



HINKLE + LANDERS

Certified Public Accountants + Business Consultants

**THIRD JUDICIAL
DISTRICT COURT**

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

For the Year Ended June 30, 2017

**STATE OF NEW MEXICO
THIRD JUDICIAL DISTRICT COURT
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**STATE OF NEW MEXICO
THIRD JUDICIAL DISTRICT COURT
OFFICIAL ROSTER
For the Year Ended June 30, 2017**

Judges

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

Administrative Officials

Claude Bowman	Court Administrator
Vicky Vasquez-Rangel	Court Accountant

INDEPENDENT AUDITOR'S REPORT

Honorable James T. Martin, 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, 2017, 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, 2017, 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.

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 supplementary 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 supplementary 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2017 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, P.C.

Hinkle + Landers, PC
Albuquerque, NM
October 6, 2017

**STATE OF NEW MEXICO
THIRD JUDICIAL DISTRICT COURT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Year Ended June 30, 2017**

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, 2017. 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 \$239,357 (reported as net position). Of this amount, \$56,794 (restricted net position) must be used primarily for adult drug court activities and \$182,563 is invested in capital assets, net of related debt.

The Court's total net position increased in fiscal year 2017 by a total of \$75,657, which was attributed to a change in net position of \$75,657, associated with governmental activities. The Court does not engage in business-type activities.

Fund Highlights

At the close of fiscal year 2017, the Court's governmental funds reported combined ending fund balances of \$236,255, an increase of \$24,366 from the prior year. This increase was primarily due to an increase in court fee revenues collected.

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 decreased by \$21,955 or 11% 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:

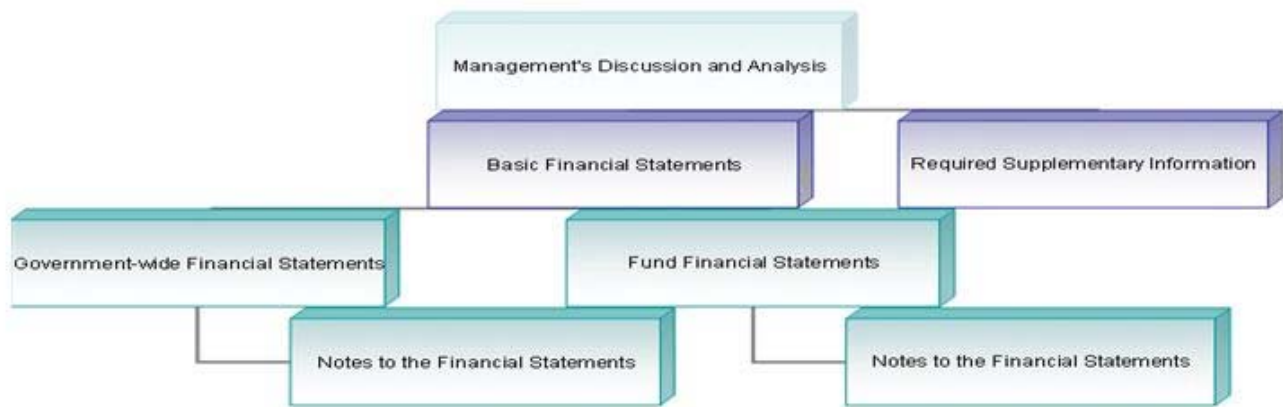
- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Court's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Court, reporting the Court's operations 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.
 - 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

**STATE OF NEW MEXICO
THIRD JUDICIAL DISTRICT COURT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Year Ended June 30, 2017**

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 specific sources of funding and spending for particular purposes. State law requires the establishment

**STATE OF NEW MEXICO
THIRD JUDICIAL DISTRICT COURT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Year Ended June 30, 2017**

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 measures 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, 2017**

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,**

Assets:	2017	2016	Percent Change
Current assets	\$ 630,059	605,216	4%
Capital assets, net	182,563	153,227	19%
Total assets	\$ 812,622	758,443	
Liabilities:			
Current liabilities	\$ 573,265	594,743	-4%
Total liabilities	573,265	594,743	
Net position:			
Investment in capital assets	182,563	153,227	19%
Restricted	56,794	10,473	442%
Total net position	239,357	163,700	
Total liabilities and net position	\$ 812,622	758,443	

