

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

**Financial Statements
With Independent Auditors Report Thereon
June 30, 2008**

INTRODUCTORY SECTION

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

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June 30, 2008**

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

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

**Official Roster
June 30, 2008**

Judges

Honorable James R. Brown	Division 1
Honorable Freddie Romero	Division 2
Honorable William G. W. Shoobridge	Division 3
Honorable Don Maddox	Division 4
Honorable Jane Shurler-Gray	Division 5
Honorable Ralph Shamas	Division 6
Honorable Gary Clingman - Chief Judge	Division 7
Honorable Charles Currier	Division 8
Honorable Thomas Rutledge	Division 9
Honorable Steven Bell	Division 10

Administrative Officials

Bee J. Clem	Court Executive Officer
Linda Worley	Deputy Court Executive Officer
Gloria Montoya	District Court Clerk, Chaves County
Eric Ellis	District Court Clerk, Eddy County
Janie G. Hernandez	District Court Clerk, Lea County
Rita G. Johnson	Court Financial Manager/Chief Financial Officer

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Gary Clingman, Chief Judge
Fifth Judicial District Court
And
Hector Balderas
New Mexico State Auditor

We have audited the accompanying financial statements of the governmental activities, major funds, aggregate remaining fund information and budgetary comparisons of the general fund and major special revenue fund of the State of New Mexico, Fifth Judicial District Court (the "Court"), as of and for the year ended June 30, 2008 which collectively comprise the Court's basic financial statements as listed in the table of contents. We have also audited the financial statement of the Court's capital projects budgetary comparison presented as supplemental information in the accompanying individual fund financial statements as of and for the year ended June 30, 2008 as listed in the table of contents. These financial statements are the responsibility of the Court's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and with standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the State of New Mexico, Fifth Judicial District Court are intended to present the financial position and changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Court. They do not purport to, and do not, present fairly the financial position of the entire State of New Mexico as of June 30, 2008 and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, aggregate remaining fund information of the Court as of June 30, 2008, and the respective changes in financial position thereof and the budgetary comparisons for the general fund and major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in

our opinion the financial statement referred to above presents fairly, in all material respects, the capital projects fund budgetary comparison of the Court for the year ended June 30, 2008 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2008 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* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis of pages 3 through 6 is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the Management's Discussion and Analysis. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements of the Court and on the budgetary comparison presented as supplemental information. The supporting schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Court. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Miller & Associates, CPA, P.C.

Miller & Associates, CPA, P.C.

December 11, 2008

**STATE OF NEW MEXICO
FIFTH JUDICIAL DISTRICT COURT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Management's Discussion and Analysis (MD&A) for the Fifth Judicial District Court will provide an overview of the Court's activities and programs by (1) evaluating the operating results for the year, (2) assessing its financial position and condition, (3) helping to understand its sources and uses of financial resources, (4) helping to determine if budgets were met, and (5) identifying budget issues or concerns. Finally, the MD&A will provide comparative data from fiscal year 2008 and 2007.

This section provides an analysis of the Court's financial activities based on currently known facts, decisions, or conditions. It also provides an analysis of the Court's overall financial position and results of operations to assist users in assessing whether the financial position has improved or if changes have occurred as a result of the year's activities.

The Court has only one activity - Judicial Services - which is a governmental activity. The Court does not have any business-type activities or any component units.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The two government-wide financial statements report information about the Court as a whole using accounting methods similar to those used by private sector businesses. The statement of net assets 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 financial statements report the Court's net assets and how they have changed. Net assets - the difference between the Court's assets and liabilities - is one way to measure the Court's financial health or position. Over time, increases or decreases in the Court's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

FUND FINANCIAL STATEMENTS

The Fund Financial Statements provide a more detailed look at the Court's significant funds. Funds are accounting devices that the court uses to keep track of specific sources of funding and spending for a particular purpose. The Court operates on its General Fund Appropriations received from the State Legislature each year. The Court also reports on its agency funds. These funds represent trust responsibilities to litigants and the assets are restricted for that purpose and are not part of the Court's assets. These assets are not presented in any part of the Government-Wide Financial Statements. The funds also present sources and uses of liquid resources. This is the manner in which the financial plan (the budget) is typically developed. Funds are established for various purposes and the financial statement allows the demonstration of sources and uses and/or budgeting compliance associated therewith.

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 16 through 29 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets: Below is a summary of the Court's net assets for the fiscal year ending June 30, 2008. The Court reports balances in the following three categories of net assets: (1) invested in capital assets, (2) restricted, and (3) unrestricted. Restricted net assets are created by State statute and are required to be used

**STATE OF NEW MEXICO
FIFTH JUDICIAL DISTRICT COURT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

for the domestic relations mediation program. Unrestricted net assets are negative because it is the government's policy to fund compensated absences payable out of current resources as they become due. See page 7 of this report for a more detailed look at the Statement of Net Assets. There is a decrease in current assets of \$276,784 as a result of a reduction in payables carried forward to the next fiscal year. The decrease of \$398,365 in current liabilities is mainly the result of a decrease in deferred revenue for appropriations that were received before year-end for the next appropriation year, a decrease in the reversion due to the State General Fund, and decreased accrued payroll.

**FIFTH JUDICIAL DISTRICT COURT
Net Assets**

	<u>Governmental Activities</u>	
	<u>2008</u>	<u>2007</u>
Current assets	\$ 885,533	\$1,162,317
Capital assets	<u>195,634</u>	<u>209,934</u>
Total assets	<u>1,081,167</u>	<u>1,372,251</u>
Current liabilities	739,828	1,138,193
Other liabilities	<u>16,992</u>	<u>31,231</u>
Total liabilities	<u>756,820</u>	<u>1,169,424</u>
Net assets:		
Invested in capital assets	628,613	594,613
Restricted	324,695	164,000
Unrestricted	<u>(628,961)</u>	<u>(555,786)</u>
Total net assets	<u>\$ 324,347</u>	<u>\$ 202,827</u>

Statement of Activities: The following represents the revenues and expenses for fiscal year 2008. See page 8 for a more detailed look at the Statement of Activities. The increase in revenues is mainly the result of an increase in the State Appropriation of \$886,142 when compared to the prior year. The increase in expenses of \$691,089 is also a direct result of additional appropriations being made during the year. These increases are related mainly to increases in payroll and benefits and four additional positions added in FY08.

