted should be addressed, documented, and included as part of the supporting documentation for the day’s daily reports.

**Management’s Response** – The deposit from the day in question, 10/26/2009, was researched. All monies were correctly deposited to Bank of America. All reports were correctly printed however, when the receipts were pulled for October 26th and compared it to the detail “Banking Report”, receipt #000084697, in the amount of \$5.60, was not included.

As a result of this error, the Cash Handling Procedure instructions have been revised, stating that all receipts need to be balanced to all reports by the clerks when they balance out their boxes. Balancing Procedures will be implemented for the Financial Specialists to follow to ensure that all receipts including voided receipts be verified and balanced to all reports when making the deposit. The person who does the verification of the deposit will verify receipts as well money and reports.

**THIRD JUDICIAL DISTRICT COURT  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**CURRENT YEAR SIGNIFICANT DEFICIENCIES (CONTINUED):**

**2010-02 Personnel Documentation Missing/Incomplete**

**Statement of Condition** – While performing the test of internal controls over payroll, it was noted that two employee files contained I-9 Forms in which the employer review and verification section was not completed and a separate instance in which a W-4 could not be located for an employee.

**Criteria** – Federal law requires that employers maintain I-9 Forms for all employees hired after November 6, 1986. As part of the form, the employer is required to document their verification of information provided by such employee. Employers are also required to maintain a W-4 for each employee in order to guarantee withholdings for federal taxes are being properly calculated and remitted based on information provided by such employee.

**Cause** – Oversight.

**Effect** – The organization could potentially incur fines as a result of not maintaining proper documentation and could potentially withhold improper amounts from employee wages.

**Recommendation** – All required documentation should be filled out completely by employee and employer.

**Management's Response** –

I-9 - Upon selection of a new Human Resources Administrator for the Third Judicial District Court the I-9 central file/binder will be reviewed to ensure that the required I-9 form is present and complete in compliance with the Immigration Reform and Control Act. All employees hired will complete Form I-9.

W-4 - Upon selection of a new Human Resources Administrator for the Third Judicial District Court, all current employee files at the Court will be reviewed to ensure that a relatively recent W-4 form is present. If one is not the HR Administrator will communicate in writing with the employee and request an updated W-4 be completed. All updated copies of employee's W-4 forms will be placed in the employee files, upon receipt.



**THIRD JUDICIAL DISTRICT COURT  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**CURRENT YEAR SIGNIFICANT DEFICIENCIES (CONTINUED):**

**2010-03 Procurement Requirements Not Followed**

**Statement of Condition** – During testwork of procurement, it was noted that a purchase of supplies in excess of \$20,000 was not supported by three quotes.

**Criteria** – The procurement code requires that purchases greater than \$20,000 but less than \$50,000 be supported by three written quotes.

**Cause** – Client places a standard year end order of supplies and failed to recognize the current year end order was greater than \$20,000 and required additional procurement procedures.

**Effect** – Client potentially did not get the best price as a result of not following procurement requirements.

**Recommendation** – All purchases should be reviewed and procured through the established system to identify applicable procurement requirements.

**Management's Response** – The purchase document for Improve Group did not have three quotes attached. Every effort was made to contact another vendor who makes these files, however, since these are custom folders for a high density filing system, the vendors who make these types of folders are difficult to locate. As a result, only two quotes were obtained and submitted with the Purchase Order. Documentation indicating the difficulty in obtaining all three quotes was left off of the requisition in error.

The Procurement division will ensure that three quotes, or proper documentation, for purchases over \$20,000 will be obtained for all future purchases when the vendor is not on the Statewide Price Agreement.

**THIRD JUDICIAL DISTRICT COURT  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**CURRENT YEAR SIGNIFICANT DEFICIENCIES (CONTINUED):**

**2010-04 Receivable/Revenue Not Recorded in Proper Fiscal Period**

**Statement of Condition** – The grant revenue and corresponding receivable (\$10,920) for the State Justice Institute's Curriculum Adaption and Training Grant was not recorded in the proper fiscal year ending June 30, 2010.

**Criteria** – Generally Accepted Accounting Principles on the accrual basis require that revenues be recognized when they are earned and become measurable.