The largest portion of the Court's net position, \$182,563 or 76%, 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, \$56,794 or 24%, 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 condensed financial information, on the next page, 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, 2017**

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

	2017	2016	Percent Change
Revenues:			
Program revenue	\$ 588,201	607,683	-3%
Appropriations (net of reversions)	6,378,817	6,568,073	-3%
Other	433,635	400,497	8%
Total revenues	<u>7,400,653</u>	<u>7,576,253</u>	
 Expenses:			
Administrative services	7,252,992	7,679,831	-6%
Depreciation	72,004	62,908	14%
Total expenses	<u>7,324,996</u>	<u>7,742,739</u>	
Increase (decrease) in net position	\$ <u>75,657</u>	<u>(166,486)</u>	

The Percent Change column shows the percentage change in operations from fiscal year 2016 to 2017 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 2017 and 2016 were \$6,387,600 and \$6,574,900, respectively, a decrease of \$187,300. The reversion reported in fiscal years 2017 and 2016 were \$8,783 and \$6,827, respectively. The decrease in state general fund appropriations reflects an overall reduction in state funding.

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) decreased by \$426,839 from \$7,679,831, in fiscal year 2016, to \$7,252,992, in fiscal year 2017. This represents a decrease of 6% and is primarily due to tighter budgets and less funding.

Depreciation expenses increased from \$62,908, in fiscal year 2016, to \$72,004, in fiscal year 2017, an increase of 14%.

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 funds. The focus of the Court's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources.

**STATE OF NEW MEXICO
THIRD JUDICIAL DISTRICT COURT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Year Ended June 30, 2017**

General Fund

The general fund is the chief operating fund of the Court. At June 30, 2017, the Court's general fund reported a fund balance of \$129,101.

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 \$45,000 in fees of which \$50,535 was actually collected. Total fund balance increased by \$13,480 or 54% from the June 30, 2016 fund balance. The fund balance increase is due to the additional court fees collected and lower expenses than revenues. The budget allowed the use of fund balance up to \$11,000 of which none 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 \$419,120 in fiscal year 2017, decreased by \$43,780; from \$462,900 in 2016.

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 \$57,650 as of June 30, 2016 to \$68,536 as of June 30, 2017. The change of, \$10,886 represents a 19% increase from fiscal year 2016. Court fees increased in 2017 to a total of \$70,996 an increase of \$2,712, 4% due predominantly to an increase in the number of cases. Fiscal year 2017 expenditures of \$60,110, indicates a decrease in spending compared with fiscal year 2016 expenditures of \$70,500 (decrease of \$10,390, or 15%). The expenditures decrease was due to a decrease in mediation contractual services. This fund is non-reverting.

GENERAL FUND BUDGETARY HIGHLIGHTS

The State of New Mexico Legislature makes annual appropriations to the Court for general operations

**STATE OF NEW MEXICO
THIRD JUDICIAL DISTRICT COURT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Year Ended June 30, 2017**

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 2017 budget was \$6,836,149, which included funding of \$104,300 for CASA, \$108,900 for Water Adjudication, and \$182,100 in Liquor Excise Tax Funds for a portion of drug court costs, all of which are included in the General Fund.

During fiscal year 2017, the Court's overall general fund revenue budget decreased by \$205,551 or 3%. This was mostly due to a budget reduction in state general fund appropriation funding.

The variance between the final budget and actual in the expenditures section of the General Fund budgetary comparison was a favorable \$5,610. 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, 2017, the Court had \$182,563 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 increase of \$29,337 or 19% over fiscal year 2016 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 2017, the Court purchased equipment. Depreciation charges for this fiscal year totaled \$72,004.

