

STATE OF NEW MEXICO
FIFTH JUDICIAL DISTRICT COURT

Annual Financial Report
For the Year Ended June 30, 2017

INTRODUCTORY SECTION

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 FIFTH JUDICIAL DISTRICT COURT
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STATE OF NEW MEXICO
FIFTH JUDICIAL DISTRICT COURT
Official Roster
June 30, 2017

JUDGES

Division 1	Honorable Raymond Romero
Division 2	Honorable Freddie Romero
Division 3	Honorable William G.W. Shoobridge
Division 4	Honorable Mark Sanchez
Division 5	Honorable Jane Shuler-Gray, Chief Judge
Division 6	Honorable James Hudson
Division 7	Honorable Gary Clingman
Division 8	Honorable Kea Riggs
Division 9	Honorable Lisa Riley
Division 10	Honorable Dustin Hunter
Division 11	Honorable Lee Kirksey

ADMINISTRATIVE OFFICIALS

Kennon Crowhurst	Court Executive Officer
Vacant	Deputy Court Executive Officer
Jaime (Katie) Espinoza	District Court Clerk, Chaves County
Karen Christensson	District Court Clerk, Eddy County
Nelda Cuellar	District Court Clerk, Lea County
Arlene Martinez	Court Financial Manager/Chief Financial Officer

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Timothy Keller
New Mexico State Auditor
and
Honorable Jane Shuler-Gray, Chief Judge
Fifth Judicial District Court
Roswell, New Mexico

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons for the general fund and the major special revenue fund of the State of New Mexico Fifth Judicial District Court (Court), as of and for the year ended June 30, 2017, and the related notes to the financial statements which collectively comprise the Court's basic financial statements as listed in the table of contents. We also have audited the financial statements of the Court's fiduciary funds as of and for the year ended June 30, 2017, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Court's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Court's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Court, as of June 30, 2017, and the respective changes in financial position and the respective budgetary comparisons for the general fund and major special revenue fund for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the fiduciary funds of the Court as of June 30, 2017, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

The Court has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 25, 2017 on our consideration of the Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Court's internal control over financial reporting and compliance.


Burt & Company CPAs, LLC

October 25, 2017

STATE OF NEW MEXICO
 FIFTH JUDICIAL DISTRICT COURT
 Statement of Net Position
 June 30, 2017

	<u>Governmental Activities</u>
Assets	
Current assets:	
Petty cash	\$ 300
Investment in State General Fund Investment Pool	529,765
Due from other state agencies and General Fund	62,792
Postage and supply inventory	<u>30,812</u>
Total current assets	<u>623,669</u>
Non-current assets:	
Capital assets	697,731
Less: Accumulated depreciation	<u>(570,375)</u>
Total non-current assets	<u>127,356</u>
Total assets	\$ <u>751,025</u>
Liabilities	
Current liabilities:	
Accounts payable	\$ 228,343
Accrued payroll	98,129
Accrued taxes and benefits	129,224
Due to state general fund	-
Compensated absences - current	<u>158,690</u>
Total current liabilities	<u>614,386</u>
Non-current liabilities:	
Compensated absences	<u>19,891</u>
Total non-current liabilities	<u>19,891</u>
Total liabilities	<u>634,277</u>
Net position	
Net investment in capital assets	127,356
Restricted for:	-
Mediations	95,788
Unrestricted (deficit)	<u>(106,396)</u>
Total net position	<u>116,748</u>
Total liabilities and net position	\$ <u>751,025</u>

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

STATE OF NEW MEXICO
 FIFTH JUDICIAL DISTRICT COURT
 Statement of Activities
 For the Year Ended June 30, 2017

	<u>Governmental Activities</u>
Expenses	
Judicial:	
Administrative services	\$ 6,927,011
Depreciation expense	<u>8,037</u>
Total expenses	<u>6,935,048</u>
 Program Revenues:	
Charges for services	92,856
Court fees	47,745
Other gifts and grants	<u>20,500</u>
Total program revenues	<u>161,101</u>
Net program expenses	<u>(6,773,947)</u>
 General revenues and transfers	
State general fund appropriations	6,442,800
Other state funds	492,166
State general fund reversion	<u>(28,694)</u>
Total general revenues and transfers	6,906,272
 Change in net position	132,325
Net position, beginning of year	<u>(15,577)</u>
 Net position, end of year	 \$ <u><u>116,748</u></u>

