

**STATE OF NEW MEXICO
FIFTH JUDICIAL COURT**

**Financial Statements and Schedules
With Independent Auditors Report Thereon**

For the Fiscal Year Ended June 30, 2010

STATE OF NEW MEXICO
FIFTH JUDICIAL COURT

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**STATE OF NEW MEXICO
FIFTH JUDICIAL COURT**

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**STATE OF NEW MEXICO
FIFTH JUDICIAL COURT**

Official Roster

June 30, 2010

JUDGES

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

ADMINISTRATIVE OFFICIALS

Bee J. Clem	Court Executive Officer
Linda Worley	Deputy Court Executive Officer
Kennon Crowhurst	District Court Clerk, Chaves County
Eric Ellis	District Court Clerk, Eddy County
Nelda Cuellar	District Court Clerk, Lea County
Rita G. Johnson	Court Financial Manager / Chief Financial Officer

Zlotnick, Laws & Sandoval, P.C.

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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, each major fund, the aggregate remaining fund information and the budgetary comparisons of the State of New Mexico, Fifth Judicial District Court (Court), as of and for the year ended June 30, 2010 which collectively comprise the Court's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Court's management. Our responsibility is to express opinions on these financial statements based on our audit.

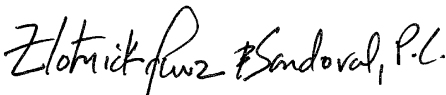
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, the aggregate remaining fund information and the budgetary comparisons of the Court as of June 30, 2010, and the respective changes in financial position thereof and the budgetary comparisons for the general fund, domestic relations medication fund, and capital projects fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 27, 2010 on our consideration of the agency'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 on pages 3 through 7 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements. The additional schedules listed as "other supplemental information" in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Zlotnick Lawz & Sandoval, P.C.", written in a cursive style.

Zlotnick, Lawz & Sandoval, P.C.

October 27, 2010

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

**Management's Discussion and Analysis
(Required Supplementary Information)**

June 30, 2010

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 2009 and 2010.

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.

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

**Management's Discussion and Analysis
(Required Supplementary Information)**

June 30, 2010

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, 2010. 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 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. There is a decrease in current assets of \$129,027 as a result of a reduction in payables carried forward to the next fiscal year leaving cash on account. The decrease of \$62,802 in current liabilities is mainly the result of a decrease in accounts payable for FY10 payments made in FY11.

Condensed Financial Comparison of Current and Prior Fiscal Year:

	June 30, 2010	June 30, 2009
Assets:		
Current Assets	\$ 654,094	\$ 783,121
Capital Assets	<u>175,418</u>	<u>224,542</u>
Total Assets	<u>829,512</u>	<u>1,007,663</u>
Liabilities:		
Current Liabilities	569,244	632,046
Non-Current Liabilities	<u>23,575</u>	<u>66,431</u>
Total Liabilities	<u>592,819</u>	<u>698,477</u>
Net Assets:		
Invested in Capital Assets	175,418	224,542
Restricted Net Assets	252,736	268,666
Unrestricted Net Assets (Deficit)	<u>(191,461)</u>	<u>(184,022)</u>
Total Net Assets	<u>\$ 236,693</u>	<u>\$ 309,186</u>

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

**Management's Discussion and Analysis
(Required Supplementary Information)**

June 30, 2010

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

Statement of Activities: The following represents the revenues and expenses for fiscal year 2010. Revenues were reduced as a result of a decrease in the State Appropriation of \$207,898 and a decrease in Other Financing Sources of \$142,154 when compared to the prior year. The decrease in total expenses of \$237,417 is also a direct result of reduced appropriations and other funding being received during the FY10.

Condensed Financial Comparison of Current and Prior Fiscal Year:

	<u>June 30, 2010</u>	<u>June 30, 2009*</u>
Program Revenue	\$ 114,304	\$ 89,340
General Revenue	<u>6,442,846</u>	<u>6,757,677</u>
Total Revenue	<u>6,557,150</u>	<u>6,847,017</u>
Expenses – Judicial	6,542,119	6,754,760
Reversions to State	35,959	61,079
Depreciation	<u>49,124</u>	<u>48,780</u>
Total Expenses	<u>6,627,202</u>	<u>6,864,619</u>
Change in Net Assets	(70,052)	(17,602)
Beginning Net Assets	<u>306,745</u>	<u>324,347</u>
Ending Net Assets	<u>\$ 236,693</u>	<u>\$ 306,745</u>

*The 2009 numbers are presented as restated see Note 12 in the notes to the financial statements.