Changes in Net Assets

	<u>Governmental Activities</u>	
	<u>2008</u>	<u>2007</u>
Revenues:		
General revenues		
State General Fund Appropriation (net of reversions)	\$6,166,375	\$5,280,233
Other Financing Sources\Transfers In	546,016	751,794
Program Revenues	<u>87,855</u>	<u>89,265</u>
Total Revenues	6,800,246	6,121,292
Expenses:		
Judicial	<u>6,678,726</u>	<u>5,987,637</u>

**STATE OF NEW MEXICO
FIFTH JUDICIAL DISTRICT COURT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Change in net assets	121,520	133,655
Net assets - Beginning	<u>202,827</u>	<u>69,172</u>
Net assets - Ending	<u>\$ 324,347</u>	<u>\$ 202,827</u>

The Fifth Judicial District Court is a reverting agency with the exception of the Mediation Fund. The ending balance in the Mediation fund for FY07 was \$128,458 and for FY08 it was \$111,695. This is a decrease of fund balance of \$16,763. This decrease in fund balance is due to an increased usage of the Mediation program.

Expenditures have over shadowed revenue in this fund for the past few years and this is expected to be the case in years to come. This will require the Court to eventually ask for General Fund support for the program.

FUND FINANCIAL ANALYSIS

Governmental Funds. The focus of the Court's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. For the current year the Court had three governmental funds, the General Fund, the Domestic Relations Mediation Fund and a Capital Projects Fund. As of year-end, the General Fund reported a fund balance of \$300. This amount is petty cash that is required to provide change in our cash drawers in the Clerk's offices.

The Domestic Relations Mediation Fund reported a fund balance of \$111,695 which is comprised of accumulated domestic relations filing fees that have not yet been expended. This fund balance is reserved for expenditure on the program in future years.

The Capital Project Fund balance was \$213,000 for furniture and fixture expenditures in future years.

BUDGETARY COMPARISONS

GASB 34 requires budgetary comparison schedules for the general fund and for each major special revenue fund that has a legally adopted annual budget. The budgetary comparison schedules should present both the original and the appropriated budgets for the reporting period as well as the actual inflows, outflows, and balances stated on the government's budgetary basis. As required by the Office of the State Auditor under 2.2.2 NMAC, the budgetary comparison statement is presented. This information is provided at the approved budget level to demonstrate compliance with legal requirements.

The variance in the General Fund original FY08 budget and final FY08 budget is due to the moving of originally budgeted operating cost savings in the Other Cost category in our Court Regular activity to the Personal Services category. The variance between original budget and actual expenditures is due for the most part to the inability of the fiscal office to pin point the remaining budget balance at the end of the year on the SHARE system. The agency opted to delay purchase of needed items in order to ensure we would be able to cover payroll.

In the Contractual Services category of our Court Regular activity expenditures exceeded budget by \$2,317, but this was not apparent in the SHARE system until well after year-end closing. It has been determined that this over expenditure occurred as a result of post year end payments processed as "direct pays" that are processed by DFA without purchase order encumbrances. The direct pay process is not checking budget availability prior to processing payments. This was not a fact known to the Agency prior to this audit.

**STATE OF NEW MEXICO
FIFTH JUDICIAL DISTRICT COURT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. The Court's investment in capital assets for its government activities as of June 30, 2008 amounted to \$195,634 (net of accumulated depreciation). This investment in capital assets consists of office equipment, and furniture. Major capital asset events during the current year included capital outlay purchases of \$34,000 and depreciation expense of \$48,300.

Additional information on the Court's capital assets can be found in Note 3 on page 25 of this report.

Long-Term Debt: At the end of the current fiscal year, the Court had a total long-term debt outstanding of \$179,289. This amount consists of accumulated balances for terminal leave eligible for payment to employees upon termination of their employment.

	<u>Governmental Activities</u>	
	<u>2008</u>	<u>2007</u>
Accumulated leave balances:		
Compensated		
Absences Payable	\$179,289	\$171,407

Additional information on the court's long-term debt can be found in Note 4 on page 26 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The fiscal year 2009 appropriation request was capped at a 3% growth margin. Revenues generated from tape and copy fees are again budgeted in fiscal year 2009. For fiscal year 2009 the Court received approval for two new full-time employment positions; a Staff Attorney and an Administrative Assistant. These positions will increase personal services expenditures and operating expenditures in fiscal year 2009. Aside from these changes the Court does not anticipate any other significant changes in next year's operations and budget.

AGENCY HIGHLIGHTS

The Fifth Judicial District Court operates under Sections 34-6-1, 34-6-12, and 34-6-17 through 34-6-46, NMSA 1978 Compilation. The district covers Chaves, Eddy, and Lea Counties and is comprised of ten divisions, four in Chaves County, three in Eddy County, and three in Lea County. The Fifth Judicial District Court funds a variety of support programs to the community including a CASA program in each county, Teen Court programs in Chaves and Lea Counties, and a Family Drug Court in Lea County. The Mediation Program offers a formal conflict resolution in domestic relations cases involving custody of children. It is a court-mandated process that culminates in a written agreement that is later processed via attorneys through the court system.

REQUESTS FOR INFORMATION

The purpose of this financial report is to provide the general public and other interested parties with a general overview of this Court's finances and accountability of funds. Questions concerning this report or requests for additional information should be addressed to the Fifth Judicial District Court, Administrative Office, 400 N. Virginia Ave., P.O. Box 1776, Roswell, NM 88202-1776.

BASIC FINANCIAL STATEMENTS

STATE OF NEW MEXICO
FIFTH JUDICIAL DISTRICT COURT
Statement of Net Assets
Government -Wide
June 30, 2008

	Governmental Activities
ASSETS	
Current assets:	
Investment in the State Treasurer general fund investment pool	\$ 865,373
Petty cash	300
Due from external parties	19,860
Total current assets	885,533
Noncurrent assets:	
Capital assets:	
Property, plant & equipment	628,613
Less: accumulated depreciation	(432,979)
Total noncurrent assets	195,634
Total Assets	\$ 1,081,167
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 117,221
Accrued payroll and related expenses	221,783
Deferred revenue	45,000
Due to other state agencies	16
Due to State General Fund - reversion	141,049
Due to State General Fund - court fees	35,470
Compensated absences - current	179,289
Total current liabilities	739,828
Noncurrent liabilities:	
Compensated absences	16,992
Total liabilities	756,820
NET ASSETS	
Invested in capital assets	195,634
Restricted for:	
Domestic Relations Mediation	111,695
Capital outlay	213,000
Unrestricted (deficit)	(195,982)
Total net assets	324,347
Total liabilities and net assets	\$ 1,081,167