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, 2017

	General Fund	Mediation Fund	Total
Assets			
Petty cash	\$ 300	-	300
Investment in State General Fund Investment Pool	392,603	137,162	529,765
Due from other state agencies	62,792	-	62,792
Postage and supply inventory	30,812	-	30,812
Total assets	\$ 486,507	137,162	623,669
Liabilities and fund balances			
Current liabilities			
Accounts payable	\$ 228,342	-	228,342
Accrued payroll	98,129	-	98,129
Accrued taxes and benefits	129,224	-	129,224
Due to state general fund	-	-	-
Total liabilities	455,695	-	455,695
Fund balances			
Nonspendable:			
Postage and supply inventory	30,812	-	30,812
Assigned for:			
Mediation	-	137,162	137,162
Unassigned	-	-	-
Total fund balances	30,812	137,162	167,974
Total liabilities and fund balances	\$ 486,507	137,162	623,669

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 Position
June 30, 2017

Total fund balances for governmental funds	\$	167,974
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Amounts reported for governmental activities in the Statement of Net Position 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	127,356
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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	(178,581)
Rounding	<u>(1)</u>

Net position of governmental activities	\$	<u>116,748</u>
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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 Balances – Governmental Funds
For the Year Ended June 30, 2017

	General Fund	Mediation Fund	Total
Revenues			
Charges for services	\$ 92,856	-	92,856
Court fees	-	47,745	47,745
Other gifts and grants	20,500	-	20,500
Total revenues	113,356	47,745	161,101
Expenditures			
Current:			
Judicial:			
Administrative services:			
Personal services and benefits	6,051,967	-	6,051,967
Contract services	481,402	6,371	487,773
Other costs	389,445	-	389,445
Capital outlay	96,814	-	96,814
Total expenditures	7,019,628	6,371	7,025,999
Excess (Deficiency) of revenues over expenditures	(6,906,272)	41,374	(6,864,898)
Other financing sources (uses)			
Transfers in:			
General fund appropriations	6,442,800	-	6,442,800
Transfers from other agencies	492,166	-	492,166
Transfers (out):			
2017 Reversions to the state general fund	(28,694)	-	(28,694)
Total other financing sources (uses)	6,906,272	-	6,906,272
Net change in fund balance	-	41,374	41,374
Fund balance, beginning	35,515	95,788	131,303
Decrease in supplies inventory (Note 1C)	(4,703)	-	(4,703)
Fund balance, ending	\$ 30,812	137,162	167,974

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

STATE OF NEW MEXICO
 FIFTH JUDICIAL DISTRICT COURT
 Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of
 Governmental Funds to the Statement of Activities
 For the Year Ended June 30, 2017

Net change in fund balances - Total governmental funds \$ 41,374

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	96,814	
Depreciation expense	<u>(8,037)</u>	
Excess of depreciation expense over capital outlay		88,777
 Decrease in supplies inventory		 (4,703)

