



# HINKLE + LANDERS

Certified Public Accountants + Business Consultants

**THIRD JUDICIAL  
DISTRICT COURT**

**INDEPENDENT AUDITOR'S REPORT  
AND FINANCIAL STATEMENTS**

**For The Year Ended June 30, 2015**



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

	<b>Page</b>
<b>INFORMATIONAL SECTION</b>	
Table of Contents	i
Official Roster	1
<b>FINANCIAL SECTION</b>	
Independent auditor's report	2-4
Management's Discussion and Analysis	5-13
<b><u>Basic Financial Statements:</u></b>	
<b>Government-Wide Statements:</b>	
Statement of net position - governmental activities	14
Statement of activities - governmental activities	15
<b>Fund Financial Statements:</b>	
<b>Governmental Funds</b>	
Balance sheet – governmental funds	16
Statement of revenues, expenditures, and changes in fund balances – governmental funds	17
Statement of revenues, expenditures and changes fund balances – budget and actual (modified accrual budgetary basis) – major governmental funds – General Fund	18
Statement of revenues, expenditures and changes fund balances – budget and actual (modified accrual budgetary basis) – major governmental funds – special revenue funds - Alternative Dispute Resolution Fund.	19
Statement of revenues, expenditures and changes fund balances – budget and actual (modified accrual budgetary basis) – major governmental funds – special revenue funds - Domestic Relations Fund	20
Statement of revenues, expenditures and changes fund balances – budget and actual (modified accrual budgetary basis) – major governmental funds – special revenue funds - Adult Drug Court Fund	21
<b>Fiduciary Funds</b>	
Statement of fiduciary assets and liabilities – agency funds	22
<b>Notes to Financial Statements</b>	23-42
<b>OTHER SUPPLEMENTAL INFORMATION (AUDITED):</b>	
Schedule of changes in assets and liabilities – agency funds	43
Schedule of deposits and investments	44-45
Schedule of pledged collateral by bank and account	46
Schedule of interagency transfers	47
<b>OTHER SUPPLEMENTAL INFORMATION (UNAUDITED):</b>	
Schedule of vendor information	48
<b>COMPLIANCE SECTION</b>	
Independent auditor's report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>government auditing standards</i>	49-50
Schedule of findings and responses	51-55
Exit conference	56

**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
OFFICIAL ROSTER  
For the Year Ended June 30, 2015**

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**Judges**

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Honorable Manuel I. Arrieta	Division I
Honorable Marci Beyer	Division II
Honorable Darren M. Kugler	Division III
Honorable Mary W. Rosner	Division IV
Honorable Lisa C. Schultz	Division V
Honorable Douglas R. Driggers	Division VI
Honorable James T. Martin	Division VII
Honorable Fernando R. Macias, Chief Judge	Division VIII

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**Administrative Officials**

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Claude Bowman	Court Administrator
Vicky Vasquez	Court Accountant



**INDEPENDENT AUDITOR’S REPORT**

Honorable Fernando R. Macias, Chief Judge  
State of New Mexico Third Judicial District Court  
and  
Mr. Tim Keller, New Mexico State Auditor  
Office of the State Auditor  
Santa Fe, New Mexico

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons for the general fund and major special revenue funds of the Third Judicial District Court of the State of New Mexico (the Court) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Court’s basic financial statements as listed in the table of contents.

**Management’s Responsibility for the Financial Statements**

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

**Auditor’s Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Court, as of June 30, 2015, and the respective changes in financial position and the budgetary comparisons for the general fund and major special revenue funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note S to the financial statements, the 2015 beginning balance of net position has been restated due to corrections of accrued payroll liabilities, accounts receivables, and accounts payables. Our opinion is not modified with respect to this matter.

**Other Matters**

**Required Supplementary Information**

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

**Other Information**

Our audit was conducted for the purpose of forming opinions on the Court's financial statements and the budgetary comparisons. The "other supplemental information", as identified in the table of contents, required by Section 2.2.2 NMAC are presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

The *schedule of vendor information*, listed as “*other supplemental information (unaudited)*” in the *table of contents*, has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2015 on our consideration of the Court’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Court’s internal control over financial reporting and compliance.



Hinkle + Landers, PC  
Albuquerque, NM  
November 25, 2015

**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
For the Year Ended June 30, 2015**

The following is a discussion and analysis of the State of New Mexico Third Judicial District Court's financial performance, providing an overview of the activities for the fiscal year ended June 30, 2015. An outline of this agency's approach is to ensure achievement of its future goals and implementation of new projects and improvements. Please read it in conjunction with the Court's financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS – PRIMARY GOVERNMENT**

**Government-Wide Highlights**

- The assets of the Court exceeded its liabilities at the close of the fiscal year by \$330,186 (reported as net position). Of this amount, \$134,675 (restricted net position) must be used primarily for adult drug court activities and \$195,511 is invested in capital assets, net of related debt.
- The Court's total net position decreased in fiscal year 2015 by a total of \$56,724, which was attributed to a change in net position of \$(82,170) and restatements of \$25,446, all of which are governmental activities. The Court does not engage in business-type activities.

**Fund Highlights**

- At the close of fiscal year 2015, the Court's governmental funds reported combined ending fund balances of \$310,803, an decrease of \$7,408 from the prior year. This decrease was primarily due to a restatement of uncollectable receivables.

**Long-Term Debt**

- As in prior years, the 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 Court is Accrued Compensated Absences. Compensated Absences increased by \$26,058 or 17% during the fiscal year.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The 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 Court:

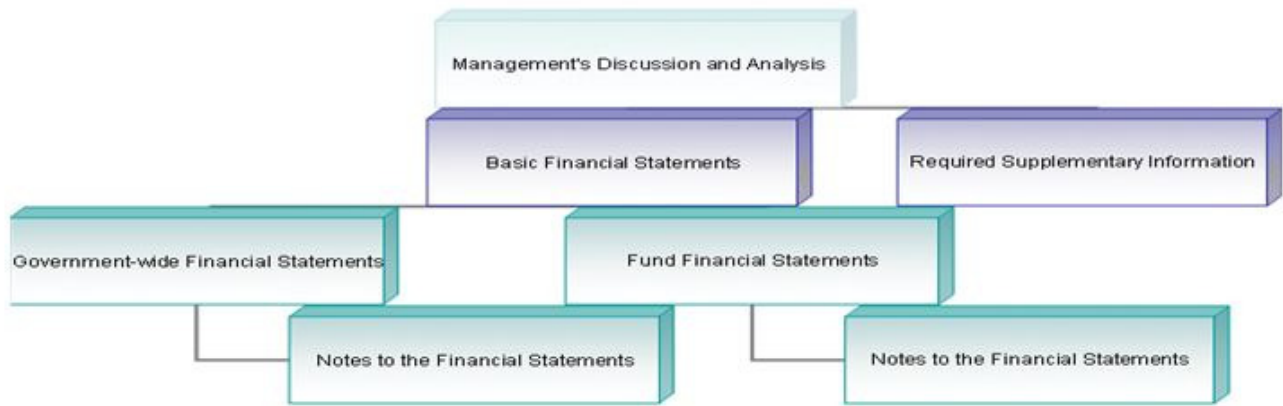
- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Court's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Court, reporting the Court's operations in more detail than the government-wide statements.
  - The governmental funds statements tell how general government services (the primary function of the Court) were financed in the short-term as well as what remains for future spending or reversions.



**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
For the Year Ended June 30, 2015**

- Fiduciary fund statements provide information about the financial relationships in which the Court acts solely as a trustee or agent for the benefit of others to whom the resources in question belong.
- 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 Court's Annual Financial Report**



**Government-Wide Statements**

The government-wide statements report information about the Court as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the 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 Court's net position and how they have changed. Net position (the difference between the Court's assets and liabilities) are one way to measure the Court's financial health or position.

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

**Fund Financial Statements**

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

**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
For the Year Ended June 30, 2015**

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 grant funding.

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

- **Governmental Funds**

Most of the Court's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the 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 Court is the trustee, or fiduciary, for bond, restitution and other deposits made with the Court in compliance with Court orders.

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

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

**Net Position**

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

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**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
For the Year Ended June 30, 2015**

The 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 Position  
As of June 30,**

<b>Assets:</b>	<u>2015</u>	<u>2014</u>	<u>Percent Change</u>
Current assets	\$ 583,577	581,739	0%
Capital assets, net	195,511	218,769	-11%
<b>Total assets</b>	<b>\$ <u>779,088</u></b>	<b><u>800,508</u></b>	
<b>Liabilities:</b>			
Current liabilities	\$ 448,902	413,598	9%
<b>Total liabilities</b>	<b>448,902</b>	<b>413,598</b>	
<b>Net position:</b>			
Investment in capital assets	195,511	218,769	-11%
Restricted	<u>134,675</u>	<u>168,141</u>	-20%
<b>Total net position</b>	<b><u>330,186</u></b>	<b><u>386,910</u></b>	
<b>Total liabilities and net position</b>	<b>\$ <u>779,088</u></b>	<b><u>800,508</u></b>	

The largest portion of the Court's net position, \$195,511 or 59%, represents capital assets. The Court uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

The remaining balance of the Court's net position, \$134,675 or 41%, represents restricted net position that may be used to meet the Court's ongoing obligations to citizens and creditors. These assets may be used at the Court'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 Court's net position changed during the fiscal year. As previously noted, the Court does not engage in business-type activities and, therefore, only reports governmental and fiduciary activities.

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**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
For the Year Ended June 30, 2015**

**State of New Mexico  
Third Judicial District Court  
Changes in Net Position  
As of June 30,**

	<u>2015</u>	<u>2014</u>	<u>Percent Change</u>
<b>Revenues:</b>			
Program revenue	\$ 205,995	577,061	-64%
Appropriations (net of reversions)	6,452,112	6,186,851	4%
Other	900,789	292,380	208%
Total revenues	<u>7,558,896</u>	<u>7,056,292</u>	
<b>Expenses:</b>			
Administrative services	7,578,775	6,989,532	8%
Depreciation	62,291	57,190	9%
Total expenses	<u>7,641,066</u>	<u>7,046,722</u>	
<b>Increase (decrease) in net position</b>	<u>\$ (82,170)</u>	<u>9,570</u>	

The Percent Change column shows the percentage change in operations from fiscal year 2014 to 2015 for each line item. The reader should be cautious when using this column to evaluate the overall change in net position. Although a line may show a large percentage change, it may not have as significant an effect as a change in a more material line item with a smaller percentage change.

Revenues for the Court consist primarily of State general fund appropriations. State general fund appropriations reported in fiscal years 2015 and 2014 were \$6,476,100 and \$6,186,851, respectively, an increase of \$289,249. The reversion reported in fiscal years 2015 and 2014 were \$23,988 and \$1,949, respectively. The increase in state general fund appropriations reflects slightly improving state revenues and the slightly improving economic position statewide, as well as nationally.

Total expenses for the Court are all categorized as General Government in governmental activities. The Court does not participate in any business-type activities.

General government expenses (not including depreciation) increased by \$589,243 from \$6,989,532 in fiscal year 2014 to \$7,578,775 in fiscal year 2015. This represents an increase of 8% and is primarily due to improving State budgets.

Depreciation expenses increased from \$57,190 in fiscal year 2014 to \$62,291 in fiscal year 2015, an increase of 9%.