	<u>Balance</u> <u>2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>2017</u>
Capital assets depreciated:				
Furniture and fixtures	\$ 285,469	-	-	285,469
Equipment	900,316	76,670	-	976,986
Vehicles	185,790	24,671	-	210,461
Data Processing	150,630	-	-	150,630
Total capital assets depreciated	<u>1,522,205</u>	<u>101,341</u>	-	<u>1,623,546</u>
Less accumulated depreciation for:				
Furniture and fixtures	(245,999)	(17,441)	-	(263,440)
Equipment	(832,372)	(38,375)	-	(870,747)
Vehicles	(139,978)	(16,188)	-	(156,166)
Data Processing	(150,630)	-	-	(150,630)
Total accumulated depreciation	<u>(1,368,979)</u>	<u>(72,004)</u>	-	<u>(1,440,983)</u>
Total capital assets, net	<u>\$ 153,226</u>	<u>29,337</u>	-	<u>182,563</u>

**STATE OF NEW MEXICO
THIRD JUDICIAL DISTRICT COURT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Year Ended June 30, 2017**

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 \$7,519,900 for fiscal year 2018 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 2018 has been decreased by \$61,874 over fiscal year 2017.

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, 2017**

	<u>Governmental Activities</u>
ASSETS	
Current Assets	
Investment in State General Fund Investment Pool	\$ 578,057
Petty cash	709
Due from other governmental agencies	51,293
Total current assets	<u>630,059</u>
Capital assets, net	<u>182,563</u>
Total assets	<u><u>\$ 812,622</u></u>
LIABILITIES	
Current liabilities	
Investment in State General Fund Investment Pool overdraft	\$ 36,939
Accounts payable	127,048
Accrued salaries and employee benefits	229,817
Compensated absences payable - expected to be paid within one year	179,461
Total current liabilities	<u>573,265</u>
Total liabilities	<u>573,265</u>
NET POSITION	
Investment in capital assets	182,563
Restricted	56,794
Total net position	<u>239,357</u>
Total liabilities and net position	<u><u>\$ 812,622</u></u>

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, 2017**

		Governmental Activities
EXPENSES		
General government		
Administrative services	\$	7,252,992
Depreciation expense		72,004
Total program expenses		<u>7,324,996</u>
REVENUES		
Program revenues		
Court fees		195,912
Federal funds		392,289
Total program revenues		<u>588,201</u>
Net program (expenses)/revenue and changes in net position		<u>(6,736,795)</u>
General revenues		
Transfers		
State general fund appropriation FY 17		6,387,600
Other financing sources		269,537
Other interagency services		164,098
Reversions to state general fund		(8,783)
Total transfers		<u>6,812,452</u>
Total net general revenue and other financial sources (uses)		<u>6,812,452</u>
Change in net position		75,657
Net position, beginning		163,700
Net position, ending	\$	<u><u>239,357</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, 2017**

	(14300)	(87700)	(92400)	(92300)	Total
	General	Alternative	Human	Mediation	Governmental
	Fund	Dispute	Services	Program	Funds
	Fund	Resolution	Division	Fund	Funds
ASSETS					
Investment in State General Fund Investment Pool	\$ 467,383	39,423	-	71,251	578,057
Petty cash	709	-	-	-	709
Due from other governmental agencies	-	-	51,293	-	51,293
Total assets	<u>\$ 468,092</u>	<u>39,423</u>	<u>51,293</u>	<u>71,251</u>	<u>630,059</u>
LIABILITIES					
Investment in State General Fund Investment Pool overdraft	\$ -	-	36,939	-	36,939
Accounts payable	123,081	805	447	2,715	127,048
Accrued salaries and employee benefits	215,910	-	13,907	-	229,817
Total liabilities	<u>338,991</u>	<u>805</u>	<u>51,293</u>	<u>2,715</u>	<u>393,804</u>
FUND BALANCES					
Restricted:					
Drug court	128,392	-	-	-	128,392
Alternative dispute resolution	-	38,618	-	-	38,618
Mediation	-	-	-	68,536	68,536
Total restricted	<u>128,392</u>	<u>38,618</u>	<u>-</u>	<u>68,536</u>	<u>235,546</u>
Unassigned:	709	-	-	-	709
Total fund balance	<u>129,101</u>	<u>38,618</u>	<u>-</u>	<u>68,536</u>	<u>236,255</u>
Total liabilities and fund balance	<u>\$ 468,092</u>	<u>39,423</u>	<u>51,293</u>	<u>71,251</u>	<u>630,059</u>

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

Total fund balance governmental funds	\$ 236,255
Capital assets (net of depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the funds.	182,563
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>(179,461)</u>
Net position of governmental activities	<u>\$ 239,357</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, 2017**