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

**STATE OF NEW MEXICO
FIFTH JUDICIAL DISTRICT COURT
Statement of Activities
Government -Wide
For the Year Ended June 30, 2008**

	Governmental Activities
Expenses:	
Judicial:	
Administrative services	\$ 6,630,426
Depreciation expense	48,300
Total program expenses	6,678,726
Program revenues:	
Court fees	42,855
Charges for services	45,000
Total program revenues	87,855
Net program expense	(6,590,871)
General revenues, transfers and losses:	
Transfers in- State General Fund appropriation	6,709,800
Severance tax bond appropriation (capital project)	63,889
Transfer out: State General Fund reversion - FY07	(61,298)
Total general revenues, transfers and losses	6,712,391
Change in net assets	121,520
Net assets -- beginning of the year	202,827
Net assets -- end of the year	\$ 324,347

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

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

**Balance Sheet
Governmental Funds
June 30, 2008**

	General Fund	Domestic Relations Mediation Fund	Capital Projects Fund	Total
ASSETS				
Cash on deposit	\$ 509,161	\$ 116,710	\$ 239,502	\$ 865,373
Petty cash	300	-	-	300
Due from external parties	-	-	19,860	19,860
 Total Assets	 <u>\$ 509,461</u>	 <u>\$ 116,710</u>	 <u>\$ 259,362</u>	 <u>\$ 885,533</u>
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 110,450	\$ 5,015	\$ -	\$ 115,465
Accrued payroll and related expenses	223,538	-	-	223,538
Deferred revenue	-	-	45,000	45,000
Due to other state agencies	16	-	-	16
Due to State General Fund - court fees	35,470	-	1,362	36,832
Due to State General Fund - reversion	139,687	-	-	139,687
Total liabilities	<u>509,161</u>	<u>5,015</u>	<u>46,362</u>	<u>560,538</u>
 Fund balances:				 176,535
Reserved for:				
Petty cash	300	-	-	300
Capital expenditures	-	-	213,000	213,000
Domestic Relations Mediation	-	111,695	-	111,695
Unreserved - undesignated	-	-	-	-
Total fund balances	<u>300</u>	<u>111,695</u>	<u>213,000</u>	<u>324,995</u>
 Total liabilities and fund balances	 <u>\$ 509,461</u>	 <u>\$ 116,710</u>	 <u>\$ 259,362</u>	 <u>\$ 885,533</u>

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

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

**Reconciliation of Governmental Funds Balance Sheet
to the Statement of Net Assets
June 30, 2008**

Total fund balances - Governmental Funds (from C-1)	\$	324,995
<p>Amounts reported for <i>governmental activities</i> in the Statement of Net Assets (A-1) are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:</p>		
Property, plant and equipment	\$	628,613
Accumulated depreciation		<u>(432,979)</u>
Total capital assets		195,634
<p>Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities of:</p>		
Compensated absences		<u>(196,282)</u>
Net assets of governmental activities (See B-1)	\$	<u><u>324,347</u></u>

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

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

**Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2008**

	General Fund	Domestic Relations Mediation Fund	Capital Projects Fund	Total
REVENUES				
Court fees	\$ -	\$ 42,855	\$ -	\$ 42,855
Charges for services	45,000	-	-	45,000
Total revenues	<u>45,000</u>	<u>42,855</u>	<u>-</u>	<u>87,855</u>
EXPENDITURES				
Current:				
Judicial:				
Personal services and employee benefits	5,285,313	-	-	5,285,313
Contractual services	802,317	59,618	-	861,935
Other costs	377,234	-	-	377,234
Capital outlay	-	-	115,069	115,069
Total expenditures	<u>6,464,864</u>	<u>59,618</u>	<u>115,069</u>	<u>6,639,551</u>
Excess (deficiency) of revenues over expenditures	<u>(6,419,864)</u>	<u>(16,763)</u>	<u>(115,069)</u>	<u>(6,551,696)</u>
OTHER FINANCING SOURCES (USES)				
Transfers out:				
State General Fund reversion - FY07	(59,936)	-	(1,362)	(61,298)
Transfers in:				
State General Fund appropriation	6,479,800	-	230,000	6,709,800
Severance tax bond appropriation	-	-	63,889	63,889
Total other financing sources and uses	<u>6,419,864</u>	<u>-</u>	<u>292,527</u>	<u>6,712,391</u>
Net change in fund balance	-	(16,763)	177,458	160,695
Fund balances--beginning of the year	<u>300</u>	<u>128,458</u>	<u>35,542</u>	<u>164,300</u>
Fund balances--end of the year	<u>\$ 300</u>	<u>\$ 111,695</u>	<u>\$ 213,000</u>	<u>\$ 324,995</u>

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

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

**Reconciliation of Changes in Fund Balance of
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2008**

Net change in fund balances -- total governmental funds (from C-3)		\$ 160,695
<p>Amounts reported for <i>governmental activities</i> in the Statement of Activities (B-1) are different because:</p> <p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:</p>		
Capital Outlay	\$ 34,000	
Depreciation Expense	<u>(48,300)</u>	
Excess of capital outlay over depreciation expense		(14,300)
<p>Compensated absences reported in the Statement of Activities require the use of current financial resources and therefore are not reportable as expenditures in governmental funds.</p>		
		<u>(24,875)</u>
Change in net assets of governmental activities (see B-1)		<u><u>\$ 121,520</u></u>

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

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

**Statement of Revenues and Expenditures
Budget and Actual
General Fund
For the Year Ended June 30, 2008**

	Budgeted Amounts		Actual Amounts (Modified Accrual Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
State appropriations	\$ -	\$ -	\$ -	\$ -
Other financing sources	-	-	-	-
Court fees	45,000	45,000	45,000	-
Total revenues	45,000	45,000	45,000	-
EXPENDITURES				
Administrative services:				
Personnel services & employee benefits	5,409,300	5,334,300	5,285,314	48,986
Contractual services	640,000	800,000	802,317	(2,317)
Other costs	475,500	390,500	377,234	13,266
Total expenditures	6,524,800	6,524,800	6,464,865	59,935
Other financing sources (uses):				
General fund appropriations	6,479,800	6,479,800	6,479,800	-
Reversions	-	-	(59,935)	(59,935)
Operating transfers in (out)	-	-	-	-
Total other financing sources (uses)	6,479,800	6,479,800	6,419,865	(59,935)
Excess (deficiency) of revenues over expenditures	\$ -	\$ -	\$ -	\$ -