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

**Governmental Funds**

As noted earlier, the Court uses fund accounting to ensure and demonstrate compliance with legal requirements. The general government functions are contained in the General and Special Revenue

**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
For the Year Ended June 30, 2015**

funds. The focus of the 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 Court. At June 30, 2015, the Court's general fund reported a fund balance of \$129,521.

**Alternative Dispute Resolution Fund**

The Alternative Dispute Resolution (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 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 Court's Alternative Dispute Resolution program. The budget estimated the collection of \$50,000 in fees of which \$40,650 was actually collected. Total fund balance decreased by \$46,467 or 28% from the June 30, 2014 fund balance. The fund balance decrease is due to excess of expenditures over revenues. The budget allowed the use of fund balance up to \$101,900 of which only \$86,330 was used. 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 \$462,900 in fiscal year 2015, which increased by \$45,200 from 2014, or 11%.

**Mediation Program 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 Court collects a surcharge of thirty dollars on all new and reopened domestic relations cases. Parents involved in domestic relations cases that utilize mediation services pay a portion of the cost of domestic relations mediation expenses pursuant to a sliding fee scale approved by the Supreme Court, 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 \$46,822 as of June 30, 2014 to \$59,866 as of June 30, 2015. The change of, \$13,044 represents a 28% increase from fiscal year 2014. Court fees increased in 2015 to a total of \$77,335 an increase of \$16,013, 26% due predominantly to an increase in the number of cases. Fiscal year 2015 expenditures of \$64,291, indicates an increase in spending compared with fiscal year 2014 expenditures of \$62,401 (increase of \$1,890, or 3%). The expenditures increase was due to an increase in mediation contractual services. This fund is non-reverting.

**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
For the Year Ended June 30, 2015**

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The State of New Mexico Legislature makes annual appropriations to the 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 Court. The Court's final fiscal year 2015 budget was \$6,975,140, which included funding of \$106,362 for CASA, \$102,420 for Water Adjudication, and \$123,407 in Liquor Excise Tax Funds for a portion of drug court costs, all of which are included in the General Fund.

During fiscal year 2015, the District Court's overall general fund revenue budget decreased by \$12,060 or .17%. This was due to a decrease in Adult Drug Court of \$3,780 and a decrease in Family Reunification Court of \$8,280.

The variance between the final budget and actual in the expenditures section of the General Fund budgetary comparison was a favorable \$13,821. This was due to non-expenditure of budget in all three categories of expenditure: salaries and employee benefits, contractual services and other costs.

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

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

As of June 30, 2015, the Court had \$195,511 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 \$23,258 or 11% over fiscal year 2014 figures. While governmental standards do not prescribe a minimum level for the capitalization of assets, the 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 Court. During fiscal year 2015, the Court purchased a copier, and two vehicles. Depreciation charges for this fiscal year totaled \$62,291.

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**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
For the Year Ended June 30, 2015**

	<u>Balance</u> <u>2014</u>	<u>Additions</u>	<u>Adjustments/ Reclassify</u>	<u>Balance</u> <u>2015</u>
Capital assets depreciated:				
Furniture and fixtures	\$ 285,469	-	-	285,469
Equipment	874,460	5,232	-	879,692
Vehicles	201,812	37,029	-	238,841
Data Processing	150,630	-	-	150,630
Total capital assets depreciated	<u>1,512,371</u>	<u>42,261</u>	<u>-</u>	<u>1,554,632</u>
Less accumulated depreciation for:				
Furniture and fixtures	(207,471)	(23,008)	1,921	(228,558)
Equipment	(769,195)	(28,590)	(4,485)	(802,270)
Vehicles	(166,306)	(10,693)	(664)	(177,663)
Data Processing	(150,630)	-	-	(150,630)
Total accumulated depreciation	<u>(1,293,602)</u>	<u>(62,291)</u>	<u>(3,228)</u>	<u>(1,359,121)</u>
Total capital assets, net	<u>\$ 218,769</u>	<u>(20,030)</u>	<u>(3,228)</u>	<u>195,511</u>

As part of GASB 34 implementation, the 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 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 Court has not participated in the financing of capital assets through the sale of bonds or issuance of long-term notes.

**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 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 Court received a total budget of \$7,705,800 for fiscal year 2016 for base budgets of all programs managed by the District Court including the General Court, Juvenile, Family Reunification 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 General Fund for fiscal year 2016 has been increased by \$22,172 over fiscal year 2015.

**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
For the Year Ended June 30, 2015**

**CONTACTING THE 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 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 Chief Financial Officer, 201 W. Picacho, Las Cruces, New Mexico 88005; Phone # (575) 523-8280.



**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
GOVERNMENT-WIDE STATEMENT OF NET POSITION  
As of June 30, 2015**

	<b>Governmental Activities</b>
<b>ASSETS</b>	
<b>Current Assets</b>	
State General Fund Investment Pool	\$ 583,256
Petty cash	300
Due from other governmental agencies	21
Uncollectable receivables	-
Total current assets	583,577
Capital assets, net	195,511
Total assets	\$ 779,088
<b>LIABILITIES</b>	
<b>Current liabilities</b>	
Accounts payable	\$ 129,141
Due to the state general fund	24,366
Accrued salaries and employee benefits	119,267
Compensated absences payable - expected to be paid within one year	176,128
Total current liabilities	448,902
Total liabilities	448,902
<b>NET POSITION</b>	
Investment in capital assets	195,511
Restricted	134,675
Total net position	330,186
Total liabilities and net position	\$ 779,088

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES  
For The Year Ended June 30, 2015**

	<u><b>Governmental Activities</b></u>
<b>EXPENSES</b>	
<b>General government</b>	
Administrative services	\$ 7,578,775
Depreciation expense	<u>62,291</u>
Total program expenses	7,641,066
 <b>REVENUES</b>	
<b>Program revenues</b>	
Court fees	188,795
Miscellaneous revenue	<u>17,200</u>
Total program revenues	<u>205,995</u>
Net program (expenses)/revenue and changes in net position	<u>(7,435,071)</u>
 <b>General revenues</b>	
<b>Transfers</b>	
State General Fund appropriation FY 15	6,476,100
Other financing sources	900,789
Reversions to State General Fund	<u>(23,988)</u>
Total transfers	<u>7,352,901</u>
Total net general revenue and other financial sources (uses)	<u>7,352,901</u>
Change in net position	(82,170)
Net position, beginning	386,910
Restatement	<u>25,446</u>
Net position, beginning as restated	<u>412,356</u>
Net position, ending	<u><u>\$ 330,186</u></u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
BALANCE SHEET - GOVERNMENTAL FUNDS  
As of June 30, 2015**

	<b>(14300)</b>	<b>(87700)</b>	<b>(92400)</b>	<b>(92300)</b>	<b>Total</b>
	<b>General</b>	<b>Alternative</b>	<b>Human</b>	<b>Mediation</b>	<b>Governmental</b>
	<b>Fund</b>	<b>Dispute</b>	<b>Services</b>	<b>Program</b>	<b>Funds</b>
	<b>Fund</b>	<b>Resolution</b>	<b>Division</b>	<b>Fund</b>	<b>Funds</b>
<b>ASSETS</b>					
State General Fund Investment Pool	\$ 384,193	126,483	11,676	60,904	583,256
Petty cash	300	-	-	-	300
Due from other governmental agencies	21	-	-	-	21
Uncollectable receivables, net of allowance account	-	-	-	-	-
Total assets	<u>\$ 384,514</u>	<u>126,483</u>	<u>11,676</u>	<u>60,904</u>	<u>583,577</u>
<b>LIABILITIES</b>					
Accounts payable	\$ 124,583	3,482	38	1,038	129,141
Accrued salaries and employee benefits	106,552	1,585	11,130	-	119,267
Due to state general fund	23,858	-	508	-	24,366
Current liabilities	<u>254,993</u>	<u>5,067</u>	<u>11,676</u>	<u>1,038</u>	<u>272,774</u>
<b>FUND BALANCES</b>					
<b>Restricted:</b>					
Drug court	129,221	-	-	-	129,221
Alternative dispute resolution	-	121,416	-	-	121,416
Mediation	-	-	-	59,866	59,866
Total restricted	<u>129,221</u>	<u>121,416</u>	<u>-</u>	<u>59,866</u>	<u>310,503</u>
<b>Unassigned:</b>	300	-	-	-	300
Total fund balance	<u>129,521</u>	<u>121,416</u>	<u>-</u>	<u>59,866</u>	<u>310,803</u>
Total liabilities and fund balance	<u>\$ 384,514</u>	<u>126,483</u>	<u>11,676</u>	<u>60,904</u>	<u>583,577</u>

**Reconciliation of the Governmental Fund Balance To The Statement of Net Position**

Total fund balance governmental funds	\$ 310,803
Capital assets (net of depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the funds.	195,511
Long-term debt reported as accrued compensated absences is not due and payable in the current period and, therefore, are not reported in the funds.	<u>(176,128)</u>
Net position of governmental activities	<u>\$ 330,186</u>

**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS  
For The Year Ended June 30, 2015**

	<b>(14300)</b>	<b>(87700)</b>	<b>(92400)</b>	<b>(92300)</b>	<b>Total</b>
	<b>General</b>	<b>Alternative</b>	<b>Human</b>	<b>Mediation</b>	<b>Governmental</b>
	<b>Fund</b>	<b>Dispute</b>	<b>Services</b>	<b>Program</b>	<b>Funds</b>
	<b>Fund</b>	<b>Resolution</b>	<b>Division</b>	<b>Fund</b>	<b>Funds</b>
<b>REVENUES</b>					
Court fees	\$ 70,810	40,650	-	77,335	188,795
Total revenues	<u>70,810</u>	<u>40,650</u>	<u>-</u>	<u>77,335</u>	<u>188,795</u>
<b>EXPENDITURES</b>					
Current					
General government:					
Personal services and employee benefits	5,781,012	56,698	404,723	-	6,242,433
Contractual services	783,681	29,033	1,000	62,875	876,589
Other costs	371,783	599	56,669	1,416	430,467
Capital outlay	25,061	-	-	-	25,061
Total expenditures	<u>6,961,537</u>	<u>86,330</u>	<u>462,392</u>	<u>64,291</u>	<u>7,574,550</u>
Excess (deficiency) of revenue over (under) expenditures	(6,890,727)	(45,680)	(462,392)	13,044	(7,385,755)
<b>OTHER FINANCING SOURCES (USES)</b>					
State general fund appropriation	6,476,100	-	-	-	6,476,100
Other financing sources	437,889	-	462,900	-	900,789
Less: Reversion to the State General Fund	(23,480)	-	(508)	-	(23,988)
Net other financing sources (uses)	<u>6,890,509</u>	<u>-</u>	<u>462,392</u>	<u>-</u>	<u>7,352,901</u>
Net change in fund balance	(218)	(45,680)	-	13,044	(32,854)
Fund balance, beginning	103,506	167,883	-	46,822	318,211
Restatement	26,233	(787)	-	-	25,446
Fund balance, beginning as restated	<u>129,739</u>	<u>167,096</u>	<u>-</u>	<u>46,822</u>	<u>343,657</u>
Fund balance, ending	<u>\$ 129,521</u>	<u>121,416</u>	<u>-</u>	<u>59,866</u>	<u>310,803</u>

**Reconciliation Of Statement Of Revenues, Expenditures, And Changes In Fund Balances Of Governmental Funds To Statement Of Activities**

Net change fund balance in governmental funds \$ (32,854)

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

In the current period, these amounts are:

Depreciation expense	(62,291)
Capital additions	42,261
Adjustment to Accumulated Depreciation	(3,228)

Some items 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.