	(14300)	(87700)	(92400)	(92300)	Total
	General	Alternative	Human	Mediation	Governmental
	Fund	Dispute	Services	Program	Funds
	Fund	Resolution	Division	Fund	Funds
REVENUES					
Federal funds	\$ -	-	392,289	-	392,289
Court fees	74,384	50,535	-	70,996	195,915
Total revenues	<u>74,384</u>	<u>50,535</u>	<u>392,289</u>	<u>70,996</u>	<u>588,204</u>
EXPENDITURES					
Current					
General government:					
Personal services and employee benefits	5,827,156	24,101	385,944	-	6,237,201
Contractual services	595,691	12,857	-	58,144	666,692
Other costs	362,651	97	6,342	1,966	371,056
Capital outlay	45,041	-	-	-	45,041
Total expenditures	<u>6,830,539</u>	<u>37,055</u>	<u>392,286</u>	<u>60,110</u>	<u>7,319,990</u>
Excess (deficiency) of revenue over (under) expenditures	(6,756,155)	13,480	3	10,886	(6,731,786)
OTHER FINANCING SOURCES (USES)					
State general fund appropriation	6,387,600	-	-	-	6,387,600
Other financing sources	213,237	-	-	-	213,237
Other interagency services	164,098	-	-	-	164,098
Less: reversion to the state general fund	(8,780)	-	(3)	-	(8,783)
Net other financing sources (uses)	<u>6,756,155</u>	<u>-</u>	<u>(3)</u>	<u>-</u>	<u>6,756,152</u>
Net change in fund balance	-	13,480	-	10,886	24,366
Fund balance, beginning	129,101	25,138	-	57,650	211,889
Fund balance, ending	<u>\$ 129,101</u>	<u>38,618</u>	<u>-</u>	<u>68,536</u>	<u>236,255</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				\$	24,366
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					(72,004)
Capital additions					101,341
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					21,955
Rounding					<u>(1)</u>
Change in net position - governmental activities				\$	<u>75,657</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, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Court fees	\$ 61,200	71,200	74,384	3,184
Total revenues	<u>61,200</u>	<u>71,200</u>	<u>74,384</u>	<u>3,184</u>
EXPENDITURES				
Current:				
General government				
Personal services	5,947,100	5,830,150	5,827,156	2,994
Contractual services	823,000	596,369	595,691	678
Other costs	271,600	364,589	362,651	1,938
Capital outlay	-	45,041	45,041	-
Total expenditures	<u>7,041,700</u>	<u>6,836,149</u>	<u>6,830,539</u>	<u>5,610</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(6,980,500)</u>	<u>(6,764,949)</u>	<u>(6,756,155)</u>	<u>8,794</u>
OTHER FINANCING SOURCES (USES)				
Inter-agency Transfers				
State general fund appropriations	6,585,200	6,387,600	6,387,600	-
Other financing sources	213,200	213,200	213,237	37
Other interagency services	182,100	164,149	164,098	(51)
Less: Reversion to state general fund FY 17	-	-	(8,780)	(8,780)
Total Interagency transfers	<u>6,980,500</u>	<u>6,764,949</u>	<u>6,756,155</u>	<u>(8,794)</u>
Net change in fund balance	<u>\$ -</u>	<u>-</u>	-	
Fund balance, beginning			<u>129,101</u>	
Fund balance, ending			<u>\$ 129,101</u>	
Total modified GAAP budget basis expenditures for FY 17			\$ 6,830,539	
Total modified GAAP Basis Governmental Fund Expenditures for fiscal year ended June 30, 2017			<u>\$ 6,830,539</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, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Court fees	\$ 40,000	45,000	50,535	5,535
Total revenues	<u>40,000</u>	<u>45,000</u>	<u>50,535</u>	<u>5,535</u>
EXPENDITURES				
Current:				
General government				
Personal services	32,900	30,200	24,101	6,099
Contractual services	18,000	25,700	12,857	12,843
Other costs	100	100	97	3
Total expenditures	<u>51,000</u>	<u>56,000</u>	<u>37,055</u>	<u>18,945</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(11,000)</u>	<u>(11,000)</u>	<u>13,480</u>	<u>24,480</u>
Net change in fund balance	(11,000)	(11,000)	13,480	
Fund balance, beginning	<u>11,000</u>	<u>11,000</u>	<u>25,138</u>	
Fund balance, ending	<u>\$ -</u>	<u>-</u>	<u>38,618</u>	
Total modified GAAP budget basis expenditures for FY 17			<u>\$ 37,055</u>	
Total modified GAAP Basis Governmental Fund Expenditures for fiscal year ended June 30, 2017			<u>\$ 37,055</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, 2017**