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

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

**Statement of Revenues and Expenditures
Budget and Actual
Domestic Relations Mediation Fund
For the Year Ended June 30, 2008**

	Budgeted Amounts		Actual Amounts (Modified Accrual Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Court fees	\$ 50,000	\$ 50,000	\$ 42,855	\$ (7,145)
Total revenues	<u>50,000</u>	<u>50,000</u>	<u>42,855</u>	<u>(7,145)</u>
EXPENDITURES				
Contractual services	70,000	70,000	59,618	10,382
Other costs	-	-	-	-
Total expenditures	<u>70,000</u>	<u>70,000</u>	<u>59,618</u>	<u>10,382</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (20,000)</u>	<u>\$ (20,000)</u>	<u>\$ (16,763)</u>	<u>\$ 3,237</u>

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

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

**Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2008**

	<u>Agency Funds</u>
ASSETS:	
Cash and cash equivalents	\$ 631,342
Total assets	<u>\$ 631,342</u>
LIABILITIES:	
Due to state treasurer's account	\$ 1,961
Due to litigant's account	<u>629,381</u>
Total liabilities	<u>\$ 631,342</u>

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

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

**Notes to the Financial Statements
June 30, 2008**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Fifth Judicial District Court (the "Court") operates under Sections 34-6-1, 34-6-12, and 34-6-17 through 34-6-46, NMSA 1978 Compilation. The Fifth Judicial District Court covers Chaves, Eddy and Lea Counties. The Court is comprised of ten divisions as authorized in the above sections. 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 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. The Court is part of the primary government of the State of New Mexico and its financial data should be included with the financial data of the State. However, New Mexico does not at present, issue an audited Comprehensive Annual Financial Report inclusive of all agencies of the primary government. Additionally, the Court has no component units that are required to be reported in its financial statements.

The accounting policies of the Fifth Judicial District Court conform to generally accepted accounting principles (GAAP) as applicable to governments. The financial statements have incorporated all applicable FASB pronouncements as well as Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on accounting procedures issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. A summary of the Court's significant accounting policies follows:

A. Basis of Accounting – GASB Statement #34

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

B. Basis of Presentation – Fund Accounting

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Court, the primary government, as a whole, without displaying individual funds or fund types. Generally, these statements distinguish between activities that are governmental and those that are considered

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

**Notes to the Financial Statements
June 30, 2008**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation – Fund Accounting (continued)

Government-Wide Financial Statements (continued)

business-type activities. The Court has no business-type activities, therefore these statements only reflect governmental activities. Government-wide financial statements exclude information about fiduciary funds and component units that are fiduciary in nature.

The government-wide statements are prepared using the "economic resources" measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB 33.

Fund Financial Statements

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

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

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

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

The accounts of the Court are organized on a fund basis, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, or expenses as appropriate. Government resources are allocated to and accounted for in individual funds based upon

STATE OF NEW MEXICO
FIFTH JUDICIAL DISTRICT COURT

Notes to the Financial Statements
June 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation – Fund Accounting (continued)

Fund Financial Statements (continued)

the purposes for which spending activities are controlled. The following fund types are used by the Court:

Governmental Funds

General Fund

The General Fund is the general operating fund of the Court and is considered a major fund. It is used to account for all financial resources except those required to be accounted for in another fund. Any unencumbered balance remaining in the General Fund at the end of the fiscal year reverts to the General Fund of the State of New Mexico.

The revenues and expenditures of the Court are regularly accounted for in this fund. The SHARE number and description of the General Fund of the Court is #145 - Court Regular.

Special Revenue Funds

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

Court Mediation - The District has established a domestic relations mediation program pursuant to Section 5 (40-12-5 NMSA, 1978 Comp.) of the Domestic Relations mediation Act. Deposits to the funds shall include payments made through the imposition of a sliding fee scale pursuant to Section 5 (40-12-5, NMSA, 1978 Comp.) of the Domestic Relations Mediation Act and the collection of the surcharge provided for in Section 6 (40-12-6, NMSA, 1978 Comp.) of the Act. The Mediation Fund is a special revenue fund and is non-reverting. The SHARE number of the Mediation Fund is #925. For purposes of financial statement presentation, the fund is considered a major fund.

Capital Projects Funds

Capital Projects funds are used to account for financial resources to be used for the acquisition, conservation or improvement of capital facilities. The Court received an appropriation from the proceeds of severance tax bonds pursuant to Laws of 2005, Chapter 347, Section 27 B(3) to establish a video arraignment system. Any unspent money at the end of the project will revert to the State General Fund. The time of the project completion and subsequent reversion was extended to the end of the fiscal year 2008 per Laws of 2006, Chapter 107, Section 3. For fiscal year ending June 30, 2008, the amount that needs to be reverted is \$1,362. The SHARE number of the Capital Projects fund is #520.

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

**Notes to the Financial Statements
June 30, 2008**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation – Fund Accounting (continued)

Capital Projects Funds (continued)

The Court received the following appropriations for general capital outlay expenditures, which are included in the cash balance at June 30, 2008:

Appropriation Description:	Appropriation Period	Original Appropriation	Expenditures to Date	Unencumbered Balance
Senate Bill 710-Lea County	7/01/07-6/30/09	\$ 100,000	\$ 79,080	\$ 20,920
Senate Bill 827-Lea County	7/01/07-6/30/09	30,000	2,629	27,371
Senate Bill 710-Eddy County	7/01/07-6/30/09	75,000	19,268	55,732
Senate Bill 827-Eddy County	7/01/07-6/30/09	25,000	767	24,233
House Bill 2 - Lea County*	7/01/08-6/30/09	191,503	-	191,503
Senate Bill 471-Lea County*	7/01/08-6/30/12	45,000	-	45,000
House Bill 2 - Eddy County*	7/01/08-6/30/09	191,504	-	191,504
House Bill 2 - Chaves County*	7/01/08-6/30/09	191,053	-	191,053
Total		\$ 849,060	\$ 101,744	\$ 747,316

* Fiscal year ending June 30, 2009 appropriations not included in cash balance at June 30, 2008

At June 30, 2008, there were no outstanding encumbrances and the funds remaining at the end of the appropriation period must be reverted to the State General Fund.