The Fifth Judicial District Court is a reverting agency with the exception of the Mediation Fund. The ending balance in the Mediation fund for FY09 was \$95,050 and for FY10 it was \$93,568. This is a decrease of fund balance of \$1,482. 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.

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

**Management's Discussion and Analysis
(Required Supplementary Information)**

June 30, 2010

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.

The Domestic Relations Mediation Fund reported a fund balance of \$93,568 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 \$159,168 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 FY10 budget and final FY10 budget is due to general fund budget reduction of \$125,400 imposed by the 2010 Legislature. Also the agency moved budget from contractual services category in our Court Regular activity to the Personal Services category.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. The Court's investment in capital assets for its government activities as of June 30, 2010 amounted to \$175,418 (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 \$0 and depreciation expense of \$49,124.

Long-Term Debt: At the end of the current fiscal year, the Court had a total long-term debt outstanding of \$191,751 in 2010 and \$117,891 in 2009. This amount consists of accumulated balances for terminal leave eligible for payment to employees upon termination of their employment.

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

**Management's Discussion and Analysis
(Required Supplementary Information)**

June 30, 2010

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The fiscal year 2011 appropriation has been reduced by more than the revised and reduced FY10 budget. The Agency anticipates yet another reduction of 1% to 2% to be imposed by the FY11 Legislature. These budgetary reductions are forcing the agency to eliminate or reduce special programs, i.e. Family Drug Court of Lea County, Teen Court Programs in Chaves and Lea Counties, and Supervised Visitation Programs in Lea and Eddy Counties. The Agency is also forced to leave five vacant positions unfilled for the entire fiscal year.

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:

Fifth Judicial District Court
Administrative Office
400 N. Virginia Ave.
P.O. Box 1776
Roswell, NM 88202-1776.

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

STATEMENT OF NET ASSETS

June 30, 2010

	Governmental Activities
ASSETS	
Current Assets:	
Petty Cash	\$ 300
Investment in State General Fund Investment Pool	651,976
Other Receivables	1,818
Total Current Assets	654,094
Noncurrent Assets:	
Capital Assets	706,301
Less: Accumulated Depreciation	(530,883)
Total Noncurrent Assets	175,418
TOTAL ASSETS	\$ 829,512
LIABILITIES	
Current Liabilities:	
Accounts Payable	\$ 72,368
Accrued Payroll	266,921
Due to State General Fund	61,769
Compensated Absences - current	168,186
Total Current Liabilities	569,244
Noncurrent Liabilities:	
Compensated Absences	23,575
TOTAL LIABILITIES	592,819
NET ASSETS	
Invested in Capital Assets	175,418
Restricted for:	
Mediations	93,568
Capital Outlay	159,168
Unrestricted (deficit)	(191,461)
TOTAL NET ASSETS	236,693
TOTAL LIABILITIES AND NET ASSETS	\$ 829,512

See Notes to Financial Statements.

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

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2010

	Governmental Activities
Expenses:	
Judicial:	
Administrative Services	6,542,119
Depreciation Expense	49,124
Total Expenses	6,591,243
 Program Revenues:	
Federal Grants	17,998
Charges for Services	52,011
Court Fees	44,295
Total Program Revenues	114,304
 Net program expenses	(6,476,939)
 General Revenues and Transfers	
State General Fund Appropriations	-
Other State Funds	6,442,846
State General Fund Reversion	(35,959)
Total General Revenues and Transfers	6,406,887
 Change in net assets	(70,052)
 Net Assets, beginning of year	309,186
Adjustment to Beginning Net Assets (Note 12)	(2,441)
Beginning Net Assets as Restated	306,745
 Net Assets, end of year	\$ 236,693

See Notes to Financial Statements.