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis)	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Federal funds	\$ 416,400	419,120	392,289	(26,831)
Total revenues	<u>416,400</u>	<u>419,120</u>	<u>392,289</u>	<u>(26,831)</u>
EXPENDITURES				
Current:				
General government				
Personal services	414,000	394,000	385,944	8,056
Contractual services	1,000	-	-	-
Other costs	1,400	25,120	6,342	18,778
Total expenditures	<u>416,400</u>	<u>419,120</u>	<u>392,286</u>	<u>26,834</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>3</u>	<u>3</u>
OTHER FINANCING SOURCES (USES)				
Inter-agency Transfers				
Less: Reversion to state general fund FY 17	-	-	(3)	(3)
Total Interagency transfers	<u>-</u>	<u>-</u>	<u>(3)</u>	<u>(3)</u>
Net change in fund balance	<u>\$ -</u>	<u>-</u>	-	
Fund balance, beginning			<u>-</u>	
Fund balance, ending			<u>-</u>	
Total modified GAAP budget basis expenditures for FY 17			<u>\$ 392,286</u>	
Total modified GAAP Basis Governmental Fund Expenditures for fiscal year ended June 30, 2017			<u>\$ 392,286</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)
 MEDIATION PROGRAM FUND (92300)
 For the Year Ended June 30, 2017**

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis)	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Court fees	\$ 70,000	70,000	70,996	996
Total revenues	<u>70,000</u>	<u>70,000</u>	<u>70,996</u>	<u>996</u>
EXPENDITURES				
Current:				
General government				
Contractual services	65,000	68,000	58,144	9,856
Other costs	5,000	2,000	1,966	34
Total expenditures	<u>70,000</u>	<u>70,000</u>	<u>60,110</u>	<u>9,890</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>10,886</u>	<u>10,886</u>
Net change in fund balance	-	-	10,886	
Fund balance, beginning	<u>5,000</u>	<u>5,000</u>	<u>57,650</u>	
Fund balance, ending	<u>\$ 5,000</u>	<u>5,000</u>	<u>68,536</u>	
Total modified GAAP budget basis expenditures for FY 17			<u>\$ 60,110</u>	
Total modified GAAP Basis Governmental Fund Expenditures for fiscal year ended June 30, 2017			<u>\$ 60,110</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, 2017**

	<u>Agency Fund</u>
ASSETS	
Cash in authorized bank account	\$ <u>1,371,963</u>
TOTAL ASSETS	\$ <u><u>1,371,963</u></u>
LIABILITIES	
Deposits held in custody of others	\$ <u>1,371,963</u>
TOTAL LIABILITIES	\$ <u><u>1,371,963</u></u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO
THIRD JUDICIAL DISTRICT COURT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017**

A. 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.

B. 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 Accounting 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, 2017**

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, 2017.

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. Government resources are allocated to, and accounted for, in individual funds based upon the

**STATE OF NEW MEXICO
THIRD JUDICIAL DISTRICT COURT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017**

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.

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

**STATE OF NEW MEXICO
THIRD JUDICIAL DISTRICT COURT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017**

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.

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

**STATE OF NEW MEXICO
THIRD JUDICIAL DISTRICT COURT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017**

- 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, 2017 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 except as noted in Note G of this report.
 9. Appropriations lapse at the end of the fiscal year beginning with the year ended June 30, 2017. 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.
 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 G 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, 2017.

**STATE OF NEW MEXICO
THIRD JUDICIAL DISTRICT COURT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017**

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 an expense 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, 2017. The Court's investment in capital assets net position is \$182,563 at June 30, 2017.

Restricted Net Position – is intended to reflect the portion of net position that has third party limitations on their use. The Court's restricted net position is \$56,794 at June 30, 2017.

