



HINKLE + LANDERS

Certified Public Accountants + Business Consultants

**THIRTEEN JUDICIAL
DISTRICT COURT**

**FINANCIAL STATEMENTS
For the Year Ended June 30, 2012**

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THIRTEENTH JUDICIAL DISTRICT COURT**

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

**Official Roster
As of June 30, 2012**

Judges

| | |
|------------------------------|---------------------|
| Honorable James L. Sanchez | Division I |
| Honorable George P. Eichwald | Division II |
| Honorable William A. Sanchez | Division III |
| Honorable Camille M. Olguin | Division IV |
| Honorable Louis P. McDonald | Division V |
| Honorable Violet C. Otero | Division VI |
| Honorable John F. Davis | Division VII |

Administrative Officials

| | |
|----------------------|----------------------------|
| Mr. Jamie Goldberg | Court Administrator |
| Mr. Christopher Wolf | Financial Manager |

**INDEPENDENT AUDITORS' REPORT**

Honorable Louis P. McDonald, Presiding Judge
State of New Mexico Thirteenth Judicial District Court
and
Mr. Hector H. Balderas, New Mexico State Auditor
Office of the State Auditor
Santa Fe, New Mexico

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 general fund and major special revenue funds of the Thirteenth Judicial District Court of the State of New Mexico (Court) as of and for the year ended June 30, 2012, 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. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Court are intended to present the financial position and the changes in financial position of only that portion of the governmental activities of each major fund and the aggregate remaining fund information of the State of New Mexico that is attributable to the transactions of the Court. They do not purport to, and do not, present fairly the financial position of the entire State of New Mexico as of June 30, 2012, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Court, as of June 30, 2012, and the respective changes in financial position and respective budgetary comparisons for the general fund and major special revenue funds 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 December 14, 2012 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 grants 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 *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The Court has omitted the Management Discussion and Analysis that the Governmental Accounting Standards Board requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by 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.

Our audit was conducted for the purpose of forming opinions on the basic financial statements. The additional schedules listed as "other supplementary information" in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Hinkle + Landers, PC
December 14, 2012

**STATE OF NEW MEXICO
THIRTEENTH JUDICIAL DISTRICT COURT
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
As of June 30, 2012**

| ASSETS | Governmental Activities |
|--|------------------------------------|
| Current Assets | |
| State general fund investment pool | \$ 441,806 |
| Due from other governments | 51,066 |
| Total current assets | <u>492,872</u> |
| Capital assets, net | <u>174,602</u> |
| Total assets | <u>\$ 667,474</u> |
| LIABILITIES | |
| Current liabilities | |
| Accounts payable | \$ 146,015 |
| Due to other state governments | - |
| Receipts held in suspense | 1,488 |
| Due to the state general fund | 20,540 |
| Accrued salaries and employee benefits | 213,602 |
| Compensated absences payable - expected to be paid within one year | <u>218,802</u> |
| Total current liabilities | <u>600,447</u> |
| Non-current liabilities | |
| Compensated absences payable - expected to be paid after one year | <u>54,700</u> |
| Total liabilities | <u>655,147</u> |
| NET ASSETS (DEFICIT) | |
| Invested in capital assets | 174,602 |
| Unrestricted | <u>(323,502)</u> |
| Total unrestricted net assets | <u>(148,900)</u> |
| Restricted for: | |
| Grants | 65,774 |
| Alternative Dispute Resolution | 52,333 |
| Domestic Relations Mediation | <u>43,120</u> |
| Total restricted net assets | <u>161,227</u> |
| Total net assets | <u>12,327</u> |
| Total liabilities and net assets | <u>\$ 667,474</u> |

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO
THIRTEENTH JUDICIAL DISTRICT COURT
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2012**

| EXPENSES | Governmental Activities |
|--|------------------------------------|
| General government | |
| Administrative services | \$ 6,707,786 |
| Depreciation expense | 76,760 |
| Total program expenses | 6,784,546 |
| Less: Program revenues | |
| Court fees | 107,685 |
| Charges for services | 19,816 |
| Operating grants and contracts | 304,000 |
| Total program revenues | 431,501 |
| Net program (expenses)/revenue | (6,353,045) |
| REVENUES | |
| General revenues | |
| Transfer - state general fund appropriation FY 12 | 6,007,600 |
| Less transfer - reversions to state general fund | (17,008) |
| Transfer - other financial sources | 368,332 |
| Gain (loss) on disposition of capital asset | (10,220) |
| Total net general revenue and other financial sources (uses) | 6,348,704 |
| Change in net assets | (4,341) |
| Net assets, beginning | 16,668 |
| Net assets, ending | \$ 12,327 |