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

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2010

	General Fund	Mediation Fund	Capital Projects Fund	Total
ASSETS				
Current Assets:				
Petty Cash	\$ 300	-	-	\$ 300
Investment in State GF Investment Pool	397,870	94,938	159,168	651,976
Other Receivables	738	1,080		1,818
TOTAL ASSETS	\$ 398,908	96,018	159,168	\$ 654,094
LIABILITIES AND FUND BALANCES				
Current Liabilities:				
Accounts Payable	\$ 69,918	2,450	-	\$ 72,368
Accrued Payroll	266,921	-	-	266,921
Due to State General Fund	61,769	-	-	61,769
TOTAL LIABILITIES	398,608	2,450	-	401,058
FUND BALANCES				
Reserved for:				
Capital Expenditures	-	-	159,168	159,168
Mediations	-	93,568	-	93,568
Unreserved	300	-	-	300
TOTAL FUND BALANCE	300	93,568	159,168	253,036
TOTAL LIABILITIES AND FUND BALANCES	\$ 398,908	96,018	159,168	\$ 654,094

See Notes to Financial Statements.

STATE OF NEW MEXICO
FIFTH JUDICIAL DISTRICT COURT

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

June 30, 2010

Total fund balances for governmental funds \$ 253,036

Amounts reported for governmental activities in the
Statement of Net Assets are different because:

Capital assets used in governmental activities are not
financial resources, and therefore are not reported in
the funds. These assets consist of the following:

Capital assets, net 175,418

Some liabilities are not due and payable in the current
period, and therefore are not reported in the funds.
Those liabilities consist of the following:

Compensated absences (191,761)

Net Assets of Governmental Activities \$ 236,693

See Notes to Financial Statements.

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

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2010

	General Fund	Mediation Fund	Capital Projects Fund	Total
REVENUES				
Federal Grants	\$ 17,998	-	-	\$ 17,998
Charges for Services	52,011	-	-	52,011
Court Fees	-	44,295	-	44,295
Total Revenues	70,009	44,295	-	114,304
EXPENDITURES				
Current:				
Judicial:				
Administrative Services:				
Personal Services and Benefits	5,497,994	-	-	5,497,994
Contract Services	607,951	45,777	-	653,728
Other Costs	368,510	-	14,447	382,957
Capital Outlay	-	-	-	-
Total Expenditures	6,474,455	45,777	14,447	6,534,679
Excess (Deficiency) of Revenues Over Expenditures	(6,404,446)	(1,482)	(14,447)	(6,420,375)
OTHER FINANCING SOURCES (Uses)				
Transfers In:				
General Fund Appropriations	6,442,846	-	-	6,442,846
Transfers From Other Agencies	-	-	-	-
Transfers Out:				
2010 Reversions to the State General Fund	(35,959)	-	-	(35,959)
Total Other Financing Sources (Uses)	6,406,887	-	-	6,406,887
Net Change in Fund Balances	2,441	(1,482)	(14,447)	(13,488)
Fund Balances, beginning - 6/30/2009	300	95,050	173,615	268,965
Adjustment to Beginning Fund Balance (Note 12)	(2,441)	-	-	(2,441)
Fund Balance as Restated	(2,141)	95,050	173,615	266,524
Fund Balances, ending - 6/30/2010	\$ 300	93,568	159,168	\$ 253,036

See Notes to Financial Statements.

STATE OF NEW MEXICO
FIFTH JUDICIAL DISTRICT COURT

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

For the Year Ended June 30, 2010

Net change in fund balances - total governmental funds \$ (13,488)

Amounts reported for governmental activities in the
Statement of Activities are different because:

Certain outlays are reported as expenditures in governmental
funds. However, in the statement of activities, these costs are
expensed as they are consumed or are allocated over their
estimated useful lives. In the current period these amounts are:

Capital outlay	-	
Depreciation expense	<u>(49,124)</u>	
Excess of capital outlay over depreciation expense		(49,124)
Postage Inventory		

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

Change in compensated absences (increase)	<u>(7,440)</u>
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Change in Net Assets of Governmental Activities \$ (70,052)

See Notes to Financial Statements.