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

Decrease in compensated absences		6,877
Rounding		<u>-</u>

Change in net position of governmental activities \$ 132,325

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 (Budgetary Basis)
General Fund
For Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues				
General fund appropriation	\$ 6,442,800	6,442,800	6,442,800	-
Interagency transfer	172,100	155,129	155,170	41
Court fees	70,000	88,000	92,856	4,856
Other gifts and grants	-	20,500	20,500	-
Other financing sources	337,000	337,000	336,996	(4)
Federal funds	-	-	-	-
Total revenues	<u>7,021,900</u>	<u>7,043,429</u>	<u>7,048,322</u>	<u>4,893</u>
Fund balance	-	-	-	-
Total revenues and fund balance	<u>\$ 7,021,900</u>	<u>7,043,429</u>	<u>7,048,322</u>	<u>4,893</u>
Expenditures				
Administrative services:				
Personal services	\$ 6,221,400	6,060,800	6,051,967	8,833
Contractual services	517,500	491,824	481,402	10,422
Other	283,000	490,805	486,259	4,546
Total expenditures	<u>\$ 7,021,900</u>	<u>7,043,429</u>	<u>7,019,628</u>	<u>23,801</u>
Excess revenues over expenditures			28,694	28,694
Items not budgeted:				
Reversion fiscal year 2017			<u>28,694</u>	
Net change in fund balance		\$	<u><u>-</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 (Budgetary Basis)
 Mediation Fund
 For Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues				
Court fees	\$ 55,000	55,000	47,745	(7,255)
Total revenues	55,000	55,000	47,745	(7,255)
Fund balance	-	-	-	-
Total revenues and fund balances	\$ 55,000	55,000	47,745	(7,255)
Expenditures				
Administrative services:				
Contractual services	\$ 55,000	55,000	6,371	48,629
Total expenditures	\$ 55,000	55,000	6,371	48,629
Excess revenues over expenditures			41,374	41,374
Items not budgeted:				
Net change in fund balance		\$	41,374	

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 Fund
For Year Ended June 30, 2017

Assets

Cash and cash equivalents	\$ <u>2,151,581</u>
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Liabilities

Deposits held for others (or due to external parties)	\$ <u>2,151,581</u>
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The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
FIFTH JUDICIAL DISTRICT COURT
Notes to Financial Statements
June 30, 2017

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

The Fifth Judicial District Court (the "Court") operates under Sections 34-6-1, 34-6-8, and 34-6-17 through 34-6-48, NMSA 1978 Compilation. The Fifth Judicial District Court covers Chaves, Eddy and Lea Counties. The Court is comprised of eleven 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. 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. A summary of the Court's significant accounting policies follows:

1) Basis of Accounting/Measurement Focus

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. Government-Wide Financial Statements

The Court's government wide financial statements include a statement of net position and a statement of activities that 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

STATE OF NEW MEXICO
FIFTH JUDICIAL DISTRICT COURT
Notes to Financial Statements
June 30, 2017

1. Summary of Significant Accounting Policies (continued)

B. Government-Wide Financial Statements (continued)

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, deferred outflows of resources and liabilities and deferred inflows of resources resulting from exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, deferred outflows of resources, and liabilities, and deferred inflows of resources resulting from non-exchange transactions are recognized in accordance with the requirements of GASB 33.

C. 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 DISTRICT COURT
Notes to Financial Statements
June 30, 2017

1. Summary of Significant Accounting Policies (continued)

C. Fund Financial Statements (continued)

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 basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, 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 Court 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.

At June 30, 2017, there were no outstanding encumbrances.

STATE OF NEW MEXICO
FIFTH JUDICIAL DISTRICT COURT
Notes to Financial Statements
June 30, 2017

1. Summary of Significant Accounting Policies (continued)

C. Fund Financial Statements (continued)

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:

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.

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.

D. Assets, Liabilities and Equity

Supplies Inventory

Supplies inventory consists of non-resale paper, postage, and office supplies. Supplies inventory is stated on the consumption method in the government-wide statements to be consistent with the accrual basis of accounting. The purchases method is used on the fund financial statements and inventory balances are reported as assets in the governmental fund balance sheet. The amount reported is based on historical cost. The supplies inventory is offset by the non-spendable fund balance classification on the fund financial statements, which indicates they are unavailable for appropriation even though they are a component of reported assets.

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, fixtures and equipment	5 to 7 years
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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.

STATE OF NEW MEXICO
FIFTH JUDICIAL DISTRICT COURT
Notes to Financial Statements
June 30, 2017

1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Equity (continued)

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 position and displayed in three components:

Net Investment in Capital Assets: Consists of capital assets net of accumulated depreciation and reduced by any outstanding debt. The Court has no outstanding debt relating to capital assets.

Restricted Net Position: Consists of assets (reduced by liabilities and deferred inflows related to those 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.

Unrestricted Net Position: Are all other assets (reduced by liabilities and deferred inflows related to those assets) that do not meet the definition of "restricted" or "net investment in capital assets". The deficit reflected in the statement is caused primarily by accrued compensated absences at year end that have not been funded.