Fiduciary Funds

Agency Funds are used to account for assets held by the Court in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds of the Court are as follows:

- 1) Court Clerk's Fund - These monies are amounts collected from persons involved in pending lawsuits. The Court has custody and, if directed by the Court, may invest these monies until refunded to litigants. The interest earned, if stated in the Court Order, is refunded and, if not stated, the interest earned is transferred to the State General Fund.
- 2) State Treasurer's Fund - These monies are collected from individuals filing with the Court. These monies are remitted intact to the New Mexico State Treasurer.

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

**Notes to the Financial Statements
June 30, 2008**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Assets, Liabilities and Equity

Investments with the State Treasurer

The Court's cash and cash equivalents are demand deposits. Deposits are non-interest bearing. The carrying value of such deposits is shown in Note 2. All funds allotted to the Court are held on deposit with the State Treasurer. The State Treasurer issues separate financial statements, which disclose the collateral pledged to secure these deposits.

Capital Assets

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

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

Furniture and fixtures	5 to 7 years
------------------------	--------------

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. The Court does not capitalize computer software or software developed for internal use (if applicable), unless it exceeds the \$5,000 threshold.

Long-Term Liabilities

Compensated Absences – The Court's policy regarding annual leave permits employees to accumulate earned but unused annual leave. The liability for these compensated absences is recorded as current debt in the government-wide statements. In the fund financial statements, governmental funds report only the compensated absences liability payable from expendable available financial resources. As the State of New Mexico does not budget funds in the current year to pay any portion of the compensated absence liability at the end of the fiscal year, no current liability is recorded in the fund financial statements.

Equity

Government-Wide Statements:

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

1. *Invested in capital assets, net of related debt*, consists of capital assets net of accumulated depreciation and reduced by any outstanding debt. The Court has no outstanding debt relating to capital assets.
2. *Restricted* net assets, consists of net assets with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors or laws or regulations by other governments; or (2) law through constitutional provisions or enabling legislation.

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

**Notes to the Financial Statements
June 30, 2008**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Equity (continued)

Government-Wide Statements (continued):

3. *Unrestricted* net assets are all other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

Fund Financial Statements:

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

D. Budgets and Budgetary Accounting

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

1. No later than September 1, the Court submits to the Judiciary Budget Office (JBO), the Legislative Finance Committee (LFC), and the Department of Finance and Administration (DFA) an appropriation request for the fiscal year commencing the following July. The appropriation includes proposed expenditures and the means of financing them.
2. Appropriation request hearings are scheduled by the JBO. Recommendations are made by the JBO to the Supreme Court for their approval. The Supreme Court approved appropriation request is then submitted to the Legislature as the Supreme Court's recommended appropriation request for the Fifth District.
3. Budget hearings are scheduled before the New Mexico House Appropriations and Senate Finance Committees. The final outcome of these hearings is incorporated into the General Appropriations Act.
4. The Act is signed into law by the Governor of the State of New Mexico within the legally prescribed time limit.
5. The Court submits, no later than May 1, to DFA an annual operating budget by category and line item based upon the appropriations made by the Legislature. The DFA – Budget Division reviews and approves the operating budget, which becomes effective in July. All subsequent budget adjustments must be approved by the Director of the DFA- Budget Division. The current year budget was revised in a legal manner.
6. Legal budget control for expenditures is by category.
7. Formal budgetary integration is employed as a management control device during the fiscal year for the Governmental Funds.

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

**Notes to the Financial Statements
June 30, 2008**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Budgets and Budgetary Accounting (continued)

8. The General Appropriation Act of 2004, which applies to fiscal year 2008 budgets, established the modified accrual basis of accounting as the budgetary basis of accounting for the State of New Mexico. State agencies have a different budget basis that began in the fiscal year ended June 30, 2005. Under the new law, 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 amounts subject to reversion. If the Legislature provides a new appropriation for a specific encumbrance, it is carried forward to a new appropriation period to be charged against the budget. If the Legislature does not provide a new appropriation for an encumbrance, the encumbrance is no longer authorized.
9. Appropriation periods are sometimes for periods in excess of twelve months (multiple-year appropriations). When such appropriation periods lapse, the authority for the budget also lapses and encumbrances can no longer be charged to that budget. The General Appropriation Act, Laws of 2006, Chapter 109, Section 3, Subsections O and N, which applies to fiscal year 2008 establishes the modified accrual basis of accounting as the budgetary basis except for accounts payable accrued at the end of fiscal year that do not get paid by the statutory deadline per Section 6-10-4 NMSA 1978. The accounts payable that do not get paid timely must be paid out of the next year's budget.

E. Accrued Compensated Absences

Employees are entitled to accumulate annual leave at a rate based on appointment date and length of continuous service. A maximum of 240 hours of annual leave may be carried forward after the pay period beginning in December and ending in January. When employees terminate, they are compensated at their current hourly rate for accumulated unpaid annual leave as of the date of termination, up to a maximum of 240 hours. Employees are entitled to accumulate sick leave at a rate of 3.69 hours per pay period. There is no limit to the amount of sick leave that an employee may accumulate. State agencies are allowed to pay fifty (50) percent of each employee's hourly rate for accumulated sick leave over 600 hours up to 120 hours. Payment may be made only once per fiscal year at a specified pay period in either January or July.

In accordance with GASB Statement No. 16 *Accounting for Compensated Absences*, accrued compensated absences consist of accumulated annual leave, sick leave, and compensatory leave and related salary payments (employers' matching FICA and Medicare payroll taxes).

F. Program Revenues

Program revenues consist of charges for services and court fees collected per statute designated for Court operations. The Court has only one function and therefore does not have a policy for allocating indirect costs.

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

**Notes to the Financial Statements
June 30, 2008**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect certain reported amounts of assets, liabilities and disclosures at the date of the financial statements and the reported amounts of revenues, expenditures, and expenses during the reporting period. Actual results could differ from those estimates.

H. 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.

I. Designated Fund Balance

The amount shown in the Mediation Fund, \$116,710 is the cash balance of the Mediation Fund that is non-reverting and not reserved for payable. This amount is legally restricted to be spent for specific purposes.