STATE OF NEW MEXICO
FIFTH JUDICIAL DISTRICT COURT

STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (BUDGETARY BASIS) - MAJOR GOVERNMENTAL FUNDS

For the Year Ended June 30, 2010

	General Fund			
	Budget		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
General fund Allotment	\$ 6,259,200	6,133,800	6,133,800	-
Interagency Transfer	339,000	309,046	309,046	-
Court Fees	45,000	45,000	52,011	7,011
Federal Funds	-	33,038	17,998	(15,040)
Total Revenues	<u>6,643,200</u>	<u>6,520,884</u>	<u>6,512,855</u>	<u>(8,029)</u>
Fund Balance	-	-		
Total Revenues and Fund Balance	<u>\$ 6,643,200</u>	<u>6,520,884</u>		

EXPENDITURES

Administrative Services:				
Personal Services	\$ 5,434,300	5,512,500	5,497,994	14,506
Contractual Services	839,000	630,884	607,951	22,933
Other	369,900	377,500	368,510	8,990
Total Expenditures	<u>\$ 6,643,200</u>	<u>6,520,884</u>	<u>6,474,455</u>	<u>46,429</u>

	Mediation Fund			
	Budget		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Court Fees	\$ 50,000	50,000	44,295	(5,705)
Fund Balance	20,000	20,000		
Total Revenues	<u>\$ 70,000</u>	<u>70,000</u>		

EXPENDITURES

Administrative Services:				
Contractual services	\$ 70,000	70,000	45,777	24,223
Total Expenditures	<u>\$ 70,000</u>	<u>70,000</u>	<u>45,777</u>	<u>24,223</u>

See Notes to Financial Statements.

STATE OF NEW MEXICO
FIFTH JUDICIAL DISTRICT COURT

STATEMENT OF FIDUCIARY ASSETS & LIABILITIES - AGENCY FUNDS

June 30, 2010

	<u>Agency Fund</u>
ASSETS	
Cash and cash equivalents	<u>1,159,938</u>
LIABILITIES	
Deposits held for others (or due to external parties)	<u>1,159,938</u>
Fund Balance	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 1,159,938</u>

See Notes to Financial Statements.

**STATE OF NEW MEXICO
FIFTH JUDICIAL COURT**

Notes to the Financial Statements

June 30, 2010

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.

STATE OF NEW MEXICO
FIFTH JUDICIAL COURT

Notes to the Financial Statements

June 30, 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation - Fund Accounting

Government-Wide Financial Statements

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

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

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.

STATE OF NEW MEXICO
FIFTH JUDICIAL COURT

Notes to the Financial Statements

June 30, 2010

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation - Fund Accounting (continued)

Fund Financial Statements (continued)

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

Governmental Funds

General Fund

The General Fund is the general operating fund of the 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.

**STATE OF NEW MEXICO
FIFTH JUDICIAL COURT**

Notes to the Financial Statements

June 30, 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation - Fund Accounting (continued)

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. Any unencumbered balance remaining in the Capital Projects Funds at the end of the project reverts to the General Fund of the State of New Mexico. The SHARE number of the Capital Projects fund is #520.

The Court received the following appropriations for general capital outlay expenditures, which are included in the cash balance at June 30, 2010:

Appropriation Description	Appropriation Period	Original Appropriation	Expenditures to Date	Unencumbered Balance
Sen. Bill 710 – Lea Co.	7/01/07-6/30/11	\$ 100,000	88,400	11,600
Sen. Bill 827 – Lea Co.	7/01/07-6/30/11	30,000	3,661	26,339
Sen. Bill 710 – Eddy Co.	7/01/07-6/30/11	75,000	19,268	55,732
Sen. Bill 827 – Eddy Co.	7/01/07-6/30/11	25,000	4,503	20,497
Sen. Bill 471 – Lea Co.	7/01/08-6/30/12	45,000	-	45,000
Total		\$ 275,000	115,832	159,168

At June 30, 2009, 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 COURT

Notes to the Financial Statements

June 30, 2010

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

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 COURT

Notes to the Financial Statements

June 30, 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Assets, Liabilities and Equity

Equity

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.

**STATE OF NEW MEXICO
FIFTH JUDICIAL COURT**

Notes to the Financial Statements

June 30, 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Budgets and Budgetary Accounting (continued)

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.
8. The General Appropriation Act of 2004, which applies to fiscal year 2009 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).