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 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

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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, 2017.
- **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 court fees 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, 2017. The Court's restricted fund balances by fund, for the year ended June 30, 2017, are as follows:

<u>Fund Name</u>	<u>Fund No.</u>	<u>Restriction</u>	<u>Amount</u>
General	14300	Drug court	\$ 128,392
Alternative Dispute Resolution	87700	Alternative dispute resolution	38,618
Mediation Program	92300	Mediation	68,536
Total restricted fund balance			\$ <u>235,546</u>

- **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, 2017.
- **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, 2017.
- **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 \$709 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

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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

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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 regard 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:

Years of Service	Hours Earned per Month	Days Earned per Month	Days of Maximum Accrual
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, 2017, accrued compensated absences payable for accumulated annual leave totaled \$179,461.

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 1st and January 1st 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, 2017 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, 2017, the Court had accrued leave benefits in excess of 600 hours, totaling \$270.

21. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for

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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.

C. 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 SGFIP, 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, 2017 the Court had the following invested in the SGFIP:

Fund Type	Location	Fund No.	Per Depository	Financial Statements
General	STO	14300	\$ 467,383	467,383
Total General Fund			<u>467,383</u>	<u>467,383</u>
Special revenue	STO	87700	39,423	39,423
Special revenue	STO	92300	71,251	71,251
Special revenue	STO	92400	(36,939)	(36,939)
Total Special Revenue Funds			<u>73,735</u>	<u>73,735</u>
Total Fund Financials			<u>\$ 541,118</u>	<u>541,118</u>

There were no deposits in transit as of June 30, 2017. 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, 2017. 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.

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General Fund Investment Pool Reconciliation

On August 8, 2016, the New Mexico Department of Finance and Administration, Financial Control Division issued a memorandum regarding the reconciliation of the State General Fund Investment Pool. It stated that the Financial Control Division in collaboration with the State Treasurer's Office, implemented a comprehensive reconciliation model that compared aggregated agency claims on the State General Fund Investment Pool and to the associated resources held by the State Treasurer's Office. This process now has been reviewed by the IPAs performing audits of the General Fund, the Department of Finance and Administration and the State of New Mexico's Comprehensive Annual Financial Report for fiscal year 2015. Each review of the process deemed it to be adequate and the findings related to Cash Reconciliation were significantly reduced or eliminated. Successfully addressing this issue allowed the Department to reinstate \$100M that had been reserved as a loss contingency.

For fiscal year 2016, and subsequent years, the following assertions are provided;

1. The calculated difference between resources maintained by STO and the agency claims has remained stable and within a narrow and acceptable range (< \$200k standard deviation) over the last twelve months;
2. Resources are sufficient to cover claims and there is no need to adjust any specific business unit claim on the SGFIP, and
3. All claims will be honored at face value.

With specific reference to the Court, the Court has provided copies of the referenced diagnostic reports to the IPA. The Court has also explained and provided copies to the IPA what policies and procedures are in place that ensures that the cash balances in SHARE are correct to the extent that the Court has control (i.e. collection, depositing, reconciling, bank statement validation, and documentation of outstanding reconciling items) of the cash it receipts and transfers to the state general fund and other state agencies pursuant to state statute.

The Court has an interest in the State General Fund Investment Pool allocated between their funds operating under the oversight of SHARE and the State Treasurers Office. The cash transactions processed by the Court flow through the state general fund investment pool.

The Court developed internal reconciliation procedures to ensure that cash receipts and disbursements recorded in the SHARE system are in fact transactions that have been initiated by the Court. Monthly reconciliation procedures throughout the fiscal year, include, but are not limited to validation of: allotments, deposits, expenditures, all general entries, operating transfers, payroll expenditures/payroll liabilities and a review of outstanding warrants. The Court conducts ongoing tracking of all cash deposits and financial transactions to ensure that they are accurately recorded and posted to the SHARE system. This monthly internal reconciliation of cash receipts and disbursements flowing through the Court share of the state general fund investment pool provides management assurance that the balance reflected in State General Fund Investment Pool account is accurate as of the end of the reporting period.

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.

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

As of June 30, 2017, 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)	\$ 828,109	828,109	AAAm [58] day WAR (R); [106] 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. Per review of GASB Statement No. 72, the State Treasurer Local Government Investment Pool is exempt from GASB 72, and should continue to be measured and disclosed in accordance with existing literature.

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, 2017, 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.

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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 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.

3. Additional Cash Disclosures

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.