**Cause** – The Courts did not timely request grant revenues as expenditures were incurred nor properly budget and record the grant revenue as receivable. These oversights appear to have been caused by personnel changes/vacancies in the financial division. In addition, when court personnel identified the need to record an accounts receivable and corresponding revenue after the fiscal year end DFA refused to allow the adjustment for the fiscal year ended June 30, 2010.

**Effect** – Revenue for the fiscal year ending June 30, 2010 is understated by \$10,920.

**Recommendation** – The Courts should require that all revenue invoiced be entered into the general ledger system prior to mailing/submitting to the payer. In addition, all invoicing should be coordinated through the financial division to insure timely recording.

**Management's Response** – The court agrees with this finding. The proper internal control between court management and staff was not established to ensure that notification of grant awards were to be budgeted prior to incurring expenditures. The court will ensure that proper state budget and procurement policies and procedures will be followed when receiving grant awards and appropriate accounting information will be periodically reported to court management.

**THIRD JUDICIAL DISTRICT COURT  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**CURRENT YEAR SIGNIFICANT DEFICIENCIES (CONTINUED):**

**2010-05 Grant Not Budgeted**

**Statement of Condition** – The Courts failed to adjust the budget to reflect grant income and expenditures for the State Justice Institute Curriculum Adaption and Training Grant.

**Criteria** – State agencies are required to submit initial budgetary information as well as budget adjustments, which reflect changes resulting from fluctuations in anticipated spending and funding.

**Cause** – Oversight.

**Effect** – The Courts expended funds without a budget.

**Recommendation** – The Courts should strictly follow all budgetary requirements and implement review procedures to insure all expenditures are budgeted.

**Management's Response** – The court agrees with this finding. The proper internal control between court management and staff was not established to ensure that notification of grant awards were to be budgeted prior to incurring expenditures. The court will ensure that proper state budget and procurement policies and procedures will be followed when receiving grant awards and appropriate accounting information will be periodically reported to court management.

**THIRD JUDICIAL DISTRICT COURT  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**CURRENT YEAR SIGNIFICANT DEFICIENCIES (CONTINUED):**

**2010-06 Inadequate Internal Controls Over Passwords**

**Statement of Condition** – During course of audit, it was noted that HR personnel and financial personnel were sharing passwords between departments.

**Criteria** – Good internal controls require that access to various accounting functions be properly segregated to minimize the opportunity for fraud to occur. When access to accounting functions is visited through use of passwords the integrity of the password must be maintained for the control to remain effective.

**Cause** – Inadequate monitoring and updating of passwords.

**Effect** – Payment of improper wages occurred.

**Recommendation** – Passwords should be required to be changed at least quarterly to minimize the opportunity for continued abuse of passwords by unauthorized personnel.

**Management's Response** – The Third Judicial District Court will create an internal policy governing SHARE passwords. No SHARE access or password shall be afforded to other individuals for any reason.

Since SHARE passwords routinely are required to be changed by the user (within 90 days or less) the controls present in SHARE should be sufficient as far as the change of passwords.

**THIRD JUDICIAL DISTRICT COURT  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**CURRENT YEAR SIGNIFICANT DEFICIENCIES (CONTINUED):**

**2010-07 Noncompliance with Unclaimed Property Act**

**Statement of Condition** – The Bank of the West trust account is carrying outstanding checks dated back to 2002. These outstanding checks are unclaimed properly which should have been submitted to the State of New Mexico.

**Criteria** – The New Mexico unclaimed Properties Act of 2006 Section 7-8A-2(11) states that property held by a court, governmental subdivision, agency, or instrumentality, one year after the property has become distributable must be reported and remitted to the state.

**Cause** – Oversight.

**Effect** – The Court has not properly carried out its fiduciary duty.

**Recommendation** – Client should regularly review funds held on behalf of litigants and report and remit on a timely basis.

**Management's Response** – In November 2009, the court began researching and “cleaning up” the Bank of the West trust account, however was not able to complete this before the end of Fiscal Year 2010. The court will continue in Fiscal Year 2011 to work on getting the remaining outstanding checks returned to the balance to submit to Unclaimed Property. This should be completed by the end of Fiscal Year 2011.

**THIRD JUDICIAL DISTRICT COURT**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**CURRENT YEAR SIGNIFICANT DEFICIENCIES (CONTINUED):**

**2010-08 Benefits Not Accrued in Compliance with Policy**

**Statement of Condition** – Employee transferring from one state agency to another did not continue to accrue benefits at appropriate rate given years of employment across state agencies.