STATE OF NEW MEXICO
FIFTH JUDICIAL COURT

Notes to the Financial Statements

June 30, 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

NOTE 2: CASH AND CASH EQUIVALENTS

At June 30, 2010, cash and cash equivalents consisted of the following checking accounts:

	<u>Bank Balance</u>		<u>Book Balance</u>
Agency Funds:			
Litigant - Wells Fargo	\$ 482,346	\$	482,194
State Treasurer - Lea County Bank	4,755		5,610
Litigant - Lea County Bank	398,859		388,298
State Treasurer - Western Bank	4,598		5,455
Litigant - Wells Fargo	269,549		274,211
State Treasurer - Wells Fargo	<u>3,257</u>		<u>4,170</u>
Total	\$ <u>1,163,364</u>	\$	<u>1,159,938</u>

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure the Office's deposits may not be returned. The Office does not have any custodial credit risk.

**STATE OF NEW MEXICO
FIFTH JUDICIAL COURT**

Notes to the Financial Statements

June 30, 2010

NOTE 3: INVESTMENT IN THE STATE TREASURER INVESTMENT POOL

The funds allotted to the Office are held by the New Mexico State Treasurer and pooled with the general fund investment pool. The Office is required to participate in this investment pool and the Office does not receive any income from this investment.

The Office's share of the Investment in the State General Fund Investment Pool is as follows:

	Share Fund #	Maturity	Account Balance	Fair Value
<u>General Fund:</u>				
Investment in the State General Fund Investment Pool	145	1 day	\$ 397,870	\$ 397,870
<u>Special Revenue Fund:</u>				
Investment in the State General Fund Investment Pool	925	1 day	94,938	94,938
<u>Capital Projects Fund:</u>				
Investment in the State General Fund Investment Pool	520	1 day	<u>159,168</u>	<u>159,168</u>
<u>Total</u>			<u>\$ 651,976</u>	<u>\$ 651,976</u>

The State Treasurer's scope of authority for the types of investments that may be made with state funds is statutorily defined and governed by the State Treasurers Investment Policy approved by the State Board of Finance. The State Treasurer issues separate financial statements which disclose the categories of risk involved for GASB 40 disclosure purposes.

NOTE 4: CAPITAL ASSETS

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

	Balance 6/30/09	Additions	Deletions	Balance 6/30/10
<u>Capital Assets:</u>				
Furniture & Fixtures	\$ 706,301	-	-	\$ 706,301
Accumulated Depreciation	<u>(481,759)</u>	<u>(49,124)</u>	-	<u>(530,883)</u>
Net Capital Assets	<u>\$ 224,542</u>	<u>(49,124)</u>	-	<u>\$ 175,418</u>

Current depreciation expense is \$49,124.

**STATE OF NEW MEXICO
FIFTH JUDICIAL COURT**

Notes to the Financial Statements

June 30, 2010

NOTE 5: COMPENSATED ABSENCES

The following is a summary of changes in compensated absences:

	<u>Balance 6/30/09</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/10</u>	<u>Due within One Year</u>
Compensated Absences	<u>\$ 184,322</u>	<u>\$ 216,014</u>	<u>\$ 208,575</u>	<u>\$ 191,761</u>	<u>\$ 168,186</u>

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 6: PERA RETIREMENT PLAN

Plan Description

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

Funding Policy

Plan members are required to contribute 8.92% of their gross salary. The Fifth Judicial District Court is required to contribute 15.09% 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 Office's contributions to PERA for the years ending June 30, 2010, 2009, and 2008 were \$417,037, \$464,152, and \$430,952, respectively, equal to the amount of the required contributions for each year.

**STATE OF NEW MEXICO
FIFTH JUDICIAL COURT**

Notes to the Financial Statements

June 30, 2010

NOTE 7: JRA RETIREMENT PLAN

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

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, 2010, 2009, and 2008 were \$106,087, \$180,937, and \$128,231, 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 \$193,778 in filing fees for the year ending June 30, 2010.