These activities consist of:

(Increase) decrease in compensated absences	<u>(26,058)</u>
Change in net position - governmental activities	<u>\$ (82,170)</u>

**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET TO ACTUAL (MODIFIED ACCRUAL BUDGETARY BASIS)  
GENERAL FUND (14300)  
For The Year Ended June 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Court fees	\$ 61,200	61,200	70,810	9,610
Total revenues	<u>61,200</u>	<u>61,200</u>	<u>70,810</u>	<u>9,610</u>
<b>EXPENDITURES</b>				
Current:				
General government				
Personal services	6,039,100	5,793,640	5,781,012	12,628
Contractual services	704,400	784,400	783,681	719
Other costs	243,700	397,100	396,626	474
Total expenditures	<u>6,987,200</u>	<u>6,975,140</u>	<u>6,961,319</u>	<u>13,821</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(6,926,000)</u>	<u>(6,913,940)</u>	<u>(6,890,509)</u>	<u>23,431</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
<b>Inter-agency Transfers</b>				
State general fund appropriations	6,476,100	6,476,100	6,476,100	-
Other financing sources	449,900	437,840	437,889	49
Less: Reversion to state general fund FY 15	-	-	(23,480)	(23,480)
Total Interagency transfers	<u>6,926,000</u>	<u>6,913,940</u>	<u>6,890,509</u>	<u>(23,431)</u>
Net change in fund balance	-	-	-	-
Fund balance, beginning	<u>103,506</u>	<u>103,506</u>	<u>103,506</u>	<u>-</u>
Fund balance, ending	<u>\$ 103,506</u>	<u>103,506</u>	<u>103,506</u>	<u>-</u>
Total modified GAAP budget basis expenditures for FY 15			\$ 6,961,319	
Amounts expensed in fiscal year 2015 financial statements and paid out of FY16 budget			<u>218</u>	
Total modified GAAP Basis Governmental Fund Expenditures for fiscal year ended June 30, 2015			<u>\$ 6,961,537</u>	

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET TO ACTUAL (MODIFIED ACCRUAL BUDGETARY BASIS)  
ALTERNATIVE DISPUTE RESOLUTION FUND (87700)  
For The Year Ended June 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Court fees	\$ 50,000	50,000	40,650	(9,350)
Total revenues	<u>50,000</u>	<u>50,000</u>	<u>40,650</u>	<u>(9,350)</u>
<b>EXPENDITURES</b>				
Current:				
General government				
Personal services	87,500	68,500	56,698	11,802
Contractual services	13,800	32,800	29,033	3,767
Other costs	600	600	599	1
Total expenditures	<u>101,900</u>	<u>101,900</u>	<u>86,330</u>	<u>15,570</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(51,900)</u>	<u>(51,900)</u>	<u>(45,680)</u>	<u>6,220</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
<b>Inter-agency Transfers</b>				
Less: Reversion to state general fund FY 15	-	-	-	-
Total Interagency transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	(51,900)	(51,900)	(45,680)	(6,220)
Fund balance, beginning	<u>51,900</u>	<u>51,900</u>	<u>167,883</u>	<u>(115,983)</u>
Fund balance, ending	<u>\$ -</u>	<u>-</u>	<u>122,203</u>	<u>(122,203)</u>
Total modified GAAP budget basis expenditures for FY 15			\$ 86,330	
Amounts expended in fiscal year 2015 financial statements and paid out of FY16 budget			<u>-</u>	
Total modified GAAP Basis Governmental Fund Expenditures for fiscal year ended June 30, 2015			<u>\$ 86,330</u>	

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO  
 THIRD JUDICIAL DISTRICT COURT  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 BUDGET TO ACTUAL (MODIFIED ACCRUAL BUDGETARY BASIS)  
 HUMAN SERVICES DIVISION FUND (92400)  
 For The Year Ended June 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Court fees	\$ -	-	-	-
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>EXPENDITURES</b>				
Current:				
General government				
Personal services	416,700	405,100	404,723	377
Contractual services	1,000	1,000	1,000	-
Other costs	-	56,800	56,669	131
Total expenditures	<u>417,700</u>	<u>462,900</u>	<u>462,392</u>	<u>508</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(417,700)</u>	<u>(462,900)</u>	<u>(462,392)</u>	<u>508</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
<b>Inter-agency Transfers</b>				
Other financing sources	417,700	462,900	462,900	-
Less: Reversion to state general fund FY 15	<u>-</u>	<u>-</u>	<u>(508)</u>	<u>(508)</u>
Total Interagency transfers	<u>417,700</u>	<u>462,900</u>	<u>462,392</u>	<u>(508)</u>
Net change in fund balance	-	-	-	-
Fund balance, beginning	<u>-</u>	<u>-</u>	<u>167,883</u>	<u>(167,883)</u>
Fund balance, ending	<u>\$ -</u>	<u>-</u>	<u>167,883</u>	<u>(167,883)</u>
Total modified GAAP budget basis expenditures for FY 15			\$ 462,392	
Amounts expended in fiscal year 2015 financial statements and paid out of FY16 budget			<u>-</u>	
Total modified GAAP Basis Governmental Fund Expenditures for fiscal year ended June 30, 2015			<u>\$ 462,392</u>	

**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET TO ACTUAL (MODIFIED ACCRUAL BUDGETARY BASIS)  
MEDIATION PROGRAM FUND (92300)  
For The Year Ended June 30, 2015**

	<b>Budgeted Amounts</b>		<b>Actual Amounts (Budgetary Basis)</b>	<b>Variance with Final Budget Favorable (Unfavorable)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Court fees	\$ 60,000	60,000	77,335	17,335
Total revenues	<u>60,000</u>	<u>60,000</u>	<u>77,335</u>	<u>17,335</u>
<b>EXPENDITURES</b>				
Current:				
General government				
Contractual services	57,000	63,400	62,875	525
Other costs	8,000	1,600	1,416	184
Total expenditures	<u>65,000</u>	<u>65,000</u>	<u>64,291</u>	<u>709</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(5,000)</u>	<u>(5,000)</u>	<u>13,044</u>	<u>18,044</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
<b>Inter-agency Transfers</b>				
Other financing sources	-	-	-	-
Less: Reversion to state general fund FY 15	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Interagency transfers	-	-	-	-
Net change in fund balance	(5,000)	(5,000)	13,044	(18,044)
Fund balance, beginning	<u>5,000</u>	<u>5,000</u>	<u>46,822</u>	<u>(41,822)</u>
Fund balance, ending	<u>\$ -</u>	<u>-</u>	<u>59,866</u>	<u>(59,866)</u>
Total modified GAAP budget basis expenditures for FY 15			\$ 64,291	
Amounts expensed in fiscal year 2015 financial statements and paid out of FY16 budget			<u>-</u>	
Total modified GAAP Basis Governmental Fund Expenditures for fiscal year ended June 30, 2015			<u>\$ 64,291</u>	

The accompanying notes are an integral part of these financial statements



**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - AGENCY FUNDS  
As of June 30, 2015**

	<u>Agency Fund</u>
<b>ASSETS</b>	
Cash in authorized bank account	\$ 1,764,807
Other receivables	<u>1,356</u>
<b>TOTAL ASSETS</b>	<u>\$ 1,766,163</u>
<b>LIABILITIES</b>	
Deposits held in custody of others	<u>\$ 1,766,163</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 1,766,163</u>

**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
NOTES TO FINANCIAL STATEMENTS  
For The Year Ended June 30, 2015**

**NATURE OF BUSINESS AND REPORTING ENTITY**

The Third Judicial District Court (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 Court covers Doña Ana County. The Court is the State Court of general jurisdiction and is authorized to hear and determine all civil and criminal cases which are not specifically exempted from its jurisdiction. Financing of the Court is by state appropriation.

The financial reporting entity as defined by GASB Statement 14 and 61 consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. This definition of the reporting entity is based primarily on the notion of financial accountability as the "cornerstone of all financial reporting in government."

These financial statements include all funds and activities over which the Court has oversight responsibility. The Court has decision-making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters. Additionally, the Court is part of the primary government of the State of New Mexico and its financial data should be included with the financial data of the State, when it issues an audited Comprehensive Annual Financial Report inclusive of all agencies of the primary government.

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP and GASB Statement 14 and 61.

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 selection 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 component 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 Court is able to exercise oversight responsibility. Based on the application of these criteria, there are no component units identified or excluded from the reporting entity.

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**1. Basic Financial Statements**

The financial statements of the Court have been prepared in conformity with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. The Governmental Account Standards Board (GASB) is the accepted Standard-setting body for establishing governmental Accounting and financial reporting principles. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting

**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
NOTES TO FINANCIAL STATEMENTS  
For The Year Ended June 30, 2015**

Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of the Court's accounting policies are described below.

The basic financial statements include both government-wide (based on the Court as a whole) and fund financial statements. The reporting model focus is on either the Court as a whole or major individual fund (within the fund financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business-type activities. In the government-wide Statement of Net Position, both the governmental and business-type activities columns are presented on a consolidated basis by column, and are reflected on a full accrual, economic resources measurement focus basis, which incorporates long-term assets, deferred outflows and receivables as well as long-term debt and obligations. The Court did not have any business-type activities during the year ended June 30, 2015.

For its government-wide activities, the Court has elected to apply all applicable GASB pronouncements. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

General Revenues (General Fund appropriation, transfers-in from other state agencies, Federal aid, etc.) normally cover the net cost (by function). Historically, the previous model did not summarize or present net cost by function or activity.

Grant revenues are recognized as soon as the eligibility requirements are met.

This government-wide focus is more on the sustainability of the Court as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The governmental fund statements are presented on a current financial resource and modified accrual basis of accounting. This presentation is deemed appropriate to (a) demonstrate legal compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the Court's actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental activities column, a reconciliation is presented on the page following each statement, which briefly explains the adjustments necessary to transform the fund based financial statements into the governmental activities column on the governmental wide presentation.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with specific function or segment. *Program revenues* derive directly from the program itself or from parties outside the reporting government's taxpayers or citizenry as a whole and include operating grants and contracts that are restricted to meeting the operational necessities of a particular compliance grant requirement. The only charges for services are for photocopies and small miscellaneous charges.

**2. Basis of Presentation**

The financial transactions of the Court are maintained on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows, liabilities, deferred inflows, fund balance, revenues, expenditures and other financing sources or uses.

**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
NOTES TO FINANCIAL STATEMENTS  
For The Year Ended June 30, 2015**

Government resources are allocated to, and accounted for, in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The various funds are summarized by the type and reported by generic classification the accompanying financial statements.

The reporting model, GASB Statement No. 34, sets forth minimum criteria for the determination of major funds based on a percentage of the assets, deferred outflows, liabilities, deferred inflows, revenues or expenditures. The general fund is always considered a major fund. The Court has elected to consider all their special revenue funds as major funds regardless of size. Major individual governmental funds are reported as separate columns in the fund financial statements.