**Criteria** – Employees transferring between state agencies are to maintain leave balances and rates of accruals from one agency to another.

**Cause** – Employee was set up as a new employee instead of a transferred employee and therefore, was accruing based on a new hire rate.

**Effect** – Employee leave balance was understated at year end and employee is owed accrued leave time off.

**Recommendation** – Client should circulate year end leave balances to employees for approval in order to help detect discrepancies.

**Management's Response** – Benefits mishandling (leave balances, deductions, etc.) are a primary responsibility of the HR representative of the court. Upon selection of the new HR Administrator, the court will require the incumbent to participate in extensive HR and benefit/payroll training. Such training will be requested from the AOC HR staff in Santa Fe. AOC HR oversight may also be requested for the first 6 months after initial candidate selection.

**THIRD JUDICIAL DISTRICT COURT  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**CURRENT STATUS OF PRIOR YEAR AUDIT FINDINGS:**

**2009-01 Procurement Files – Unable to Locate**

Resolved.

**2009-02 Vacation/Sick Leave Reporting**

Repeated.

**Statement of Condition** – Use of vacation/sick leave is not consistently and timely reported by the departments to payroll/HR.

**Criteria** – Good internal controls require timely and consistent reporting of leave time used by each department to control leave use and maintenance of leave records.

**Cause** – The departments are not providing timely consistent documentation to payroll/HR for leave use as it is approved.

**Effect** – Allows for potential abuse in which leave is taken without reduction of leave hours available and numerous corrections to leave records.

**Recommendation** – The Court should reiterate and enforce procedures that require department supervisors to approve and report leave to payroll/HR.

**Management's Response** – The Third Judicial District Court will create an internal policy governing all leave reporting. Employees, supervisors, managers and at-will appointees will be required to enter all leave taken, comp time accrued into the SHARE system for approval. Flexing of undocumented time will not be allowed.

**2009-03 Cell Phone Usage Review Procedures**

Resolved and not repeated.

**THIRD JUDICIAL DISTRICT COURT  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**CURRENT STATUS OF PRIOR YEAR AUDIT FINDINGS (CONTINUED):**

**2009-04 Involuntary Terminations Not Paid in Accordance with Employment Law**

Repeated.

**Statement of Condition** – During our review of terminated employees, we noted that employees who are involuntarily terminated are not paid within five days of termination.

**Criteria** – Employment law requires terminated employees to be paid out within five days of termination.

**Cause** – Normal payroll processing procedures (lag time between pay periods and pay date) through DFA will not accommodate a five day turn around (share system inflexible). In addition, DFA does not allow the processing of manual warrants, except for a few specific exceptions.

**Effect** – Potential additional pay due to the employee for the Courts noncompliance with the five day requirement.

**Recommendation** – The Court and DFA should work together to implement procedures which would allow them to meet the five day requirement for involuntary terminations.

**Management's Response** – Unfortunately due to SHARE and DFA controls, the court in most instances cannot comply with the stated law. The AOC HR has worked extensively with DFA to no avail. The DFA controls simply cannot accommodate this directive, rendering agencies unable to comply with the law.



**STATE OF NEW MEXICO**  
**THIRD JUDICIAL DISTRICT COURT**  
EXIT CONFERENCE  
JUNE 30, 2010

**EXIT CONFERENCE:**

The exit conference was held November 15, 2010 and was attended by the following:

**From Third Judicial District Court:**

Oscar J. Arevalo, Chief Finance Officer  
Lydia Romero, Assistant Director, Fiscal Services Division  
Honorable Jerald A. Valentine, Chief Judge  
James P. Dempsey, Court Executive Officer  
Mark Perea, Deputy Court Executive Officer  
Fran Jones, Financial Specialist Senior  
Priscilla Bartram, Procurement Specialist

**From Kriegel/Gray/Shaw & Co., P.C.:**

Debbie Gray, CPA/Shareholder

**FINANCIAL STATEMENT PREPARATION**

The auditing firm of Kriegel/Gray/Shaw & Co., P.C., with the aid of responsible Third Judicial District Court personnel, prepared the financial statements of the Third Judicial District Court as of and for the year ended June 30, 2010.