NOTE 8: POST-EMPLOYMENT BENEFITS

Plan Description

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

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

**STATE OF NEW MEXICO
FIFTH JUDICIAL COURT**

Notes to the Financial Statements

June 30, 2010

NOTE 8: POST-EMPLOYMENT BENEFITS (continued)

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the postemployment healthcare plan. That report and further information can be obtained by writing to the Retiree Health Care Authority at 4308 Carlisle NE, Suite 104, Albuquerque, 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 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. The statute requires each participating employer to contribute 1.3% of each participating employee's annual salary; each participating employee is required to contribute .65% of their salary. In the fiscal years ending June 30, 2011 through June 30, 2013 the contribution rates for employees and employers will rise as follows:

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

<u>Fiscal Year Employer</u>	<u>Contribution Rate</u>	<u>Contribution Rate</u>
FY11	1.666%	0.833%
FY12	1.834%	0.971%
FY13	2.000%	1.000%

For employees who are members of an enhanced retirement plan the contribution rates will be:

<u>Fiscal Year Employer</u>	<u>Contribution Rate</u>	<u>Contribution Rate</u>
FY11	2.084%	1.042%
FY12	2.292%	1.146%
FY13	2.500%	1.250%

Also, employers joining the program after 1/1/98 are required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

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

**STATE OF NEW MEXICO
FIFTH JUDICIAL COURT**

Notes to the Financial Statements

June 30, 2010

NOTE 8: POST-EMPLOYMENT BENEFITS (continued)

The Fifth Judicial District Court's contributions to the RHCA for the years ended June 30, 2010, 2009 and 2008 were \$49,036, \$49,387 and \$47,458, respectively, which equal the required contributions for each year.

NOTE 9: OPERATING LEASES

The Court leases office equipment under operating leases with third party vendors. The contracts for lease include annual non-appropriation clauses which can terminate the respective leases. Lease expense under these leases amounted to \$114,889 for the year ending June 30, 2010. Annual future minimum lease payments are as follows:

2011	\$	86,786
2012		78,242
2013		66,390
2014		53,529
2015		<u>46,594</u>
Total	\$	<u>331,541</u>

NOTE 10: DEFERRED COMPENSATION

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

There are employees that are making contributions to a Deferred Compensation Plan. Neither the Fifth Judicial District Court nor the State of New Mexico makes 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 Employees Retirement Association, which administers the plan.

**STATE OF NEW MEXICO
FIFTH JUDICIAL COURT**

Notes to the Financial Statements

June 30, 2010

NOTE 11: 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.

NOTE 12: PRIOR PERIOD ADJUSTMENT AND NEGATIVE FUND BALANCE

The prior period audit report contained misstatements that were material to the financial statements as follows:

General Fund

- 1) Accruals for payroll and related liabilities were not calculated correctly and the amount payable that related to the yearend partial pay period was understated by \$28,985. The audited financial statements showed payroll related accruals of \$220,208. The correct amount of accruals was \$249,193.
- 2) Because payroll related accruals were understated the reversion to the State General Fund was overstated by a corresponding amount. The audited financial statements showed a reversion due to the State General Fund of \$87,623. The correct amount of reversion was \$61,079.
- 3) An amount of \$2,441 was accrued as accounts payable to record invoices that were paid in FY 2010 by requesting permission to pay prior year expenditures from DFA. Per Section 6-10-4 NMSA 1978, the agency does not have the legal authority to obligate the State for liabilities once the appropriation period has lapsed. These expenditures must be paid out of the budget of the following fiscal year and therefore, the FY 2009 reversion to the State General Fund should not have been reduced by \$2,441. The FY 2009 Fund Balance should have been reduced by \$2,441. The result is a FY 2009 negative fund balance to be covered by the FY 2010 budget appropriation. The beginning Fund Balance in the accompanying financial statements has been restated to reflect the correct treatment.