In the governmental fund financial statements, per GASB Statement No. 54, fund balances are classified as nonspendable, restricted or unrestricted (committed, assigned or unassigned). Restricted represents those portions of fund balance where constraints placed on the resources are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Committed fund balance represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislative and Executive branches of the State. Assigned fund balance is constrained by the Legislature's and Executive Branch's intent to be used for specific purposes or in some cases by legislation. See Notes 6 and 7 for additional information about fund balances.

**The following are the Court's major Governmental Funds:**

**General Fund (14300)** – The general operating fund of the Court. It is used to account for all financial resources except those required to be accounted for in other funds. Any unencumbered balance remaining in the General Fund at the end of the fiscal year reverts to the State of New Mexico, with the exception of what is noted as unencumbered balances presented on the schedule of special, deficiency, specific and capital appropriation located in the other supplementary information section of the audit report, if applicable. All appropriations received in this fund are revertible funds if not expended in the appropriate time frame. Please refer to the schedule of interagency transfers for details of state appropriations and other financing sources.

The Court receives all State of New Mexico appropriations in their General Fund, the Court's additional funds are as follows:

**Alternative Dispute Resolution Fund (87700)** – 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 fund is a special revenue fund and is non-reverting. For purposes of financial statement presentation, the fund is considered a major fund.

**Human Services Division Fund (92400)** – 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. For purposes of financial statement presentation, the fund is considered a major fund.

**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
NOTES TO FINANCIAL STATEMENTS  
For The Year Ended June 30, 2015**

**Mediation Program Fund (92300)** – 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 following is the Court’s Fiduciary Fund:**

The Court also has a fiduciary fund (trust and agency funds) used to account for assets held by the Court in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. Trust and agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

**Litigant’s Fund (96700)** – 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.

**3. Basis of Accounting**

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

The government-wide and the fiduciary financial statements are presented on a full-accrual basis of accounting. The governmental funds in the fund financial statements are presented on a modified accrual basis.

The statement of net position and the statement of activities are prepared using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. By definition, the resources of fiduciary funds are not available to support Court programs. Therefore, fiduciary funds are excluded from the government-wide financial statements.

When both restricted and unrestricted resources are available for use, it is the Court’s policy to use restricted resources first, then unrestricted resources as needed.

**4. Budgetary Data**

The New Mexico State Legislature makes annual appropriations to the Court. Legal compliance is monitored through the establishment of a budget (modified-accrual basis) and a financial control system, which permits a budget to actual expenditure comparison. Expenditures may not legally exceed appropriations for each budget at the appropriation unit level. Budgeted appropriation unit amounts may be amended upon approval from the Budget Division of the State of New Mexico Department of Finance and Administration within the limitation as specified in the General Appropriation Act. The budget amounts shown in the financial statements are both the original appropriation and the final authorized amounts as legally revised during the year.

**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
NOTES TO FINANCIAL STATEMENTS  
For The Year Ended June 30, 2015**

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

1. No later than September 1, the Court submits to the Judicial Administrative Office of the Courts (AOC), the Legislative Finance Committee (LFC) and the Department of Finance and Administration (DFA) an appropriation request for the fiscal year commencing the following July. The appropriation includes proposed expenditures and the means of financing them.
2. Appropriation request hearings are scheduled by the AOC. Recommendations are made by the AOC to the Supreme Court for their approval. The Supreme Court approved appropriation request is then submitted to the Legislature as the Supreme Court's recommended appropriation request for the Court.
3. Budget hearings are scheduled before the New Mexico House Appropriations and Senate Finance Committees. The final outcome of these hearings is incorporated into the General Appropriations Act.
4. The Court's budget for the fiscal year ending June 30, 2015 was amended in a legally permissible manner by increasing or reallocating appropriation unit totals as the need arose during the fiscal year. Individual amendments were not material in relation to the original budget.
5. The Act is signed into law by the Governor of the State of New Mexico within the legally prescribed time limit. The Court submits, no later than May 1st, to DFA an annual operating budget by category and line item based upon the appropriations made by the Legislature. The DFA - Budget Division reviews and approves the operating budget which becomes effective on July 1.
6. All subsequent budget adjustments must be approved by the AOC and the Director of the DFA - Budget Division. The budget for the current year was properly amended.
7. Formal budgetary integration is employed as a management control device during the fiscal year for the General Fund and the Special Revenue Funds.
8. The budget for the General Fund and the Special Revenue Funds are not adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP). The budgets do not include prior year encumbrances paid in the current year in the budgetary amounts. The budgets do not include prior year encumbrances paid in the current year in the budgetary amounts except as noted in Note F of this report.
9. Appropriations lapse at the end of the fiscal year beginning with the year ended June 30, 2015. The Court's General Fund is a reverting fund (funds revert back to the State General Fund).
10. Appropriations lapse at the end of the year except for those amounts encumbered with the exception of appropriations presented in the "schedule of special, deficiency, specific and capital outlay appropriation" as referenced in the table of contents of this report, if applicable.
11. Budgets for the General Fund and Special Revenue Funds are presented on the modified accrual basis of accounting. 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 should be reclassified as accounts payable. Any remaining encumbrances related to single year appropriations must be reclassified as unreserved fund balance and a liability recorded to recognize any amount subject to reversion. Budgetary comparisons presented for the General fund and Special Revenue fund in this report are on the modified accrual budgetary basis, which does not conform to accounting principles generally accepted in the United States of America as encumbrances are treated as expenditures. This procedure conforms to Department of Finance and Administration and state requirements.

**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
NOTES TO FINANCIAL STATEMENTS  
For The Year Ended June 30, 2015**

12. 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 statutory deadline (Section 6-10-4 NMSA 1978), that must be paid out of next year's budget. See Note F for amounts paid out of different budget years.
13. If there are appropriations for multiple years and related funds are encumbered, there is a reservation of fund balance for encumbrances in the financial statements. This State Agency has no encumbered funds outstanding as of June 30, 2015.
14. The legal level of budgetary control is at the appropriation program level.

**5. Encumbrances**

Encumbrances outstanding at year-end related to single year appropriations are classified as unreserved fund balance and as a liability recorded to recognize any amounts subject to reversion to the State General Fund.

**6. Net Position**

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

*Investment in Capital Assets* (net of related debt) – is intended to reflect the portion of net position which is associated with non-liquid, capital assets less outstanding capital asset related debt. The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost. The Court did not have any related debt during the year ended June 30, 2015.

*Restricted Net Position* – is intended to reflect the portion of net position that has third party limitations on their use.

*Unrestricted (Deficit) Net Position* – represents net position of the Court that is not restricted for any project or other purpose.

**7. GASB Statement #54**

In February 2009, the GASB issued Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The fund balance amounts for governmental funds have been reclassified in accordance with GASB Statement 54.

As a result, in the governmental fund financial statements, fund balances previously reported as reserved and unreserved are now reported as nonspendable, restricted, or unrestricted (committed, assigned or unassigned).

**8. Spending Policy**

When an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources are available, it is the Court's policy to use restricted resources first. When expenditures/expenses are incurred for purposes for which unrestricted (committed, assigned and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the Court's policy to spend committed resources first.

**9. Net Position Restricted by Enabling Legislation**

The government-wide statement of net position reports restricted net position. All the restricted net position is considered restricted by enabling legislation under the alternative dispute resolution and domestic relations mediation act and the grants. The enabling legislation has been determined to

**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
NOTES TO FINANCIAL STATEMENTS  
For The Year Ended June 30, 2015**

be legally enforceable. Legal enforceability means that a government can be compelled by an external party-such as citizens, public interest groups, or the judiciary-to use resources created by enabling legislation only for the purposes specified by the legislation. Generally, the enforceability of an enabling legislation restriction is determined by professional judgment, which may be based on actions such as analyzing the legislation to determine if it meets the qualifying criteria for enabling legislation, reviewing determinations made for similar legislation of the government or other governments, or obtaining the opinion of legal counsel. However, enforceability cannot ultimately be proven unless tested through the judicial process, which may never occur. The determination of legal enforceability should be based on the underlying facts and circumstances surrounding each individual restriction. The determination that a particular restriction is not legally enforceable may lead a government to reevaluate the legal enforceability of similar enabling legislation restrictions, but should not necessarily lead a government to conclude that all enabling legislation restrictions are unenforceable.

**10. Fund Balance**

The Court's fund balance is classified under the following GASB Statement 54 components:

- **Nonspendable:** Nonspendable fund balance classification includes amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact. The Court does not have any nonspendable fund balance for the year ended June 30, 2015.
- **Restricted:** Restricted fund balance represents amounts constrained to specific purposes that are externally imposed or imposed by law through constitutional provisions or enabling legislation (such as taxpayers, grantors, bondholders, and higher levels of government). The Court's restricted funds in the general fund represent restricted grants and in the special revenue funds the restricted funds represent funds held for the Court's alternative dispute resolution, and mediation programs for the year ended June 30, 2015.
- **Committed:** Committed fund balance is constrained to specific purposes by the highest level of decision-making authority (the New Mexico Legislature and Governor). The Court does not have any committed fund balance for the year ended June 30, 2015.
- **Assigned:** Assigned fund balance is constrained by the Legislature and Executive branch's intent to be used by the government for specific purposes or in some cases by legislation. Intent can be expressed by the governing body or an official or body to which the governing body delegates authority. The Court does not have any assigned fund balance for the year ended June 30, 2015.
- **Unassigned:** Unassigned fund balance is the residual classification for the general fund. The Court does not currently have a minimum fund balance policy. Unassigned fund balance is also made up of petty cash that is used for general operations. The Court has \$300 in unassigned fund balance, which is the Court's petty cash. Otherwise, the Court doesn't have unassigned fund balance, because all unassigned, unexpended funds revert back to the State General Fund.

**11. Modified Accrual**

All governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of



**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
NOTES TO FINANCIAL STATEMENTS  
For The Year Ended June 30, 2015**

the current period which is considered to be within sixty days of year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general long-term debt, if any, is recognized when due.

In applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to GASB Statement #33, which was also adopted as of July 1, 2001 by the Court, the provider should recognize liabilities, deferred inflows and expenses and the recipient should recognize receivables and revenues when the applicable eligibility requirements including time requirements, are met, resources transmitted before the eligibility requirements are met, under most circumstances, should be reported as advances by the provider and deferred revenue/unearned revenue by the recipient.

The interfund transactions are eliminated. Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "transfers in or out from other funds". If the New Mexico State Legislature provides a new appropriation for a specific encumbrance, it is carried forward to a new appropriation period to be charged against the new budget. If the Legislature does not provide a new appropriation for an encumbrance, the encumbrance is no longer authorized.

**12. Revenues, Expenditures and Expenses**

Substantially all governmental fund revenues are accrued. The only revenues that the Court receives other than State appropriations are state and federal operating grants and other contracts.

Expenditures are recognized when the related fund liability is incurred.

**13. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows, liabilities, deferred inflows and disclosure of contingent assets, deferred outflows, liabilities and deferred inflows at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

**14. Inter-fund Activity**

Inter fund transactions are treated as transfers. Transfers between governmental funds are netted as part of the reconciliation to the government-wide financial statements.

**15. Program Revenues**

Program revenues include federal and state grants, charges for tapes and copies of court proceedings and court fees collected per statute designated for court operations.

**16. Receivables**

Receivables consist of amounts due from federal, and other state and local governments.

**17. Cash and Cash Equivalents**

Cash and cash equivalents include amounts in demand deposits as well as short-term investments.