Fund Financial Statements:

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Court is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

STATE OF NEW MEXICO
FIFTH JUDICIAL DISTRICT COURT
Notes to Financial Statements
June 30, 2017

1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Equity (continued)

Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.

Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Court. These amounts cannot be used for any other purpose unless the Court removes or changes the specified use by taking the same type of action (resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

Assigned: This classification includes amounts that are constrained by the Court's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Court or through the Court delegating this responsibility to the Court Manager through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund.

Unassigned: This classification includes the residual fund balance for the General Fund, or, in other words, all amounts not included in other spendable classifications.

The Court would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

E. 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

STATE OF NEW MEXICO
FIFTH JUDICIAL DISTRICT COURT
Notes to Financial Statements
June 30, 2017

1. Summary of Significant Accounting Policies (continued)

E. Budgets and Budgetary Accounting (continued)

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.

8. The General Appropriation Act of 2004, which applies to fiscal years beginning in 2009, 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.

STATE OF NEW MEXICO
FIFTH JUDICIAL DISTRICT COURT
Notes to Financial Statements
June 30, 2017

1. Summary of Significant Accounting Policies (continued)

E. Budgets and Budgetary Accounting (continued)

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 years beginning with 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.

F. 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).

G. Program Revenues

Program revenues consist of federal grants, 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.

H. 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.

STATE OF NEW MEXICO
 FIFTH JUDICIAL DISTRICT COURT
 Notes to Financial Statements
 June 30, 2017

1. Summary of Significant Accounting Policies (continued)

I. Interfund Activity

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

2. Cash and Cash Equivalents

At June 30, 2017, cash and cash equivalents consisted of the following checking accounts:

	<u>Type</u>	<u>Interest Bearing</u>	<u>Bank Balance</u>	<u>Book Balance</u>
Agency Funds:				
Litigant - Wells Fargo	Checking	Y	\$ 417,946	417,720
Litigant - Wells Fargo	Checking	Y	863,152	860,177
Litigant - Wells Fargo	Checking	Y	<u>872,884</u>	<u>873,684</u>
Total agency funds in bank			2,153,982	<u>2,151,581</u>
Less FDIC insurance			<u>(250,000)</u>	
Total uninsured Public Funds			1,903,982	
50% collateral requirement			<u>(951,991)</u>	
Pledged security			\$ *	

Custodial Credit Risk: Custodial credit risk is the risk that in the event of a bank failure the Court's deposits may not be returned. Currently all of the above listed accounts are either insured or collateral has been pledged by the financial institution for amounts exceeding FDIC insurance.

*Section 6-10-14, NMSA 1978 compilation requires that banks or savings and loans provide additional collateral on funds held that exceed the FDIC insurance limit. These excess funds are required to be fifty percent collateralized. The collateralization of the Court's bank accounts is monitored by the State Treasurer's Office. The State Treasurer's Office issues separate financial statements which disclose the collateral pledged to secure State Treasurer cash and investments, and can be accessed at the State Treasurer's website www.nmsto.gov.

3. Investment in the State General Fund Investment Pool

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

STATE OF NEW MEXICO
 FIFTH JUDICIAL DISTRICT COURT
 Notes to Financial Statements
 June 30, 2017

3. Investment in the State General Fund Investment Pool (continued)

At June 30, 2017 the Court had the following invested in the General Fund Investment Pool:

	Share Fund #	Maturity	Account Balance	Fair Value
<u>General Fund:</u>				
Investment in the State General Fund Investment Pool	145	1 day	\$ 392,603	392,603
<u>Mediation Fund:</u>				
Investment in the State General Fund Investment Pool	925	1 day	<u>137,162</u>	<u>137,162</u>
Total			\$ <u>529,765</u>	<u>529,765</u>

Interest Rate Risk

The New Mexico State Treasurer’s Office has an investment policy that limits investment maturities to five years or less on allowable investments. This policy is a means of managing exposure to fair value losses arising from increasing interest rates. This policy is reviewed and approved annually by the New Mexico State Board of Finance.

Credit Risk

The New Mexico State Treasurer pools are not rated.