NOTE 2: INVESTMENTS WITH THE STATE TREASURER

The State Treasurer Local Government Investment Pool is not SEC registered. Section 6-10-10 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. At June 30, 2008, the New MexiGROW Local Government Investment Pool was rated at AAAM and was considered a 46-day WAM.

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.

State agency cash on deposit with the State Treasurer does not require disclosure of specific pledged collateral. The collateral pledged to secure State Treasurer cash and investments is disclosed in the separately issued financial statements for the State Treasurer's Office. The accounts were opened under the ID number for the State Treasurer's Office. Therefore, collateral for the specific accounts listed below cannot be distinguished from the collateral held in total by the State Treasurer's Office. The State Treasurer's Office is responsible for monitoring collateral requirements for the various accounts it has with various agencies throughout New Mexico.

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

**Notes to the Financial Statements
June 30, 2008**

NOTE 2: INVESTMENTS WITH THE STATE TREASURER (continued)

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the system will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District is not exposed to custodial risk since investments are held by the State Treasurer.

Investment Risk

The District has no investment or deposit policy that would further limit its investment choices.

At June 30, 2008, the Court had the following deposits for agency cash at three banks and one state agency.

<u>Account Name</u>	<u>Share Fund #</u>	<u>Maturities</u>	<u>Per Bank Balance</u>	<u>Reconciling Items</u>	<u>Reconciled Balance</u>
<u>General Fund:</u>					
Petty Cash			\$ -	\$ 300	\$ 300
Investment in the State General Fund Investment Pool	145	<180 days	509,161	-	509,161
<u>Special Revenue Fund:</u>					
Investment in the State General Fund Investment Pool Mediation Fund	925	<180 days	116,710	-	116,710
<u>Capital Projects Fund:</u>					
Investment in the State General Fund Investment Pool	520	<180 days	239,502	-	239,502
			<u>\$ 865,373</u>	<u>\$ 300</u>	<u>\$ 865,673</u>
<u>Agency Funds</u>					
State Treasurer – Wells Fargo		N/A	\$ 659	\$ -	\$ 659
Litigant – Wells Fargo		N/A	113,692	850	114,542
State Treasurer – Lea County Bank		N/A	922	-	922
Litigant – Lea County Bank		N/A	320,301	(500)	319,801
State Treasurer – Western Bank		N/A	381	-	381
Litigant – Wells Fargo		N/A	195,037	-	195,037
Total			<u>\$ 630,992</u>	<u>\$ 350</u>	<u>\$ 631,342</u>

Credit Risk

State law limits investment in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The District has no investment policy that would further limit its investment choices.

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

**Notes to the Financial Statements
June 30, 2008**

NOTE 3: CAPITAL ASSETS

A summary of capital assets and occurring during the year ended June 30, 2008 is as follows:

	Beginning Balance	Additions	Deletions	Adjustments	Ending Balance
Furniture and fixtures	\$ 594,613	\$ 34,000	\$ -	\$ -	\$ 628,613
Less Accumulated Depreciation:					
Furniture and fixtures	(384,679)	(48,300)	-	-	(432,979)
Net Capital Assets	\$ 209,934	\$ (14,300)	\$ -	\$ -	\$ 195,634

Current depreciation expense is \$48,300.

NOTE 4: COMPENSATED ABSENCES PAYABLE

A summary of changes in compensated absences is as follows:

	Balance 07/01/07	Increase	(Decrease)	Balance 06/30/08	Amount Due Within One Year
Compensated Absences Payable	\$171,407	\$204,163	\$(179,289)	\$196,281	\$ 179,289

Compensated absences are liquidated with available financial resources out of the general fund. The State of NM does not budget in the current year, funds to pay any portion of the compensated absence liability at the end of the year; therefore, the current portion of compensated absences is not recorded in the fund financial statements. The Court has no other debt.

NOTE 5: PERA RETIREMENT PLAN

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

Funding Policy

Plan members are required to contribute 7.59% of their gross salary. The Fifth Judicial District Court is required to contribute 16.59% of the gross covered salary. The contribution requirements of plan members and the Fifth Judicial District Court are established 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 years ending June 30, 2008, 2007, and 2006 were \$430,952, \$371,141, and \$341,737, respectively, equal to the amount of the required contributions for each year.

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

**Notes to the Financial Statements
June 30, 2008**

NOTE 6: JUDICIAL RETIREMENT ACT CONTRIBUTIONS

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

Funding Policy

Plan members are required to contribute 7.5% of their gross salary. The Fifth Judicial District Court is required to contribute 12% of the gross covered salary. The Fifth Judicial District Court's contributions to JRA for the years ending June 30, 2008, 2007, and 2006 were \$128,231, \$113,226, and \$79,247, respectively, equal to the amount of the required contributions for each year.

In addition, the Court remits \$38 of each filing fee collected 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 Fifth Judicial District Court's contributions to JRA from filing fees for the years ending June 30, 2008, 2007, and 2006 were \$177,536, \$172,023, and \$158,308, respectively, equal to the amount of the required contributions for each year.

NOTE 7: POST-EMPLOYMENT BENEFITS

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

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

Eligible retirees are: (1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the Retiree Health Care Act on the person's behalf, unless that person retires on or before July 1, 1995, in which event the time period for contribution becomes the times between July 1, 1990 and the date of retirement; or (2) retirees defined by the Act who retired prior to July 1, 1990.

Each participating employer makes contributions to the fund in the amount of 1.3% of each participating employee's annual salary. Each participating employee contributes to the fund an employee contribution

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

**Notes to the Financial Statements
June 30, 2008**

NOTE 7: POST-EMPLOYMENT BENEFITS (continued)

equal to .65% of the employee's annual salary. Each participating retiree pays a monthly premium ranging from \$23.20 to \$374.27 depending on the plan type and whether or not on Medicare and an additional fee of five dollars (\$5.00) if the eligible participant retired prior to the July 1, 1990 and made no contributions to the plan. Amounts for spouses and children are additional.

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

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

For the years ended June 30, 2008, 2007, and 2006, the Court remitted \$47,276, \$40,763, and \$36,446, respectively, in employer contributions to the Retiree Health Care Authority.

NOTE 8: 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. It 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 the Deferred Compensation Plan. Neither the Fifth Judicial District Court nor the State of New Mexico make any contributions to the Deferred Compensation Plan. All contributions withheld from participants by the Fifth Judicial District Court have been paid to the New Mexico Public Employee's Retirement Association, with administers the plan.