**18. Capital Assets**

Property and equipment including software, purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at the fair market values as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of

**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
NOTES TO FINANCIAL STATEMENTS  
For The Year Ended June 30, 2015**

an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The State's capitalization policy, i.e., the dollar value above which asset acquisitions including software are added to the capital accounts, was changed to \$5,000 as of July 1, 2005 from \$1,000. Assets with historical cost under \$5,000 and over \$1,000 that capitalized prior to July 1, 2005 remain on the Court's capital assets schedule. However, all capital outlay purchases may not necessarily be capitalized. The Court does not capitalize any interest in regards to its capital assets. Computer software which has been developed for internal use and which meets the capitalization minimum of \$5,000 is capitalized and depreciated in accordance with the Court depreciation guidelines. There is no related debt relating to capital assets.

Furniture and fixtures	10 years
Equipment	5 years
Vehicles	5 years
Data Processing	3 years

**19. Accrued Compensated Absences**

Qualified employees accumulated annual leave as follows:

<u>Years of Service</u>	<u>Hours Earned per Month</u>	<u>Days Earned per Month</u>	<u>Days of Maximum Accrual</u>
1 month – 3 years	10	1 ¼	30
Over 3 – 7 years	12	1 ½	30
Over 7 – 14 years	14	1 ¾	30
Over 14 years/beyond	16	2	30

The maximum accrued annual leave may be carried forward into the beginning of the next calendar year and any excess is lost. When employees terminate, they are compensated for accumulated unpaid annual leave as of the date of termination, up to the aforementioned maximums at their current hourly rate. At June 30, 2015, accrued compensated absences payable for accumulated annual leave totaled \$176,128.

**20. Accrued Sick Leave**

Chapter 150 Laws of 1983, provides for the payment to employees for accumulated sick leave under certain conditions. Employees who have over 600 hours of accumulated sick leave can receive payment for the hours over 600 up to 120 hours on July 1<sup>st</sup> and January 1<sup>st</sup> of each year. However, the sick leave will be paid at fifty percent of the employee's regular hourly wage. At retirement, employees can receive fifty percent payment for up to 400 hours for the hours over 600 hours of accumulated sick leave. Employees who terminate receive no payment for accumulated sick leave. Therefore, the only sick leave which has been accrued represents the hours earned at June 30, 2015 over 600 hours. In accordance with GASB 16, accrued compensated absences consisted of accumulated annual leave and related salary payments (employers' matching FICA and Medicare payroll taxes).

Expenditures for accumulated sick pay for hours under 600 hours will be recognized as employees take such absences. Accrued vested sick pay is recorded as a liability in the governmental-wide financial statements. As of June 30, 2015, the Court had accrued leave benefits in excess of 600 hours, totaling \$350.

**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
NOTES TO FINANCIAL STATEMENTS  
For The Year Ended June 30, 2015**

**21. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applied to a future period and so will not be recognized as an expense or expenditure until then. The Court has no items that meet this criterion. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applied to a future period and so will not be recognized until then. The Court has no items that meet this criterion.

**B. CASH AND INVESTMENTS POLICY WITH STATE TREASURER AND BANK INSTITUTIONS**

**1. Investments in the State Treasurer’s General Fund Investment Pool (SGFIP)**

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

For further information regarding the GFIP, please see the State Treasurer’s annual audit report and specifically refer to the GASB 40 disclosure of the investments. That report may be obtained by writing to the New Mexico State Treasurer's Office, P.O. Box 608, Santa Fe, NM 87504-0708.

At June 30, 2015 the Court had the following invested in the SGFIP:

<u>Fund Type</u>	<u>Location</u>	<u>Fund No.</u>	<u>Per Depository</u>	<u>Checks</u>	<u>Financial Statements</u>
General	STO	14300	\$ 384,193	-	384,193
<b>Total General Fund</b>			<u>384,193</u>	<u>-</u>	<u>384,193</u>
Special revenue	STO	87700	126,483	-	126,483
Special revenue	STO	92300	60,904	-	60,904
Special revenue	STO	92400	11,676	-	11,676
<b>Total Special Revenue Funds</b>			<u>199,063</u>	<u>-</u>	<u>199,063</u>
<b>Total Fund Financials</b>			<u>\$ 583,256</u>	<u>-</u>	<u>583,256</u>

There were no deposits in transit as of June 30, 2015. The Office of the State Treasurer (STO) accounts are interest bearing accounts but no interest income was allocated to the Court.

**Custodial Credit Risk—Investment Accounts**

The Office of the State Treasurer (STO) monitors the collateral for deposits it holds, which would include the investment accounts of the Court. Therefore, collateralization of the Court’s accounts is the responsibility of the STO. The STO has its own separate annual independent audit in which the collateral pledged to secure these deposits is disclosed. By law, the Court is not permitted to have any investments other than what is held at the State Treasurer’s Office and the Court did have investments in the State Treasurer Local Government Investment Pool during the year ended June 30, 2015. There is no custodial risk at the Court level since the Court’s investments are under the contract of the Office of the State Treasurer.

**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
NOTES TO FINANCIAL STATEMENTS  
For The Year Ended June 30, 2015**

**General Fund Investment Pool Not Reconciled**

In June 2012, an independent diagnostic report revealed that Pool balances had not been reconciled at a “business unit by fund” level since the inception of the Statewide Human Resources, Accounting, and Management Reporting System (SHARE) system in July 2006. This report, entitled “Current State Diagnostic of Cash Control,” also described a difference between Pool bank balances and the corresponding general ledger balances and indicated that the effect of reconciling items was unknown. The report, dated June 20, 2012, is available on the website of the New Mexico Department of Finance & Administration at:

[http://www.nmdfa.state.nm.us/Cash\\_Control.aspx](http://www.nmdfa.state.nm.us/Cash_Control.aspx).

By state statute, the New Mexico Department of Finance and Administration (DFA) is responsible for the performance of monthly reconciliations with the balances and accounts kept by the State Treasurer. Therefore, under the direction of the State Controller / Financial Control Division Director, the Financial Control Division (FCD) of the New Mexico Department of Finance & Administration undertook action to address the situation. DFA/FCD initiated the Cash Management Remediation Project (Remediation Project) in partnership with the Office of the New Mexico State Treasurer, the New Mexico Department of Information Technology, and a contracted third party with expertise in the Enterprise System Software used by the State. The Remediation Project objective was to design and implement changes necessary to ensure ongoing completion of timely, accurate and comprehensive reconciliation of the Pool. DFA has or is in the process of implementing all the recommendations resulting for the Remediation Project and has made changes to the State’s SHARE system configuration, cash accounting policies and procedures, business practices, and banking structure. This has enabled DFA to complete timely and accurate reconciliation of bank to book balances at the State and Business Unit level on a post-implementation basis, however it did not resolve historical reconciling items. Additional changes recommended by the Project continue to be cascaded through DFA and state agencies to support the Business Unit by Fund accounting requirements.

A plan to address historical reconciling items is being assessed and a separate initiative will need to be undertaken to resolve the historical reconciling items. Management considers it unlikely that this separate initiative will be successful in allocating all historical reconciling items to the State entities invested in the Pool. As a result, any remaining differences post specific allocation to Pool participants will be reported in the State General Fund.

Per the directive issued by the Office of the State Auditor on October 30, 2012, a note disclosure relating to this issue is required for all State of New Mexico state agencies for financial statements issued for fiscal year ended June 30, 2012 and continues into 2015.

That directive instructed agencies to do the following:

1. Provide copies of the referenced reports to the agency’s Independent Public Accountant (IPA) performing the fiscal year 2015 audit;
2. Explain to the IPA what policies and procedures the agency has in place to ensure that the agency’s cash balances in SHARE are correct; and
3. Disclose in the agency’s notes to the financial statements the facts about the statewide cash reconciliation as of June 30, 2015, and what the agency’s policies and procedures were during the fiscal year 2015 to mitigate the risk that the agency’s cash balances would be misstated as of June 30, 2015.

**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
NOTES TO FINANCIAL STATEMENTS  
For The Year Ended June 30, 2015**

The Court was unable to provide copies of the referenced diagnostic reports to the IPA and the Court does not perform timely reconciliations of amounts held at the State Treasury Office (STO). Please see finding referenced as 2015-001 in the Schedule of Findings and Responses, listed in the table of contents.

**Credit Risk for Investments**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The GFIP is not rated for credit risk.

**Interest Rate Risk for Investments**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Court does not have an investment policy that limits investment interest rate risk.

**State General Fund Investment Pool**

Compliant with statute 6-10-3 (NMSA 1978), and to optimize state cash management and investment practices, funds of various state agencies are deposited in the State General Fund Investment Pool (SGFIP). This pool is managed by the New Mexico State Treasurer's Office (STO). Claims on the SGFIP are reported as financial assets by the various agencies investing in the SGFIP.

Agency claims against the SGFIP and fiduciary resources held at STO to fulfill those claims were not reconciled from the inception of SHARE (the State's centralized accounting system), in July 2006, through January 2013, which caused uncertainty as to the validity of the claims and the ability of fiduciary resources to fulfill those claims. As a result of business process and systems configuration changes made during the Cash Management Remediation Project Phase I the Department of Finance and Administration's Financial Control division began reconciling transactional activity reported by the State's fiscal agent bank to the SHARE general ledger on a point-forward basis beginning February 1, 2013. In March 2015, the Financial Control Division implemented a reconciliation process that compares statewide agency claims against the resources held in the SGFIP at STO. This process is known as the claims to resources reconciliation. The claims to resources reconciliation process has been successfully applied to fiscal year-end 2014 and the months from January 2015 through June 2015. While work remains, the results are encouraging and the following assertions can be made:

1. The difference between statewide agency claims against the SGFIP and fiduciary resources held at STO to fulfill those claims has remained within a relatively narrow range over the periods in which the reconciliation process has been used;
2. Agency claims on the SGFIP will be honored in their entirety. Any adjustment necessary to the claims balance will be applied against the General Operating Reserve. No portion of the adjustment shall be allocated to any specific agency that participates in the SGFIP.

**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
NOTES TO FINANCIAL STATEMENTS  
For The Year Ended June 30, 2015**

**2. Investments in the State Treasurer Local Government Investment Pool (LGIP)**

As of June 30, 2015, the Court has the following invested in the State Treasurer Local Government Investment Pool:

<u>Financial Institution</u>	<u>Cost Basis</u>	<u>Market</u>	<u>Risk Rating</u>	
State of NM Local Government Investment Pool (LGIP)	\$ 574,810	574,810	AAAm	[54.6] day WAR (R); [77.7] day WAM (F)

New Mexico State Statutes authorize the creation of the short-term investment fund in the New Mexico State Treasury. The Statutes authorize the State Treasurer to pool monies received from local public bodies for investment purposes with public monies under control. The purpose of the local short-term fund is to provide a voluntary investment alternative for local political subdivisions to realize the maximum return consistent with safe and prudent management. The local short-term investment fund, along with other public monies in the State Treasurer's investment account, is invested in repurchase agreements secured at 102% by U.S. Government Securities. The State Treasurer has the responsibility to pledge collaterals at 102% of investment balances for the Court. All investing is performed in accordance with State Statutes and the Court's investment policy.