Custodial Credit Risk - Deposit

The Office of the State Treasury (STO) monitors the collateral for deposits it holds, which would include the investment accounts of the Court. Therefore, collateralization of the Court's accounts is the responsibility of the STO. The STO has its own separate annual independent audit in which the collateral pledged to secure these deposits is disclosed. There is no custodial risk at the Court's level since the Court's investments are under the contract of the STO.

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

STATE OF NEW MEXICO
FIFTH JUDICIAL DISTRICT COURT
Notes to Financial Statements
June 30, 2017

4. Due To/From Other State Agencies

Due From: As of June 30, 2017, \$62,792 was due from the Administrative Office of the Courts (SHARE fund 13900) for drug court.

5. Capital Assets

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

	Balance 2016	Additions	Deletions	Balance 2017
Capital assets being depreciated:				
Furniture, fixtures & equipment	\$ <u>600,917</u>	<u>96,814</u>	<u>-</u>	<u>697,731</u>
Less accumulated depreciation:				
Furniture, fixtures & equipment	<u>562,338</u>	<u>8,037</u>	<u>-</u>	<u>570,375</u>
Net capital assets	\$ <u>38,579</u>	<u>88,777</u>	<u>-</u>	<u>127,356</u>

Current depreciation expense is \$8,037. The Court does not have any debt related to capital assets.

6. Compensated Absences

The following is a summary of changes in compensated absences:

	Balance June 30, 2016	Additions	Retirements	Balance June 30, 2017	Due within one year
Compensated absences	\$ <u>185,458</u>	<u>228,790</u>	<u>(235,667)</u>	<u>178,581</u>	<u>158,690</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-ted 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.

STATE OF NEW MEXICO
FIFTH JUDICIAL DISTRICT COURT
Notes to Financial Statements
June 30, 2017

7. PERA Retirement Plan

Compliant with the requirements of Government Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions, the State of New Mexico has implemented the standard for the fiscal year ending June 30, 2017.

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

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

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 Court is required to contribute 16.99% of the gross covered salary. The contribution requirements of plan members and the 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, 2017, 2016, and 2015 were \$487,327, \$486,779, and \$480,991, respectively, equal to the amount of the required contributions for each year.

8. JRA Retirement Plan

Compliant with the requirements of Government Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions, the State of New Mexico has implemented the standard for the fiscal year ending June 30, 2017.

STATE OF NEW MEXICO
FIFTH JUDICIAL DISTRICT COURT
Notes to Financial Statements
June 30, 2017

8. JRA Retirement Plan (continued)

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

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

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 10.5% of their gross salary. The Court is required to contribute 15% of the gross covered salary. The Court's contributions to JRA for the years ending June 30, 2017, 2016, and 2015 were \$198,355, \$191,856, and \$187,632, 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 \$234,549, \$214,516, and \$187,449, in filing fees for the years ending June 30, 2017, 2016, and 2015, respectively.

9. Post-Employment Benefits – State Retiree Health Care Plan

Plan Description. 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,

STATE OF NEW MEXICO
FIFTH JUDICIAL DISTRICT COURT
Notes to Financial Statements
June 30, 2017

9. Post-Employment Benefits – State Retiree Health Care Plan (continued)

Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

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

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the postemployment healthcare plan. That report and further information can be obtained by writing to the Retiree Health Care Authority at 4308 Carlisle NE, Suite 104, Albuquerque, 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. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2017, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2017, the statute required each participating employer to contribute 2% of each participating employee's annual salary; each participating employee was required to contribute 1% of their salary. In addition, pursuant to section 10-7C-15 (G) NMSA 1978 at the first session of the Legislature following July 1, 2013, the Legislature shall review and adjust the distribution pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

STATE OF NEW MEXICO
FIFTH JUDICIAL DISTRICT COURT
Notes to Financial Statements
June 30, 2017

9. Post-Employment Benefits – State Retiree Health Care Plan (continued)

The Court's contributions to the RHCA for the years ended June 30, 2017, 2016, and 2015 were \$90,291, \$89,338, and \$88,046, respectively, which equal the required contributions for each year.

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.