The following is a summary of the June 30, 2009 restatements:

	<u>As Stated</u>	<u>As Restated</u>	<u>Difference</u>
Investment in State General Fund Investment Pool	\$ 782,821	782,821	-
Accrued Payroll	220,208	249,193	28,985
Due to General Fund	87,623	61,079	(26,544)
Fund Balance	300	(2,141)	(2,441)

STATE OF NEW MEXICO
FIFTH JUDICIAL COURT

Notes to the Financial Statements

June 30, 2010

NOTE 12: PRIOR PERIOD ADJUSTMENT AND NEGATIVE FUND BALANCE (continued)

Agency Fund

The prior period audit report presented the Statement of Fiduciary Assets and Liabilities – Agency Fund at the balances of cash held by the banks and not at the reconciled book balances. The beginning balance of cash have been restated as follows:

	<u>As Stated</u>	<u>As Restated</u>	<u>Difference</u>
Cash and Cash Equivalents	\$ 2,075,502	2,015,286	(60,216)
Deposits Held for Others	2,075,502	2,015,286	60,216

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

**STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (BUDGETARY BASIS)
CAPITAL PROJECTS FUND**

For the Year Ended June 30, 2010

	Budget Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUES				
Fund Balanace	\$128,615	173,615	-	-
TOTAL REVENUES	<u>\$128,615</u>	<u>173,615</u>	<u>-</u>	<u>-</u>
EXPENDITURES				
Capital Outlay	\$128,615	173,615	14,447	159,168
TOTAL EXPENDITURES	<u>\$128,615</u>	<u>173,615</u>	<u>14,447</u>	<u>159,168</u>

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

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND**

For the year ended June 30, 2010

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
ASSETS				
Cash in Bank:				
State Treasurer Account	\$ 5,150	842,659	832,574	15,235
Trust Accounts	<u>2,010,136</u>	<u>1,536,449</u>	<u>2,401,882</u>	<u>1,144,703</u>
	<u><u>2,015,286</u></u>	<u><u>2,379,108</u></u>	<u><u>3,234,456</u></u>	<u><u>1,159,938</u></u>
 LIABILITIES				
Due to State Treasurer	5,150	842,659	832,574	15,235
Due to Litigants	<u>2,010,136</u>	<u>1,536,449</u>	<u>2,401,882</u>	<u>1,144,703</u>
	<u><u>2,015,286</u></u>	<u><u>2,379,108</u></u>	<u><u>3,234,456</u></u>	<u><u>1,159,938</u></u>

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

SCHEDULE OF OPERATING TRANSFERS

For the Year Ended June 30, 2010

<u>SHARE FUND</u>	<u>TITLE</u>	<u>TRANSFER</u>	
		<u>In</u>	<u>Out</u>
(1) 85300	Department of Finance & Administration	\$ 6,133,800	\$ -
(2) 13900	Administrative Office of the Courts	309,046	-
Total		<u>\$ 6,442,846</u>	<u>\$ -</u>

(1) General Fund Appropriation, Laws of 2009, Chapter 124, Section 4

(2) CASA program and Water Appropriation, Laws of 2009, Chapter 124, Section 4

Zlotnick, Laws & Sandoval, P.C.

CERTIFIED PUBLIC ACCOUNTANTS
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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, each major fund, the aggregate remaining fund information and the budgetary comparisons of the State of New Mexico, Fifth Judicial District Court (the "Court"), as of and for the year ended June 30, 2010, which collectively comprise the Court's basic financial statements as listed in the table of contents, and have issued our report thereon dated October 27, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies

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. We consider the deficiencies described as 2005-3 and 2010-1 in the accompanying schedule of findings and responses to be material weaknesses.

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. We consider the deficiency described as 2010-2 in the accompanying schedule of findings and responses to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Office'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.

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

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



Zlotnick, Laws & Sandoval, P.C.

October 27, 2010

STATE OF NEW MEXICO
FIFTH JUDICIAL COURT

Schedule of Findings and Responses

June 30, 2010

State Treasurer Account Balance

2005-3

Criteria:

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

Condition:

The Lea county State Treasurer account exceeded the \$15,000 limit on 83 different days during the fiscal year. The Eddy county State Treasurer account exceeded the limit on 22 different days.

Cause:

Each county is making at least 2 transfers per month. Much of the time the State Treasurer does not handle the transfer in a timely manner. However, the courts transfers are not on a regularly scheduled timetable and could better anticipate the time required for the transfer to be completed.

Effect:

The Court has violated the law cited above.