The investments are valued at fair value based on quoted market prices as of the valuation date. The State Treasurer Local Government Investment Pool is not SEC registered. Section 67-10-10 I, NMSA 1978, empowers the State Treasurer, with the advice and consent of the State Board of Finance, to invest money held in the short-term investment fund in securities that are issued by the United States government, or by its departments or agencies and are either direct obligations of the United States, or are backed by the full faith and credit of the United States government, or are agencies sponsored by the United States government. The Local Government Investment Pool investments are monitored by the same investment committee and the same policies and procedures that apply to all other state investments. 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 fund amounts were invested. Participation in the local government investment pool is voluntary.

The LGIP's portfolio's weighted average maturity (WAM) is a key determinant of the tolerance of a fund's investment to rising interest rates. In general, the longer the WAM, the more susceptible the fund is to rising interest rates.

State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The Court has no investment policy that would further limit its investment choices. As of June 30, 2015, the Court's investment in the New MexiGROW Local Government Investment Pool (LGIP) was rated AAAm by Standard & Poor's. The independent auditor's report, together with the financial statements, the accompanying notes to the financial statements, and the independent auditor's report on compliance and internal controls are available from New Mexico State Treasurer, 2019 Galisteo Street, Bldg K, Santa Fe, New Mexico 87504, upon written request.

*Credit Risk LGIP* – With respect to credit risk, the LGIP, is rated AAAm by Standard & Poor's. Therefore, the LGIP reports AAAm for credit risk. Public funds are not required to disclose

**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
NOTES TO FINANCIAL STATEMENTS  
For The Year Ended June 30, 2015**

custodial credit risk for external investment pools. Therefore, the LGIP is exempt from this requirement.

*Concentration of Risk* – GASB Statement No. 40 defines concentration of credit risk as investments of more than 5% in any one issuer. External investment pools, such as LGIP, are excluded from the requirement of disclosing concentration of credit risk. Therefore, the LGIP is exempt from this disclosure.

*Foreign Currency Risk* – GASB Statement No. 40 defines interest rate risk that interest rate variation may adversely affect the fair value of an investment. The Court is not exposed to the risk that exchange rates will adversely affect the fair value of an investment as none of the investments pools or certificates of deposit are dominated in a foreign currency.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more banks or savings and loan associations within the geographical boundaries of the Court. Deposits may be made to the extent that they are insured by an agency of the United States or by collateral deposited as security or by bond given by the financial institution.

The rate of interest in non-demand interest-bearing accounts shall be set by the State Board of Finance, but in no case shall the rate of interest be less than one hundred percent of the asked price on United States treasury bills of the same maturity on the day of deposit.

Excess funds may be temporarily invested in securities which are issued by the State or by the United States government, or by their departments or agencies, and which are either direct obligations of the State or the United States or are backed by the full faith and credit of those governments.

According to the Federal Deposit Insurance Corporation, public unit deposits are funds owned by the public unit. Time deposits, savings deposits and interest bearing NOW accounts of an institution in the same state will be insured up to \$250,000 in aggregate and separate from the \$250,000 coverage for public unit demand deposits at the same institution.

Specific details of the collateralization of the Court’s deposits are included on the “Schedule of Cash and Investments” and the “Schedule of Collateral” as listed in the table of contents.

**C. DUE FROM OTHER GOVERNMENTS**

As of June 30, 2015, due from other governments consist of:

<u>Due from</u>	<u>Due From</u>	<u>Due To</u>	<u>Purpose</u>	<u>Amount</u>
<u>Fund</u>	<u>Fund</u>	<u>Fund</u>		
Aministrative				
Office of the Courts	13900	14300	Due from state agency	\$ <u>21</u>

An allowance for doubtful accounts has not been established related to the due from other governments, as all receivables are considered fully collectible.

**D. DUE TO OTHER GOVERNMENTS**

As of June 30, 2015, no funds were due to other governments.

**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
NOTES TO FINANCIAL STATEMENTS  
For The Year Ended June 30, 2015**

**E. RECEIVABLES**

<u>Fund</u>	<u>Account</u>	<u>Amount</u>
General	Uncollectable receivables	\$ 8,108
General	Allowance for doubtful fund accounts	(8,108)
	Total	<u>\$ -</u>

The Court has an outstanding receivable related to fees that were overpaid to DFA in 2008. The receivable has been fully allowed, as it has been determined that the likelihood of collectability is considered remote. The allowance of the receivable resulted in a restatement. See Note S for more detail. The Court has not written off any receivables balances in the current or in prior years. All amounts of receivables recorded are disclosed if and when they are collected.

**F. RECONCILIATION BETWEEN BUDGETARY BASIS AND GAAP BASIS**

Because the Court keeps their budget on the modified GAAP basis there is no need to reconcile the budget financial statements to the fund financial statements. There were no outstanding accounts payable that were applied against the subsequent year's budget.

**G. REVERSIONS AND DUE TO STATE GENERAL FUND**

Section 6-5-10 NMSA 1978 requires all unreserved, undesignated fund balances in reverting funds and accounts revert to the State General Fund within ten days of the audit report.

The amount due to the State General Fund as of June 30, 2015 is as follows:

<u>Fund</u>	<u>General Description</u>	<u>Due to State General Fund (#34100)</u>
14300	FY15 Reversion	\$ 23,480
14300	Additional reversion due to overpayment of PERA	378
92400	FY15 Reversion	508
		<u>\$ 24,366</u>

The Court's reversion of General Fund Appropriation funds totaled \$23,988 as of June 30, 2015. All amounts in the general fund of the Court's fund balance revert except what is noted as grants, on the balance sheet-governmental funds per the table of contents.

**H. COMPENSATED ABSENCES**

A summary of changes in long-term debt for the year ended June 30, is as follows:

	<u>2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>2015</u>	<u>Current Portion</u>
Compensated absences	\$ 150,070	485,341	(459,283)	176,128	176,128

Prior year compensated absences have been liquidated by the general fund.



**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
NOTES TO FINANCIAL STATEMENTS  
For The Year Ended June 30, 2015**

**I. CONTINGENCIES**

**Risk of loss**

The Court 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, workers' compensation and general and property insurance, and attempts to reduce the number of suits against the State and state agencies through the risk management process. The actuarial gains and losses of Risk Management Division were not available and were not included in this report. However, the Court is not liable for more than the premiums paid.

**Litigation**

In March 2013, a lawsuit was filed by a sitting Third Judicial Court Judge, the Hon. Lisa C. Schultz, which names as party defendant "The Judicial Branch of New Mexico" (case number D-101-CV-2013-00885). The matter is presently in the discovery phase. No contingency was presented in the financial statements.

**J. INTERFUND RECEIVABLES AND PAYABLES AND INTERFUND TRANSFERS**

Interfund receivables and payables reflect short-term (current) borrowings among the Court's funds in the normal course of business. The Court had no due to/from other funds as of June 30, 2015.

**K. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2015 was as follows:

	<u>Balance</u> <u>2014</u>	<u>Additions</u>	<u>Adjustments/ Reclassify</u>	<u>Balance</u> <u>2015</u>
Capital assets depreciated:				
Furniture and fixtures	\$ 285,469	-	-	285,469
Equipment	874,460	5,232	-	879,692
Vehicles	201,812	37,029	-	238,841
Data Processing	150,630	-	-	150,630
Total capital assets depreciated	<u>1,512,371</u>	<u>42,261</u>	<u>-</u>	<u>1,554,632</u>
Less accumulated depreciation for:				
Furniture and fixtures	(207,471)	(23,008)	1,921	(228,558)
Equipment	(769,195)	(28,590)	(4,485)	(802,270)
Vehicles	(166,306)	(10,693)	(664)	(177,663)
Data Processing	(150,630)	-	-	(150,630)
Total accumulated depreciation	<u>(1,293,602)</u>	<u>(62,291)</u>	<u>(3,228)</u>	<u>(1,359,121)</u>
Total capital assets, net	<u>\$ 218,769</u>	<u>(20,030)</u>	<u>(3,228)</u>	<u>195,511</u>

The Court had an adjustment of \$3,228 to accumulated depreciation in 2015 due to a change in calculations.

**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
NOTES TO FINANCIAL STATEMENTS  
For The Year Ended June 30, 2015**

**L. PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION**

**Plan Description.** Compliant with the requirements of Government Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, the State of New Mexico has implemented the standard for the fiscal year ending June 30, 2015.

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

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

**Funding Policy:** Plan members are required to contribute 8.92% of their gross salary. The Court is required to contribute 16.99% of the gross covered salary. The contribution requirements of plan members and the Court are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Court's contributions to PERA for the fiscal years ending June 30, 2015, 2014 and 2013 were \$714,980, \$544,040, and \$459,588, less the amounts disclosed in the JRA Pension plan shown below respectively, which equal the amount of the required contributions for each fiscal year.

**M. JRA PENSION PLAN**

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

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

**Funding Policy Of The JRA Pension Plan**

Plan members are required to contribute 10.5% of their gross salary. The Court is required to contribute 15% of the gross covered salary. The Court's contributions to JRA for the years ending June 30, 2015, 2014 and 2013 were \$127,621, \$103,231, and \$90,481, respectively, equal to the amount of the required contributions for each year.

In addition to the above, the Court remits \$38 of each filing fee collected by the Court into the Judicial Retirement Act plan as required by Section 10-12b-11, NMSA 1978. These fees are remitted directly to PERA and are not included within the accompanying financial statements. The Court remitted \$92,715 in filing fees for the year ending June 30, 2015.

**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
NOTES TO FINANCIAL STATEMENTS  
For The Year Ended June 30, 2015**

**N. DEFERRED COMPENSATION**

The State of New Mexico offers state, local government and school district employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is available to all State employees and those local government and school district employees whose employers have elected participation in the plan permits participants to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. There are employees that are making contributions to a Deferred Compensation Plan. Neither the Court nor the State of New Mexico made any contributions to the Deferred Compensation Plan. All contributions withheld from participants by the Court have been paid to the New Mexico Public Employee's Retirement Association, which administers the plan.

**O. POST-EMPLOYMENT BENEFITS—STATE RETIREE HEALTH CARE PLAN**

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

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

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

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

The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the employer and employee contributions can be

**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
NOTES TO FINANCIAL STATEMENTS  
For The Year Ended June 30, 2015**

changed by the New Mexico State Legislature. Employers that choose to become participating employers after January, 1, 1998 are required to make contributions to the RHCA fund in the amount determined to be appropriate by the board.

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2015, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2015, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The Court's contributions to the RHCA for the years ended June 30, 2015, 2014 and 2013 were \$91,224, \$87,686 and \$85,576, respectively, which equal the required contributions for each year.

**P. LEASES**

The Court has equipment leases and associated maintenance agreements which can be terminated with no penalty to the Court, if the Legislature does not appropriate money to the Court. All leases may be terminated at any time with sixty-days of notice if the New Mexico Legislature does not grant sufficient appropriation for the lease or if the Court decides that termination is necessary to protect the best interests of the State of New Mexico. Lease expenditures and related expenses for the year ended June 30, 2015 were \$5,022.

**Q. OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES**

Generally accepted accounting principles require disclosures of certain information concerning individual funds including:

- A. No funds maintained a deficit fund balance of June 30, 2015.
- B. No funds exceeded approved budgetary authority for the year ended June 30, 2015.

**R. CONCENTRATIONS**

The Court depends on financial resources flowing from, or associated with, both the Federal Government and the State of New Mexico. Because of this dependency, the Court is subject to changes in specific flows of intergovernmental revenues based upon modifications to Federal and State laws and Federal and State appropriations.