11. 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 \$62,240 for the year ending June 30, 2017. Annual future minimum lease payments are as follows:

2018	\$	69,090
2019		66,228
2020		45,730
2021		18,051
2022		12,946
	\$	<u>212,045</u>

12. 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 Financial Statements
 June 30, 2017

13. Reconciliation of Budgetary Basis to GAAP Basis

While the Court reports financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis) – Major Governmental Funds is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

	Budgetary Basis	GAAP Basis	Difference
Expenditures:			
Personal services	\$ 6,051,967	6,045,090	6,877
Contractual services	487,773	487,773	-
Other	486,259	394,148	92,111
Total	\$ 7,025,999	6,927,011	98,988

The total difference of \$98,988 is due to an decrease of \$6,877 Note 6 in compensated absences and increase of \$96,814 Note 5 in capitalized fixed assets and a decrease in \$4,703 inventory.

14. State General Fund Investment Pool

For cash management and investment purposes and compliance with state statute 6-10-3 (NMSA 1978), funds of various state agencies are deposited in the State General Fund Investment Pool (SGFIP or the Pool), which is managed by the Office of the New Mexico State Treasurer. Claims on the Pool are reported as assets by the various agencies investing in the Pool.

In June 2012, an independent diagnostic report revealed that Pool balances had not been reconciled at a "business unit by fund" level since the inception of the Statewide Human Resources, Accounting, and Management Reporting System (SHARE) system in July 2006, through January 2013, which caused uncertainty as to the validity of the claims and the ability of fiduciary resources to fulfill those claims. As a result of business process and systems configuration changes made during the Cash Management Remediation Project Phase I, the Department of Finance and Administration's Financial Control division began reconciling transactional activity reported by the State's fiscal agent bank to the SHARE general ledger on a point-forward basis beginning February 1, 2013.

This report, entitled "Current State Diagnostic of Cash Control," also described a difference between Pool bank balances and the corresponding general ledger balances and indicated that the effect of reconciling items were unknown. The report, dated June 20, 2012, is available on the website of the New Mexico Department of Finance & Administration at: http://www.nmdfa.state.nm.us/Cash_Control.aspx.

STATE OF NEW MEXICO
FIFTH JUDICIAL DISTRICT COURT
Notes to Financial Statements
June 30, 2017

14. State General Fund Investment Pool (continued)

In March 2015, the Financial Control Division implemented a reconciliation process that compares statewide agency claims against the resources held in the SGFIP at STO. This process is known as the claims to resources reconciliation. The claims to resources reconciliation process has been successfully applied to fiscal year-end 2014 and the months from January 2015 through June 2015.

As provided for in Chapter 8-6 of the New Mexico Statutes Annotated 1978, the State Treasurer shall receive and keep all monies of the State, except when otherwise provided, and shall disburse the public money upon lawful warrants. The State Treasurer's Organization (STO) acts as the State's Bank. Agency cash receipts are deposited with STO and pooled in State Investment Fund, when amounts are greater than immediate needs they are placed into short-term investments. When agencies make payments to vendors and employees they are made from this pool and their claims on the pool reduced.

The comprehensive cash reconciliation model, which compares aggregated agency claims on the State General Fund Investment Pool to the associated resources held by the State Treasurer's Office, is now in its third year. This process has been reviewed multiple times by the IPAs during the audits of the General Fund, the Department of Finance and Administration and the State of New Mexico's Comprehensive Annual Financial Report. The reviews have deemed the process to be sound and the Department fully compliant with the requirements of the monthly process.

This purpose of this memo is to provide the following assertions:

1. As of June 30, 2017, resources held in the pool were equivalent to the corresponding business unit claims on those resources.
2. All claims as recorded in SHARE shall be honored at face value.

As part of the Court's cash controls, all incoming funds and outgoing disbursements are tracked to ensure transactions are properly entered into SHARE and posted to the general ledger. Additionally at year end, the Court performs a cash analysis on all funds to ensure the activity affecting the cash accounts properly reflect the ending balances at year-end. The Court also does not issue third party disbursements that may materially affect the Court's financial statements.