Additional information of the Court’s deposits are included on the “Schedule of Cash and Investments” as listed in the table of contents.

D. DUE FROM OTHER GOVERNMENTS

As of June 30, 2017, due from other governments consist of:

<u>Due from</u>	<u>Due From Fund</u>	<u>Due To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Human Services Department	05200	92400	Due from state agency for cost reimbursement	\$ <u>51,293</u>

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

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E. DUE TO OTHER GOVERNMENTS

As of June 30, 2017, no funds were due to other governments.

F. RECEIVABLES

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

The Court has an outstanding receivable related to feed 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 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.

G. RECONCILIATION BETWEEN BUDGETARY BASIS AND GAAP BASIS

The Court had no amounts expensed in fiscal year 2017 and paid out of fiscal year 2018's budget.

H. 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 Court's reversion of funds totaled \$8,783 as of June 30, 2017. All amounts in the general fund and human services division 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.

I. COMPENSATED ABSENCES

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

	<u>2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>2017</u>	<u>Current Portion</u>
Compensated absences	\$ 201,416	511,945	(533,900)	179,461	179,461

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

J. CONTINGENCIES

Risk Management

The Court is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. 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.

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K. 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, 2017.

L. CAPITAL ASSETS

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

	<u>Balance</u>			<u>Balance</u>
	<u>2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>2017</u>
Capital assets depreciated:				
Furniture and fixtures	\$ 285,469	-	-	285,469
Equipment	900,316	76,670	-	976,986
Vehicles	185,790	24,671	-	210,461
Data Processing	150,630	-	-	150,630
Total capital assets depreciated	<u>1,522,205</u>	<u>101,341</u>	<u>-</u>	<u>1,623,546</u>
Less accumulated depreciation for:				
Furniture and fixtures	(245,999)	(17,441)	-	(263,440)
Equipment	(832,372)	(38,375)	-	(870,747)
Vehicles	(139,978)	(16,188)	-	(156,166)
Data Processing	(150,630)	-	-	(150,630)
Total accumulated depreciation	<u>(1,368,979)</u>	<u>(72,004)</u>	<u>-</u>	<u>(1,440,983)</u>
Total capital assets, net	<u>\$ 153,226</u>	<u>29,337</u>	<u>-</u>	<u>182,563</u>

For the year ended June 30, 2017, depreciation expense was \$72,004.

M. 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, 2017.

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.

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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, 2017, 2016 and 2015 were \$700,605, \$729,722, and \$714,980, less the amounts disclosed in the JRA Pension plan shown below respectively, which equal the amount of the required contributions for each fiscal year.

N. 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, 2017, 2016, 2015, and 2015 were \$121,996 \$132,036, and \$127,621, 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 \$122,208 in filing fees for the year ending June 30, 2017.

O. 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.

P. 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,

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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.

The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that choose to become participating employers after January, 1, 1998 are required to make contributions to the RHCA 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, 2017, 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, 2017, 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, 2017, 2016 and 2015 were \$89,274, \$92,732, and \$91,224, respectively, which equal the required contributions for each year.

**STATE OF NEW MEXICO
THIRD JUDICIAL DISTRICT COURT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017**

Q. 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. The Court had one multi-year lease for equipment. Future minimum rental payments under these operating leases are as follows:

For the Year Ended June 30	Office Equipment
2018	\$ 4,380
2019	4,380
2020	4,380
2021	2,555
2022	-
Thereafter	-
Total	\$ <u>15,695</u>

Lease expenditures and related expenses for the year ended June 30, 2017 were \$6,066.

R. 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, 2017.
- B. No funds exceeded approved budgetary authority for the year ended June 30, 2017.

S. 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.

T. JOINT POWER AGREEMENTS

The Court did not have any joint power agreements for the year ended June 30, 2017.