Recommendation:

We recommend that each of the counties process a transfer on a weekly basis. If a large deposit is received a special transfer may be necessary. The law cited above is an old law and therefore, the threshold of \$15,000 is low for current circumstances. The District Court's should investigate a way to modify the law or the current system to be more responsive to current needs.

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 proposes moving all three of the Agency's accounts to the State's fiscal agent, Wells Fargo. This has been accomplished in Chaves County. The State Treasurer's office is working on getting Eddy and Lea accounts moved to Wells Fargo, also.

STATE OF NEW MEXICO
FIFTH JUDICIAL COURT

Schedule of Findings and Responses

June 30, 2010

Responsibility for Financial Statements

2010-1

Criteria:

The State Audit Rule 2.2.2.8 (J) clearly states that the Court is responsible for the content of the audited financial statements. This fact permeates Generally Accepted Auditing Standards and is formally made a part of the audit process in New Mexico with its inclusion in the State Auditors Rule. State Audit Rule 2.2.2.8J(4) and Statement on Auditing Standards (SAS) No 115 establishes standards and provides guidance on communicating matters related to an entity's internal control over financial reporting identified in an audit of financial statements

Condition:

The prior year fund balance was restated in the current year financial statements. In addition the prior year's audited financial statements contained material misstatements in the "Statement of Revenues and Expenditures – Budget to Actual" and in the "Schedule of Changes in Assets and Liabilities – Agency Funds". The footnotes relating to Agency Fund bank accounts were also materially incorrect.

Cause:

The prior year auditor and the Court accountant did not agree on the amount to be reverted to the State General Fund. This difference of opinion was never resolved to the satisfaction of the Court. The Court accountant focused on this discrepancy and did not complete a detail reading of the audit report to discover other differences. Those charged with governance of the Court did not become sufficiently involved in the audit process to properly support the Court Accountant and assure that differences were resolved to the satisfaction of all parties.

Effect:

The FY2009 audited financial statements were issued with material misstatements.

Recommendation:

The Court must assure that they have the opportunity to read the audit report before it is issued. The Chief Judge should take responsibility for verifying that the report has been read, thoroughly understood and approved by the Court Accountant. These supervisors must be sufficiently involved in the process to properly supervise the Court Accountant and give support in resolving questions.

Agency Response:

The point is well taken and the agency will follow the recommendation of the finding.

STATE OF NEW MEXICO
FIFTH JUDICIAL COURT

Schedule of Findings and Responses

June 30, 2010

Auditor Prepared the Financial Statements

2010-2

Criteria:

State Audit Rule 2.2.2.8J(4) and Statement on Auditing Standards (SAS) No 115 establishes standards and provides guidance on communicating matters related to an entity's internal control over financial reporting identified in an audit of financial statements.

Condition:

The current year financial statements are prepared by the independent public accountant (IPA).

Cause:

The Agency currently does not have employees with sufficient expertise to completely apply generally accepted accounting principles (GAAP) in recording the Agency's financial transactions or preparing its financial statements.

Effect:

The Agency paid the IPA to record GAAP transactions and prepare the financial statements.

Recommendation:

The Agency needs to weigh the cost and benefit of hiring or training an employee, or involving another CPA, who will be knowledgeable in applying generally accepted accounting principles and preparing financial statements versus continuing to hire an IPA to perform such services.

Agency Response:

The Agency acknowledges and will attempt to remedy the finding and adopt the methodology set forth therein.

**STATE OF NEW MEXICO
FIFTH JUDICIAL COURT**

Prior Year Audit Findings

June 30, 2010

Condition

Current year status

2005-03 State Treasurer's Account Balance

Revised and Repeated

2007-03 Over Spending of Certain Budget Line Items

Resolved

**STATE OF NEW MEXICO
FIFTH JUDICIAL COURT**

Exit Conference

June 30, 2010

The contents of this report were discussed at an exit conference held October 27, 2010.

The Fifth Judicial District Court was represented by:

Honorable Gary Clingman, Chief Judge
Bee J. Clem, Court Executive Officer
Rita Johnson, Court Financial Manager

Zlotnick, Laws & Sandoval, P.C. was represented by:

Asa Laws, CPA
Brian Laws, CPA

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