15. External Investment Pool (SGFIP) - Amortized Cost

In December 2015, GASB issued statement No. 79 titled "Certain External Investment Pools and Pool Participants", which established criteria that, if met, permit external investment pools to elect to measure all of their investments at amortized cost for financial reporting purposes. If the external investment pool meets the criteria in GASB 79 and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at cost for financial reporting purposes.

STATE OF NEW MEXICO
FIFTH JUDICIAL DISTRICT COURT
Notes to Financial Statements
June 30, 2017

15. External Investment Pool (SGFIP) - Amortized Cost (continued)

As a pool participant, the Court measures their investments at cost for financial reporting purposes. The Court, as a state agency, holds its balances in the State General Fund Investment Pool, which is managed by the office of the New Mexico State Treasurer (STO). See additional disclosures on the separate audited financial statements. That report may be obtained by writing to the STO, P.O. Box 608, Santa Fe, NM 87504-0708.

16. New Accounting Standards

GASB 74

Governmental Accounting Standards Board Statement No. 74 Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans is intended to enhance the decision-usefulness of the financial reports of OPEB plans, their value for assessing accountability and their transparency by providing information about measures of net OPEB liabilities and explanations of how and why those liabilities changed from year to year. GASB 74 basically parallels GASB 67 and replaces Statements No. 43 Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. GASB 74 requires enhanced note disclosures and is effective for financial statements for fiscal years beginning after June 15, 2016 (FY 17). The Court adopted GASB Statement No. 74 during fiscal year 2017, with no significant impact to the Court's financial statements.

GASB 75

Governmental Accounting Standards Board Statement No. 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB. This statement applies to government employers who provide OPEB plans to their employees and basically parallels GASB Statement 68 and replaces GASB Statement 45. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. GASB 75 is effective for fiscal years beginning after June 15, 2017 (FY18). Management has not yet fully determined the impact of GASB 75.

GASB 82

Governmental Accounting Standards Board Statement No. 82 Pension Issues – an amendment of GASB Statement Nos. 67, 68, and 73, addresses certain issues that have been raised with respect to Statement Nos. 67, 68, and 73, related to covered payroll and payments made by the employer to satisfy contribution requirements. GASB 82 is effective for reporting periods beginning after June 15, 2016. The Court adopted GASB Statement No. 82 during fiscal year 2017, with no significant impact to the Court's financial statements.

STATE OF NEW MEXICO
FIFTH JUDICIAL DISTRICT COURT
Notes to Financial Statements
June 30, 2017

16. New Accounting Standards (continued)

GASB 85

Governmental Accounting Standards Board Statement No. 85 Omnibus 2017 address practice issues identified during implementation and application of certain GASB statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and post-employment benefits (OPEB). GASB 85 is effective for fiscal years beginning after June 15, 2017 (FY18). Management has not yet fully determined the impact of GASB 85.

17. Change in Accounting Principle for Amounts Reverted to State General Fund

Section 6-5-10 NMSA 1978 requires that all unreserved undesignated fund balances in reverting funds and accounts as of June 30 shall revert by September 30 to the general fund. Historically, the Department of Finance and Administration's (DFA) Year-End Deadlines policy (commonly referred to as 'closing instructions') required state agencies to record reversions to the state general fund not settled by June 30 to the "Due to State General Fund" liability account (234900) as of June 30 of each fiscal year end. The historical policy required state agencies to execute a transfer in the subsequent fiscal year to relieve the amount "Due to State General Fund" and reduce the agency's "Investment in State General Fund Investment Pool".

Pursuant to DFA's ADDENDA TO ACCOUNTING POLICY STATEMENT FOUR – CUSTODIAL FUNDS dated July 14, 2017, DFA adopted a change of accounting policy applicable to all state agencies in fiscal year 2017 for amounts reverted to the state general fund. Under the new policy, DFA requires state agency reversions to the state general fund to be accounted for as both a reversion and a reduction in the reverting agency's "Investment in State General Fund Investment Pool" as of June 30, using the State's adjustment period, if the entry was processed by September 30, 2017. In accordance with the new policy, no "Due to State General Fund" liability is reported in the Office's financial statements as of June 30, 2017 because the Office's "Investment in State General Fund Investment Pool" balance has been reduced by the amount reverted to the state general fund. The current year reversion is \$28,694.