U. EVALUATION OF SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet/net position 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/net position, 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/net position but arose after the balance sheet/net position date and before financial statements are available to be issued. The Court has evaluated subsequent events through October 6, 2017, 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, 2017

	<u>2016</u>	<u>Receipts</u>	<u>Disburse- ments</u>	<u>2017</u>
LITIGANTS FUND (96700):				
ASSETS				
Bank of the West & Citizens Bank - Trust Bonds	992,439	842,830	(1,291,415)	543,854
Local Government Investment Pool (LGIP)	1,128,821	102,425	(403,137)	828,109
	\$ 2,121,260	945,255	(1,694,552)	1,371,963
LIABILITIES				
Deposits held in custody of others	2,121,260	945,255	(1,694,552)	1,371,963
	\$ 2,121,260	945,255	(1,694,552)	1,371,963

**STATE OF NEW MEXICO
THIRD JUDICIAL DISTRICT COURT
SCHEDULE OF CASH AND INVESTMENTS
As of June 30, 2017**

	Account Type	Bank Balance	Book Balance
Investment in the State Treasurer General Fund Investment Pool			
General Fund			
NM State Treasurer	SGFIP	\$ 467,383	467,383
Alternative Dispute Resolution Fund			
NM State Treasurer	SGFIP	39,423	39,423
Human Services Division Fund			
NM State Treasurer	SGFIP	(36,939)	(36,939)
Mediation Program Fund			
NM State Treasurer	SGFIP	71,251	71,251
Total		\$ 541,118	541,118
Petty Cash			709
Balance per Statement of Net Position			\$ 541,827
 Agency Funds			
LGIP	LGIP	\$ 828,109	828,109
Bank of the West	Checking	545,854	543,854
Total Agency Funds		\$ 1,373,963	1,371,963
Total amount of deposit in banks		\$ 1,373,963	1,371,963
FDIC coverage		(250,000)	
Total uninsured public funds		\$ 1,123,963	
50% Collateral Requirement (Section 6-10-17 NMSA 1978)		\$ 561,982	

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.

**STATE OF NEW MEXICO
THIRD JUDICIAL DISTRICT COURT
SCHEDULE OF INTERAGENCY TRANSFERS
For the Year Ended June 30, 2017**

Description	Agency Transferred From	From Fund	To Fund	Reference	Amount Transferred In
State Appropriations					
General Fund					
General Fund Appropriation	DFA	34101	14300	Laws 2016, 2nd Ses. Ch 11, Sec 4(b)	\$ 6,387,600
Other Financing Sources	AOC	21800	14300	Laws 2016, 2nd Ses. Ch 11, Sec 4(b)	213,237
Other interagency services	AOC	21800	14300	Laws 2016, 2nd Ses. Ch 11, Sec 4(b)	164,098
Total General Fund					<u>6,764,935</u>
Human Services Division Fund					
Other Financing Sources	DFA	34101	92400	Laws 2016, 2nd Ses. Ch 11, Sec 4(b)	<u>392,289</u>
Total Transfers In					<u><u>\$ 7,157,224</u></u>
Description	Agency Transferred To	From Fund	To Fund	Reference	Amount Transferred Out*
General Fund					
General Fund Appropriation	DFA	14300	34100	Reversion of FY17	\$ <u>8,780</u>
Human Services Division Fund					
General Fund Appropriation	DFA	92400	34100	Reversion of FY17	<u>3</u>
Total Transfers Out					<u><u>\$ 8,783</u></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 18



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 James T. Martin, 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, 2017, 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 supplementary information, and have issued our report thereon dated October 6, 2017.

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 or significant deficiencies.

October 6, 2017

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

Compliance and Other Matters

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

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
October 6, 2017

**STATE OF NEW MEXICO
THIRD JUDICIAL DISTRICT COURT
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2017**

SUMMARY OF FINDINGS AND RESPONSES

Current and prior year findings are as follows:

Reference #	Findings	Status of Findings	Type of Finding*
PRIOR YEAR			
2016-001	Additional Reversion Not Made Timely	Resolved	D
CURRENT YEAR			
None			

* 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.** Non-compliance with State Audit Rule, NM State Statutes, NMAC, or other entity compliance

**STATE OF NEW MEXICO
THIRD JUDICIAL DISTRICT COURT
EXIT CONFERENCE
For the Year Ended June 30, 2017**

An exit conference was held in a closed session on October 6, 2017, at the Court's Office. In attendance were the following:

Representing the Third Judicial District Court:

James T. Martin	Chief Judge
David S. Borunda	Court Executive Officer
Victoria Vasquez-Rangel	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, 2017, were substantially prepared by Hinkle + Landers, PC, however, the financial statements are the responsibility of management.