NOTE 9: RISKS OF LOSS

The Court obtains coverage through Risk Management Division of the State of New Mexico General Services Department. This coverage includes general liability, worker's compensation, law enforcement liability, civil rights, property, and vehicle. These coverages are designed to satisfy the requirements of the State Tort Claims Act. All employees of the Court are covered by a blanket fidelity bond of \$5,000,000 coverage limit with a \$1,000 deductible per occurrence by the State of New Mexico for the period July 1 through June 30. There are no pending or known threatened legal proceedings involving material matters to which the Court is a party.

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

**Notes to the Financial Statements
June 30, 2008**

NOTE 10: REVERSIONS

The due to state general fund in the Statement of Net Assets includes \$61,960 and \$113,197 from 2008 and 2007, respectively that will be remitted to the State General Fund. An audit finding is necessary because the reversion amounts due for all previous years to the State General Fund were not made by September 30. In addition, the capital project appropriation for the video arraignment system is now completed and \$1,362 will be reverted to the State General Fund from the Capital Projects Fund.

NOTE 11: MEMORANDUMS OF UNDERSTANDING

The 5th Judicial District Court entered into a Memorandum of Understanding beginning July 1, 2006 and ending on June 30, 2008 with New Mexico Children, Youth and Families Department/Protective Services Division for the operation of the Family Drug Court in Lea County.

Participants	5 th Judicial District Court and Children, Youth and Families
Party Responsible for operations	5 th Judicial District Court
Description	Support for the Family Drug Court.
Beginning and Ending Dates	07/01/07 - 06/30/08
Total Estimated Cost	\$5,400
Amount Contributed in the Current Year	\$5,400
Audit Responsibility	N/A
Fiscal agent	N/A
Agency where the entity reports	N/A

NOTE 12: ACCOUNTING STANDARDS

The Governmental Accounting Standards Board (GASB) today issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The Statement provides needed guidance regarding how to identify, account for, and report intangible assets. The new standard characterizes an intangible asset as an asset that lacks physical substance, is nonfinancial in nature, and has an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, computer software, water rights, timber rights, patents, and trademarks. The requirements Statement 51 are effective for financial statements for periods beginning after June 15, 2009. The Court is analyzing the effect that this standard will have on its financial statements, and currently believes it will have no significant effect on the financial statements for the upcoming year.

In December 2006, the Governmental Accounting Standards Board (GASB) issued Statement No. 49, *Pollution Remedial Obligations*. This statement is effective for financial statements for the periods beginning after December 15, 2007. This statement establishes accounting standards for the recognition and reporting of liabilities related to environmental clean-up efforts. The Court is analyzing the effect that this standard will have on its financial statements, and currently believes it will have no significant effect on the financial statements for the upcoming year.

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

**Notes to the Financial Statements
June 30, 2008**

NOTE 12: ACCOUNTING STANDARDS (continued)

In June 2008, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Statement 53 is intended to improve how state and local governments report information about derivative instruments—financial arrangements used by governments to manage specific risks or make investments—in their financial statements. The guidance in this Statement also addresses hedge accounting requirements and is effective for financial statements for reporting periods beginning after June 15, 2009, with earlier application encouraged. The Court is analyzing the effect that this standard will have on its financial statements, and currently believes it will have no significant effect on the financial statements for the upcoming year.

In November 2007, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. The statement improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. Reporting those investments at fair value provides more decision-useful information about their composition, current value, and recent changes in value. GASB Statement No. 52 is effective for financial statements for periods beginning after June 15, 2008. The Court is analyzing the effect that this standard will have on its financial statements, and currently believes it will have no significant effect on the financial statements for the upcoming year.

NOTE 13: INTERAGENCY TRANSFERS

The Court had the following transfer for the fiscal year ending June 30, 2008:

<u>Transfers From:</u>	<u>SHARE Fund No.</u>	<u>Transfer To:</u>	<u>SHARE Fund No.</u>	<u>Agency No.</u>	<u>Amount</u>
State General Fund Appropriation	85300	General Fund	0145	34101	\$ 5,933,800
Severance Tax Appropriation	01900	Cap. Proj. Fund	0520	34100	44,029
CASA and Children First Approp.	13900	General Fund	0145	21800	257,924
Water Rights Appropriation	13900	General Fund	0145	21800	75,300
Compensation Package Appropriation	62000	General Fund	0145	34100	212,792
Capital Outlay Appropriation	85300	Cap. Proj. Fund	0520	34101	45,000
Total					<u>\$ 6,568,845</u>

NOTE 14: DEFICIT FUND BALANCES AND EXCESS OF EXPENDITURES OVER APPROPRIATIONS

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

- A. Deficit fund balance of individual funds
 - None
- B. Excess of expenditures over appropriations
 - General Fund - contractual services \$ 2,317

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

**Statement of Revenues and Expenditures
Budget and Actual
Capital Projects Fund
For the Year Ended June 30, 2008**

	Budgeted Amounts		Actual Amounts (Modified Accrual Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Fund balance	\$ -	\$ -	\$ 17,884	\$ 17,884
Total revenues	-	-	17,884	17,884
EXPENDITURES				
Capital Outlay	455,000	455,000	115,069	339,931
Other costs	-	-	-	-
Total expenditures	455,000	455,000	115,069	339,931
Other financing sources (uses):				
Reversions	-	-	(1,362)	(1,362)
Transfers in:				
Special appropriations	-	-	293,889	(293,889)
Total other financing sources (uses)	-	-	292,527	(295,251)
Excess (deficiency) of revenues over expenditures	(455,000)	(455,000)	177,458	44,680
Fund balance - end of year	\$ (455,000)	\$ (455,000)	\$ 195,342	\$ 62,564

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

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

**Schedule of Changes in Assets and Liabilities
Agency Funds
Year Ended June 30, 2008**

	<u>Balance</u> <u>June 30, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2008</u>
ASSETS				
Cash in bank:				
State Treasurer's accounts	\$ 26,435	\$ 662,698	\$ 687,172	\$ 1,961
Court Clerk's accounts	475,177	775,108	620,904	629,381
Total assets	<u>\$ 501,612</u>	<u>\$ 1,437,806</u>	<u>\$ 1,308,076</u>	<u>\$ 631,342</u>
LIABILITIES				
Due to State Treasurer	\$ 26,435	\$ 662,698	\$ 687,172	\$ 1,961
Due to litigants	475,177	775,108	620,904	629,381
Total liabilities	<u>\$ 501,612</u>	<u>\$ 1,437,806</u>	<u>\$ 1,308,076</u>	<u>\$ 631,342</u>

See Auditor's Report.