18. Evaluation of Subsequent Events

The Court has evaluated subsequent events through October 25, 2017, which is the date the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

STATE OF NEW MEXICO
 FIFTH JUDICIAL DISTRICT COURT
 Statement of Changes in Fiduciary Assets and Liabilities
 June 30, 2017

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending</u> <u>Balance</u>
Assets				
Cash in bank:				
State treasurer account	\$ -	1,016,874	(1,016,874)	-
Trust accounts	<u>1,980,449</u>	<u>1,180,918</u>	<u>(1,009,786)</u>	<u>2,151,581</u>
	<u>\$ 1,980,449</u>	<u>2,197,792</u>	<u>(2,026,660)</u>	<u>2,151,581</u>
Liabilities				
Due to state treasurer	\$ -	1,016,874	(1,016,874)	-
Due to litigants	<u>1,980,449</u>	<u>1,180,918</u>	<u>(1,009,786)</u>	<u>2,151,581</u>
	<u>\$ 1,980,449</u>	<u>2,197,792</u>	<u>(2,026,660)</u>	<u>2,151,581</u>

See Independent Auditors' Report.

STATE OF NEW MEXICO
 FIFTH JUDICIAL DISTRICT COURT
 Schedule of Operating Transfers
 For the Year Ended June 30, 2017

Description	Agency Transferred From	From Fund	To Fund	Reference	Transfer	
					In	Out
State Appropriations						
General Fund Appropriation	State General Fund	85300	23500	Laws 2016, Ch 11, Sec 4	\$ 6,642,073	-
2017 Budget Reductions	State General Fund	23500	85300	Laws 2016, 2S Ch 6, SB9, Sec 2	-	199,273
Total State Appropriations					\$ <u>6,642,073</u>	<u>199,273</u>
Other Financing Sources						
CASA and water appropriation	Administrative Office of the Courts	13900	23500	Laws 2016, Ch 11, Sec 4, Item 4A&C	\$ 336,996	-
Drug Court/Interlock DWI Grant (LEFT)	Administrative Office of the Courts	13900	23500	Laws 2016, Ch 11, Sec 4, Item 4(i)	155,170	-
Total Other Financing Sources					\$ <u>492,166</u>	<u>-</u>
Reversion						
General Fund Appropriation	Department of Finance & Administration	23500	85300	Reversion of current year miscellaneous income	\$ -	28,694
Total Reversion					\$ <u>-</u>	<u>28,694</u>

See Independent Auditors' Report.

INDEPENDENT AUDITORS' 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*

Timothy Keller
New Mexico State Auditor
and
Honorable Jane Schuler-Gray, Chief Judge
Fifth Judicial District Court
Roswell, New Mexico

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons for the general fund and major special revenue fund of the Fifth Judicial District Court (Court), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Fifth Judicial District Court's basic financial statements and have issued our report thereon dated October 25, 2017. We also have audited the financial statements of the Court's fiduciary funds as of and for the year ended June 30, 2017, as listed in the table of contents.

Internal Control over Financial Reporting

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

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

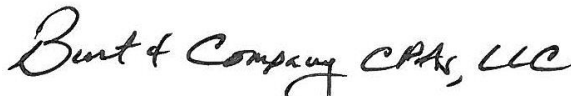
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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


Burt & Company CPAs, LLC

October 25, 2017

STATE OF NEW MEXICO
FIFTH JUDICIAL DISTRICT COURT
Schedule of Findings and Responses
June 30, 2017

Current Year Findings

None.

Prior Year Findings

None.

STATE OF NEW MEXICO
FIFTH JUDICIAL DISTRICT COURT
Exit Conference
June 30, 2017

The contents of this report were discussed at an exit conference held October 25, 2017.

The Fifth Judicial District Court was represented by:

Honorable Jane Shuler-Gray, Chief Judge
Kennon Crowhurst, Court Executive Officer
Arlene Martinez, Court Financial Manager

Burt & Company CPAs was represented by:

Ronald E. Schranz, CPA, CVA

The financial statements were prepared by the auditors: Burt & Company CPAs, LLC. However, the financial statements are the responsibility of management.