**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
NOTES TO FINANCIAL STATEMENTS  
For The Year Ended June 30, 2015**

**S. RESTATEMENTS**

Restatements were made as follows:

<u>Purpose/Reason</u>	<u>Amount</u>
<u>General Fund (14300)</u>	
To remove payable recorded in FY14, but was for FY15 expense	\$ 1,295
To record allowance for doubtful accounts related to uncollectable receivables from prior years.	(8,108)
To adjust fund balance to actual due to accrued payroll liability adjustments entered in prior year, but not made by DFA, as they were incorrect.	33,046
Total General Fund	<u>\$ 26,233</u>
 <u>Alternative Dispute Resolution Fund (87700)</u>	
To adjust fund balance to actual due to accrued payroll liability adjustments entered in prior year, but not made by DFA, as they were incorrect.	\$ <u>(787)</u>
Total restatements	<u>\$ 25,446</u>

**T. JOINT POWER AGREEMENTS AND MEMORANDUM OF UNDERSTANDING**

The Court did not have any joint power agreements or memorandum of understandings for the year ended June 30, 2015.

**U. EVALUATION OF SUBSEQUENT EVENTS**

Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are issued. The Court recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Court's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements are available to be issued. The Court has evaluated subsequent events through November 25, 2015, which is the date the financial statements were available to be issued.

**STATE OF NEW MEXICO  
 THIRD JUDICIAL DISTRICT COURT  
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES-AGENCY FUNDS  
 For The Year Ended June 30, 2015**

	<u>2014</u>	<u>Receipts</u>	<u>Disburse- ments</u>	<u>2015</u>
<b>LITIGANTS FUND (96700):</b>				
<b>ASSETS</b>				
State Treasurer accounts	1,774,354	1,075,058	(1,084,605)	1,764,807
Other receivables	1,356	-	-	1,356
	<u>\$ 1,775,710</u>	<u>1,075,058</u>	<u>(1,084,605)</u>	<u>1,766,163</u>
<b>LIABILITIES</b>				
Deposits held in custody of others	1,775,710	1,075,058	(1,084,605)	1,766,163
	<u>\$ 1,775,710</u>	<u>1,075,058</u>	<u>(1,084,605)</u>	<u>1,766,163</u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
SCHEDULE OF CASH AND INVESTMENTS  
As of June 30, 2015**

	<u>Account Type</u>	<u>Bank Balance</u>	<u>Book Balance</u>
<b>Investment in the State Treasurer General Fund Investment Pool</b>			
<b>General Fund</b>			
NM State Treasurer	SGFIP	\$ 384,193	384,193
<b>Alternative Dispute Resolution Fund</b>			
NM State Treasurer	SGFIP	126,483	126,483
<b>Human Services Division Fund</b>			
NM State Treasurer	SGFIP	11,676	11,676
<b>Mediation Program Fund</b>			
NM State Treasurer	SGFIP	<u>60,904</u>	<u>60,904</u>
Total		<u>\$ 583,256</u>	583,256
Petty Cash			<u>300</u>
Balance per Statement of Net Position			<u>\$ 583,556</u>
<b>Agency Funds</b>			
LGIP	LGIP	\$ 574,810	574,810
Bank of the West	Checking	1,225,931	1,186,396
Citizen's Bank	Savings	<u>3,601</u>	<u>3,601</u>
Total Agency Funds		<u>\$ 1,804,342</u>	<u>1,764,807</u>
Total amount of deposit in banks		\$ 1,804,342	<u>1,764,807</u>
FDIC coverage		<u>(253,601)</u>	
Total uninsured public funds		<u>\$ 1,550,741</u>	
50% Collateral Requirement (Section 6-10-17 NMSA 1978)		<u>\$ 775,371</u>	

The accompanying notes are an integral part of these schedules

**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
SCHEDULE OF CASH AND INVESTMENTS  
As of June 30, 2015**

**Collateralization of the Court's bank deposits is as follows:**

The uninsured public funds is as shown above. Collateral information for the deposits at Bank of the West and Citizen's Bank is not available because the banks commingle pledged collateral for all of the State funds they hold. The collateralization of these accounts is monitored by the State Treasurer's office. These banks provide proof of collateral sufficient to cover all State funds deposited. The State Treasurer issues separate financial statements which disclose the collateral pledged to secure amounts held by the State Treasurer.

Custodial Credit Risk is the risk that in the event of a bank failure, the Court's deposits may not be returned. The Court does not have a policy for custodial credit risk. The Court's Agency Fund bank balances were exposed to custodial credit risk as follows:

**As of June 30, 2015:**

Uninsured and uncollateralized as pledged collateral is commingled for all state funds

*Unknown*

Uninsured, collateral held by the pledging banks, but not in the name of the Court or the State of New Mexico

\$ 1,550,741



**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
SCHEDULE OF COLLATERAL  
As of June 30, 2015**

<b>Bank</b>	<b>CUSIP</b>	<b>Current Present Value</b>	<b>Coupon or Rate</b>	<b>Market Value</b>	<b>Maturity Date</b>
<b>Bank of the West</b>					
FN 1339C MP PAC FIX	3136AEEFO	\$ 5,502,358	1.75%	\$ 47,440	5/25/2028
FH 3977C AC SEQ FIX	3137AJYW8	816,854	3.00%	7,383	9/15/2029
FH4257AASEQFIX	3137B56H1	1,706,902	2.50%	15,220	10/15/2027
FHLMC GOLD 30 YR	31292LWF8	1,423,278	3.00%	12,393	1/9/2042
FHLMC SF ARM ;VARIOUS	31300MHQ9	2,938,476	2.64%	26,691	1/1/2044
FHLMC GOLD 30 YR	3132HLM34	1,642,560	3.00%	14,303	1/8/2042
FHLMC GOLD 30 YR	3132HM3Y5	556,498	3.00%	4,846	1/10/2042
FNMA SF ARM ; LIBOR	3138EMD65	15,184,208	2.72%	138,502	1/1/2044
FNMA CONV 30 YR SF	3138M94W8	23,832,590	3.00%	208,437	1/10/2042
FNMA SF ARM ; LIBOR	3138X3EDO	2,438,501	2.35%	22,100	1/9/2043
GNMA2 ARM MULTIPLE	36179MDE7	4,872,076	3.00%	44,289	5/20/2042
GNMA2 SINGLE FAMILY 30 YR	36179ME22	5,090,937	3.00%	45,159	6/20/2042
GNMA2 SINGLE FAMILY 30 YR	36179ME22	665,852	3.00%	5,906	6/20/2042
GNMA2 SINGLE FAMILY 30 YR	36179MVQO	1,244,521	2.50%	10,480	12/20/2042
GNMA2 ARM MULTIPLE	36179MYH7	1,139,891	2.50%	10,239	1/20/2043
GNMA2 ARM MULTIPLE	36179MYH7	1,124,207	2.50%	10,098	1/20/2043
GNMA2 ARM MULTIPLE	36179MYQ7	5,946,561	2.00%	53,569	1/20/2043
GNMA2 ARM MULTIPLE	36179MYQ7	8,945,684	2.00%	80,586	1/20/2043
GNMA2 ARM MULTIPLE	36179NBY3	2,049,713	2.00%	18,442	4/20/2043
GNMA2 SINGLE FAMILY 30 YR	36179NM96	983,991	3.00%	8,728	9/20/2043
GNMA2 SINGLE FAMILY 30 YR	36179NM96	2,033,582	3.00%	18,039	9/20/2043
GNMA2 ARM MULTIPLE	36179NTU2	3,950,875	3.00%	35,754	11/20/2043
GNMA2 SINGLE FAMILY 30 YR	36202FX76	21,611,301	3.50%	196,773	10/20/2041
GNMA2 SINGLE FAMILY 30 YR	36202FX76	21,611,301	3.50%	196,773	10/20/2041
		<u>\$ 137,312,717</u>		<u>\$ 1,232,150</u>	

**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
SCHEDULE OF INTERAGENCY TRANSFERS  
For The Year Ended June 30, 2015**

Description	Agency Transferred From	From Fund	To Fund	Reference	Amount Transferred In
<b>State Appropriations</b>					
<b>General Fund</b>					
General Fund Appropriation	DFA	34101	14300	Laws 2014, 2st Ses. Ch 63, Sec 4	\$ 6,476,100
Other Financing Sources	DFA	34101	14300	Laws 2014, 2st Ses. Ch 63, Sec 4	437,889
Total General Fund					<u>\$ 6,913,989</u>
<b>Human Services Division Fund</b>					
Other Financing Sources	DFA	34101	92400	Laws 2014, 2st Ses. Ch 63, Sec 4	<u>\$ 462,900</u>
<b>Total Transfers In</b>					<u>\$ 7,814,778</u>

Description	Agency Transferred To	From Fund	To Fund	Reference	Amount Transferred Out*
<b>General Fund</b>					
General Fund Appropriation	DFA	14300	34100	Reversion of FY15	<u>\$ 23,480</u>
<b>Human Services Division Fund</b>					
General Fund Appropriation	DFA	92400	34100	Reversion of FY15	<u>\$ 508</u>
<b>Total Transfers Out</b>					<u>\$ 23,988</u>

\*Note: The reversions presented in the Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds are expected to be reverted in FY 16

STATE OF NEW MEXICO  
 THRID JUDICIAL DISTRICT COURT  
 SCHEDULE OF VENDOR INFORMATION FOR PURCHASES EXCEEDING \$60,000 (EXCLUDING GRT)  
 For The Year Ended June 30, 2015

#	RFB#/RFP#/ State-Wide Price Agreement #	Type of Procurement	Awarded Vendor	\$ Amount of Awarded Contract	\$ Amount of Amended Contract	Name and Physical Address of ALL Vendor(s) that responded	In-State/ Out-of State Vendor (Y or N) (Based on Statutory Definition)	Was the vendor instate and chose Veteran's preference (Y or N)	Brief Description of the Scope of Work
1	RFP #12-003 and 12-004	Request for Proposals	Nava Counseling	\$203,000.00	N/A	715 E. Idaho, Las Cruces, NM 88004	In-State	N	Drug Court Treatment Services
2	RFP #12-005	Request for Proposals	Families & Youth	\$203,000.00	N/A	1320 South Solono, Las Cruces, NM 88001	In-State	N	Juvenile Drug Court Treatment Services
3	AOC Initiated Contract	Request for Proposals	Families & Youth	\$60,000.00	N/A	1320 South Solono, Las Cruces, NM 88001	In-State	N	Supervised Visitation
4	AOC Initiated Contract	AOC Initiated Contract	Mesilla Valley Casa	\$106,362.00	N/A	135 W. Griggs Las Cruces, NM 88005	In-State	N	Court Appointed Special Advocates
5	RFP #13-02	Request for Proposals	Joy Goldbaum	\$65,000.00	N/A	PO Box 2001, Las Cruces, NM 88004	In-State	N	Domestic Violence Commissioner



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

Honorable Fernando R. Macias, Chief Judge  
State of New Mexico Third Judicial District Court  
and

Mr. Tim Keller, New Mexico State Auditor  
Office of the State Auditor  
Santa Fe, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons of the general fund and major special revenue funds of the Third Judicial District Court, of the State of New Mexico (the Court) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Court's basic financial statements, and the related budgetary comparisons of the Court, presented as supplemental information, and have issued our report thereon dated November 25, 2015.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying *schedule of findings and responses*, that

November 25, 2015

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

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we consider to be a significant deficiency; 2015-001.