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

Mr. Hector H. Balderas
New Mexico State Auditor
and
Honorable Gary Clingman, Chief Judge
Fifth Judicial District Court

We have audited the accompanying financial statements of the governmental activities, major funds, aggregate remaining fund information and budgetary comparisons of the general fund and major special revenue fund of the State of New Mexico, Fifth Judicial District Court (the "Court"), as of and for the year ended June 30, 2008, and have issued our report thereon dated December 11, 2008. We have also audited the budgetary comparison for the capital projects fund. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Court's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Court's internal control over financial reporting.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Court's financial statements that is more than inconsequential will not be prevented or detected by the Court's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Court's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fifth Judicial District Court's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2005-01, 2005-03, and 2007-03.

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

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



Miller & Associates, C.P.A., P.C.

December 11, 2008

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

**Schedule of Findings and Responses
June 30, 2008**

A. FINDINGS – FINANCIAL STATEMENT AUDIT

2005-01 Reversion – Revised and Repeated

Condition

Unexpended and unencumbered budget balances of \$113,197 from FYE 2007 have not been reverted to the DFA.

Criteria

According to Section 6-5-10, NMSA 1978 “all unreserved, undesignated fund balances in reverting funds and other accounts (tapes and copy fees) as reflected in the central accounting system as of the end of the fiscal year (June 30) shall revert to the State General Fund. These funds need to be reverted by September 30 or within 45 days of release of the audit report for that fiscal year.

Cause

Failure by the fiscal staff to process and deliver the proper documentation to DFA. The agency fiscal staff encountered difficulty determining the correct amount requiring reversion for FY07 from reports generated on the system.

Effect

The District is not in compliance with New Mexico Statutes Section 6-5-10, NMSA 1978, as amended. State statutes define the penalties for not complying with applicable sections. In addition, this money was not available for legislative discretion. The unavailability of monies could also affect state and federal funding.

Recommendation

We suggest that the Fifth Judicial District Court establish the appropriate internal controls to provide reasonable assurance of compliance with the regulations.

Agency Response

Reversions for FY05, FY06 and FY07 were made in FY08. The Agency’s Financial Manager made an error in the correct amount to be reverted resulting in this amount remaining to be reverted. The Financial Manager will immediately process the remaining reversion amount. Also, the Financial Manager will be more diligent in the future to avoid this error.

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

**Schedule of Findings and Responses
June 30, 2008**

A. FINDINGS – FINANCIAL STATEMENT AUDIT (continued)

2005-03 State Treasurer's Account Balance – Revised and Repeated

Condition

The State Treasurers bank account balance was greater than \$15,000 for three of the twelve months of the fiscal year.

Criteria

NMSA 1978 Section 34-6-37 specifies that the State Treasurer shall make withdrawals from the account at least quarterly, an in any event, so that the balance remaining never exceeds \$15,000.

Cause

The Court is making at least 2 transfers each month, however, the State Treasurer does not transfer the funds in a timely manner. In addition, the Court is not monitoring the account and allowing enough time to avoid exceeding \$15,000.

Effect

Failure by the fiscal staff to monitor and initiate the transfers in a timely manner. The unavailability of monies for the State Treasurer could impact state and federal funding and interest revenue. Custodial risk would be mitigated.

Recommendation

The Court should process the transfers a little earlier in the month and implement monitoring procedures for all State Treasurer's accounts.

Agency Response

The Agency has tried very hard to avoid repeating this finding. There are timing factors controlled by the State Treasurer's Office that are making it very difficult to keep our bank balances below \$15,000 every month of the year. The Agency's Financial Manager has been in contact with the State Treasurer's Office regarding this. The State Treasurer is proposing moving all three of the Agency's accounts to the State's fiscal agent, Bank of America. This move would eliminate the need for the State Treasurer's Office to produce a physical check to withdraw the funds from our current accounts and should eliminate this finding in future fiscal years.

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

**Schedule of Findings and Responses
June 30, 2008**

A. FINDINGS – FINANCIAL STATEMENT AUDIT (continued)

2007-03 Over Spending of Certain Budget Line Items – Revised and Repeated

Condition

During our examination, we noted that one line item in the General Fund had expenditures in excess of budgeted amounts of \$2,317.

Criteria

State budgeting requirement 6.20.2.9 NMSA 1978 sets forth budget preparation standards and states that budgetary control shall be at the function level and that over-expenditure of a function shall not be allowed.

Cause

No budget line item transfers for the overages were proposed or approved by the governing body for additional contract services fees.

Effect

The Court is in violation of the law which requires each fund to disburse money for its specific purpose in accordance with their budget. In addition, this money was not available for legislative discretion. The unavailability of monies could also affect state and federal funding.

Recommendation

We recommend that the Court perform a periodic review of the budget. Any anticipated budgetary transfers can be isolated and authorization can be obtained before the overspending of line item expenditures.

Agency Response

The Agency has been diligent in monitoring the budget balances throughout the year using SHARE reports. This over expenditure was a result of DFA's procedure of processing post year-end payments as "direct pays" which are not checked for adequate budget prior to payment. The Agency learned of this failure to check budget at the time of this audit. All future year-end payments will be monitored separate from SHARE by the Agency to ensure adequate budget is available prior to submitting requests for payments to DFA.

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

**Schedule of Findings and Responses
June 30, 2008**

B. FINDINGS – PRIOR YEAR AUDIT

2005-01: Reversion – Revised and repeated in the current year
2005-03: State Treasurers Account Balance - Revised and repeated in the current year
2007-01: Late Audit Report - Resolved and not repeated
2007-02: The SHARE System - Resolved and not repeated
2007-03: Over Spending of Certain Budget Line Items - Revised and repeated in the current year

C. EXIT CONFERENCE

The contents of this report were discussed at an exit conference held on December 11, 2008. The following individuals were in attendance.

Fifth Judicial District Court Officials
Honorable Gary Clingman, Chief Judge
Rita Johnson, Court Financial Manager

Auditor
Ron Miller, Shareholder
Jennifer Nunez, Staff

D. FINANCIAL STATEMENT PREPARATION

The financial statements of Fifth Judicial District Court were prepared from original books and records provided by the management of these entities by Miller and Associates, C.P.A., P.C.