**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; 2015-001, 2015-002, and 2015-003.

**Third Judicial District Court's Response to Findings**

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

**Purpose of this Report**

This purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Court's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Hinkle + Landers, PC  
Albuquerque, NM  
November 25, 2015

**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended June 30, 2015**

**SUMMARY OF FINDINGS AND RESPONSES**

Current and prior year findings are as follows:

<u>Reference #</u>	<u>Findings</u>	<u>Status of Findings</u>	<u>Type of Finding*</u>
<b>PRIOR YEAR</b>			
<b>2014-001</b>	<b>Trial Balance Maintenance and Reconciliation</b>	<b>Resolved</b>	<b>B</b>
<b>2014-002</b>	<b>Budgetary</b>	<b>Resolved</b>	<b>D</b>
<b>CURRENT YEAR</b>			
2015-001	Cash Reconciliation and Adjustments	Current	B, D
2015-002	State Treasurer's Bank Account Balance	Current	C, D
2015-003	Accrued Payroll Liability Reconciliations	Current	C

\* Legend for Type of Findings

- A. Material Weakness in Internal Control Over Financial Reporting
- B. Significant Deficiency in Internal Control Over Financial Reporting
- C. Other Matters Involving Internal Control Over Financial Reporting
- D. Compliance with State Audit Rule

**PRIOR YEAR FINDINGS**

**None**

**CURRENT YEAR FINDINGS**

**2015-001 – CASH RECONCILIATIONS AND ADJUSTMENTS**

**Type of Finding: B, D**

**Statement of Condition**

During the audit, the auditor determined the following weaknesses with cash at the Court:

- Although the Court performs monthly reconciliations for their Agency Fund's, bank accounts held at the Bank of the West, Citizen's Bank, and the LGIP, they do not make adjustments to the accounts in SHARE. As a result, the auditor adjusted the Cash Held in Authorized Bank Accounts and the related Deposits Held for Others SHARE accounts, by \$8,191, in order to reconcile the accounts in the SHARE with the bank reconciliations.
- It was noted that there were no sign offs by the preparer or reviewer on any bank reconciliations.
- The Agency Fund's Bank of the West cash reconciliation included the receivable from the same fund of \$1,356 as a reconciling item. As a result, when the adjustment to cash in the Agency Fund was made in prior years, it included the \$1,356, along with presenting it as a receivable; therefore, it was double counted.
- The Court does not perform timely reconciliations for amounts held at the State Treasury Office (STO). Auditors were unable to obtain documentation supporting the implementation and effectiveness of the reconciliation process for these amounts.

**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended June 30, 2015**

**Criteria**

- Some of the key underlying concepts of Statement of Auditing Standards (SAS) 115 are:
  - The auditor cannot be part of a client's internal control. Becoming part of a client's internal control impairs the auditor's independence.
  - What the auditor does is independent of the client's internal control over financial reporting. Therefore, the auditor cannot be a compensating control for the client.
  - A system of internal control over the financial reporting does not stop at the general ledger; rather it includes controls over the preparation of the financial statements.  
Recording these adjustments is considered a significant process that the client needs to maintain.
- The NMSA 2.20.5.8 Accounting by Governmental entities, Responsibility for Accounting Function requires that cash account records are reconciled timely each month to the division's reports and to the state treasurer's reports. Effective internal controls and procedures require timely and accurate reconciliation to ensure cash transactions completely and accurately recorded in general ledger. Once the cash reconciliation has been performed it must be signed and dated to provide proof the account was actually reconciled.
- Bank reconciliations should only include cash items.
- Although, the beginning balance of the STO accounts may be incorrect, NMSA 2.20.5.8 states that the Court should be reconciling the activity in the STO accounts.

**Cause**

- The Court was informed by the Administrative Office of the Courts that this adjustment was made by the auditors.
- The Court was not signing off on the reconciliations.
- The Court included the \$1,356 receivable in the Bank of the West reconciliation, without realizing there was a separate SHARE receivable account.
- The Court was not aware they needed to reconcile the activity in the STO accounts.

**Effect**

- The Court's balance in the Cash Held in Authorized Bank Accounts and the Deposits Held for Others accounts could be materially misstated when the trial balance is presented to the auditor for the audit.
- If bank and cash reconciliations are not properly reviewed by someone other than the preparer, there is a risk of misstatement and fraud to occur.
- The balance in the Cash Held in Authorized Bank Accounts and the Deposits Held for Others accounts could be incorrect.
- The Court was not in compliance with the NM State statute. There is an increased risk that errors or fraud can go undetected.

**Recommendation**

- We recommend that the Court adjust the Cash Held in Authorized Bank Accounts and its related Deposits Held for Others accounts in SHARE on at least a yearly basis, prior to the start of the audit.
- We recommend that the Court implement a procedure to note the preparer of the reconciliation and the reviewer on the reconciliations. We also recommend that the Court use a template cash reconciliation form that was provided by the auditors to the Court.
- We recommend that the Court remove the \$1,356 amount in the reconciliation of the Bank of the West account.

**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended June 30, 2015**

- We recommend the Court implement policies and procedures regarding cash reconciliation. Reconciliations quickly identify errors and needed corrections. If reconciliations are not performed frequently, errors and adjustments can go undetected, resulting in the need for significant corrections when the reconciliations are performed. Any reconciling differences should be corrected before the books are closed for the month end.

**Management Response**

The Court's Financial Manager has recently implemented procedures for monthly reconciliations of contributions and withdrawals in the Agency fund (96700) account for preparation of the fiscal year end SHARE journal entry. Additionally, the Court's Financial Manager has recently implemented procedures and has assigned the proper staff of Financial Specialists to prepare monthly reconciliations. The Court will utilize the cash template form provided by the auditors and will be reviewing and approving the reconciliations on a monthly basis. The Court will also assure that errors are identified and that corrections and/or adjustments are processed in a timely manner. The Court believes this finding has been resolved by the date of this report.

**2015-002—STATE TREASURER'S BANK ACCOUNT BALANCE**

**Type of Finding: C, D**

**Statement of Condition**

The Court's State Treasurer's bank account balances were greater than \$15,000 for all months during fiscal year 2015.

**Criteria**

34-6-37. Finance; disposition of court income; state treasurer account.

Each district court clerk shall open an account in a bank which is a member of the federal deposit insurance corporation. The account shall be in the name of the state treasurer of New Mexico, and withdrawals may be made only by the state treasurer. All fines, fees, costs and other money received by the clerk, except money designated by law for deposit in the court clerk trust account, shall be deposited to this account not later than two working days after receipt by the clerk. Deposit slips shall be prepared by the clerk to clearly distinguish between fines and forfeitures which the state treasurer will credit to the current school fund of the state, money designated by law for credit to other specific funds in the state treasury, and all other money. Duplicate deposit slips and all bank statements shall be forwarded immediately to the state treasurer by the clerk. No collateral securities shall be required of the bank for this account, but the state treasurer shall make withdrawals from each account at least quarterly, and, in any event, so that the balance remaining in any account never exceeds fifteen thousand dollars (\$15,000). Money withdrawn shall be credited to the proper account in the state treasury, and any money not otherwise designated by law shall be credited to the state general fund.

**Cause**

The law stated above has been on the books for a number of years and the amount of \$15,000 is low in relation to the amount of funds the Court collects on a monthly basis. Therefore, the Court cannot meet this requirement because it is not realistic in relation to the amount of cash they collect. It is virtually impossible to meet this requirement.



**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended June 30, 2015**

**Effect**

The Court has significant amounts of cash in its bank accounts which makes it more susceptible for misappropriation and the lack of controls and monitoring had increased the risk that this potential misappropriation will go undetected. The Court is out of compliance with the law cited above.

**Recommendation**

The Court should determine if transfers can be made more often to comply with the law or seek to have the amounts cited in the law increased.

**Management Response**

Due to the marked growth of this Court, and other Courts throughout the State, and the proportional increase in monies collected by the Courts, it is virtually impossible to comply with this law. It is not uncommon for the Court to receive monies in excess of this amount within a matter of days, sometimes on the same day. The process by which these monies are transferred requires at least two days and at times taking extra days to complete. This process results in overlaps in transference of funds and non-compliance with the statute 34-6-37. It is apparent that this statute should be amended to reflect cash flow in the current era. Starting October 1, 2015, the State Treasurer started performing daily sweeps of the STO account which should eliminate this finding in the future. The Court believes this finding has been resolved by the date of this report.

**2015-003 – ACCRUED PAYROLL LIABILITY RECONCILIATIONS**

**Type of Finding: C**

**Statement of Condition**

During the audit, it was noted that the accrued payroll liabilities appeared to be incorrectly stated. This is due to employees who moved between agencies in prior years. During the prior year audit, the auditor attempted to adjust the accrued payroll liability accounts, to the estimated amounts for FY14. However, this was done without the Court identifying the employees and the other agencies. As a result, the amounts were not recorded by DFA upon completion of the audit. Consequentially, the balances in the trial balance that were provided to the auditor during the start of the FY15 audit, did not match the prior audit, and fund balance did not reconcile to the FY14 audit report. In conclusion, that the amounts adjusted to each of the funds is immaterial, and that the Court is working on identifying the employees and other agencies. The Court is also working to adjust them properly through DFA, in FY16. The offset to the accrual adjustment will be immaterial adjustments to due from other agencies and fund balance. As a result, the financial statements presented in FY15, in our opinion, are materially correct.

**Criteria**

The financial close is considered a significant process of internal control and should be performed by the Court's staff prior to the start of the audit.

**Cause**

Transfers of employees between agencies, caused their related accrued payroll liabilities to become incorrect when they left one agency and began working at the Court. Additionally, adjustments made in prior years resulted in additional incorrect balances.

**Effect**

The Court's accrued payroll liability accounts are immaterially incorrect.

**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended June 30, 2015**

**Recommendation**

We recommend that the Court work with DFA to determine the amounts that need to be adjusted from other agencies and fund balance during FY16.

**Management Response**

The Court's Financial Manager has been working with the New Mexico Department of Finance & Administration (DFA) to determine the amounts that need to be adjusted from other agencies for the period of FY2012 through FY2015. The Court has identified the majority of the discrepancies and will be processing operating transfers to clear accounts in FY2016. Furthermore, the Court has implemented procedures to reconcile payroll liability accounts each pay period and adjusting entries will be done as required. The Court believes this finding will be resolved by the end of FY16.

**STATE OF NEW MEXICO  
THIRD JUDICIAL DISTRICT COURT  
EXIT CONFERENCE  
For The Year Ended June 30, 2015**

An exit conference was held in a closed session on November 25, 2015, at the Court's Office. In attendance were the following:

Representing the Third Judicial District Court:

Fernando R. Macias	Chief Judge
Claude Bowman	Court Executive Officer
Victoria Vasquez	Court Financial Officer

Representing Hinkle + Landers, P.C.:

Farley Vener, CPA, CFE, CGMA	President & Managing Shareholder
Katelyn Constantin	Audit Manager

**FINANCIAL STATEMENTS**

The financial statements of the Court as of June 30, 2015, were substantially prepared by Hinkle + Landers, PC, however, the financial statements are the responsibility of management.