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO
THIRTEENTH JUDICIAL DISTRICT COURT
BALANCE SHEET - GOVERNMENTAL FUNDS
As of June 30, 2012**

| | | (15300) | (88000) | (08300) | |
|---|----|-------------------------|--|--|---|
| | \$ | General Fund | Alternative Dispute Resolution Fund | Domestic Relations Mediation Fund | Total Govern- mental Funds |
| ASSETS | | | | | |
| State general fund investment pool | \$ | 337,924 | 52,603 | 51,279 | 441,806 |
| Due from other governments | | 51,066 | - | - | 51,066 |
| Due from other funds | | - | - | - | - |
| Total assets | \$ | <u>388,990</u> | <u>52,603</u> | <u>51,279</u> | <u>492,872</u> |
| LIABILITIES | | | | | |
| Due to other funds | | - | - | - | - |
| Accounts payable | \$ | 137,856 | - | 8,159 | 146,015 |
| Accrued salaries and employee benefits | | 213,602 | - | - | 213,602 |
| Receipts held in suspense | | 1,218 | 270 | - | 1,488 |
| Due to state general fund | | 20,540 | - | - | 20,540 |
| Current liabilities | | <u>373,216</u> | <u>270</u> | <u>8,159</u> | <u>381,645</u> |
| FUND BALANCES | | | | | |
| Restricted: | | | | | |
| Dispute and mediation programs and grants | | 65,774 | 52,333 | 43,120 | 161,227 |
| Unassigned: | | | | | |
| Deficit fund balance | | <u>(50,000)</u> | - | - | <u>(50,000)</u> |
| Total fund balance | | <u>15,774</u> | <u>52,333</u> | <u>43,120</u> | <u>111,227</u> |
| Total liabilities and fund balance | \$ | <u>388,990</u> | <u>52,603</u> | <u>51,279</u> | <u>492,872</u> |

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

| | | |
|---|----|---------------|
| Total fund balance governmental funds | \$ | 111,227 |
| Capital assets (net of depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the funds. | | 174,602 |
| Long-term debt reported as accrued compensated absences is not due and payable in the current period and, therefore, are not reported in the funds. | | (273,502) |
| Rounding | | - |
| Net assets of governmental activities | \$ | <u>12,327</u> |

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO
THIRTEENTH JUDICIAL DISTRICT COURT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
CHANGES IN FUND BALANCE (DEFICITS) - GOVERNMENTAL FUNDS
For The Year Ended June 30, 2012**

| | (15300) General Fund | (88000) Alternative Dispute Resolution Fund | (08300) Domestic Relations Mediation Fund | Total Govern- mental Funds |
|--|-------------------------------------|--|--|---|
| REVENUES | | | | |
| Federal funds | \$ 304,000 | - | - | 304,000 |
| Court fees | - | 61,680 | 46,005 | 107,685 |
| Miscellaneous revenue | 19,816 | - | - | 19,816 |
| Total revenues | <u>323,816</u> | <u>61,680</u> | <u>46,005</u> | <u>431,501</u> |
| EXPENDITURES | | | | |
| Current | | | | |
| General government: | | | | |
| Personal services and employee benefits | 5,411,818 | - | - | 5,411,818 |
| Contractual services | 633,105 | 74,187 | 42,716 | 750,008 |
| Other costs | 637,387 | 358 | - | 637,745 |
| Capital outlay | - | - | - | - |
| Total expenditures | <u>6,682,310</u> | <u>74,545</u> | <u>42,716</u> | <u>6,799,571</u> |
| Excess (deficiency) of revenue over expenditures | (6,358,494) | (12,865) | 3,289 | (6,368,070) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfer - State general fund appropriation | 6,007,600 | - | - | 6,007,600 |
| Transfer - Other financing sources | 368,332 | - | - | 368,332 |
| Less: Transfer reversions to SGF - other | - | - | - | - |
| Less: Transfer reversion of FY 12 | (17,008) | - | - | (17,008) |
| Interfund transfers in | - | - | - | - |
| Interfund transfers out | - | - | - | - |
| Net other financing sources (uses) | <u>6,358,924</u> | <u>-</u> | <u>-</u> | <u>6,358,924</u> |
| Net change in fund balance | 430 | (12,865) | 3,289 | (9,146) |
| Fund balance, beginning | 15,344 | 65,198 | 39,831 | 120,373 |
| Fund balance, ending | <u>\$ 15,774</u> | <u>52,333</u> | <u>43,120</u> | <u>111,227</u> |

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

Net change fund balance in governmental funds \$ (9,146)

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

In the current period, these amounts are:

| | |
|---|----------|
| Depreciation expense | (76,760) |
| Capital outlay that was included as additions in capital assets | 55,015 |
| Loss on disposition of capital assets | (10,220) |

Some items reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

These activities consist of:

| | |
|--|-------------------|
| (Increase) decrease in compensated absences | 36,770 |
| Change in net assets - governmental activities | <u>\$ (4,341)</u> |

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO
THIRTEENTH JUDICIAL DISTRICT COURT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET TO ACTUAL
(Modified Accrual Budgetary Basis) For The Year Ended June 30, 2012**

| General Fund (15300) | | | | |
|--|-------------------------|------------------|---|---|
| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) | Variance with Final Budget Favorable (Unfavorable) |
| | Original | Final | | |
| REVENUES | | | | |
| Federal funds | \$ 318,800 | 318,800 | 304,000 | (14,800) |
| Other grants | - | - | - | - |
| Miscellaneous revenue | - | 16,000 | 19,816 | 3,816 |
| Total revenues | <u>318,800</u> | <u>334,800</u> | <u>323,816</u> | <u>(10,984)</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | | | | |
| Personal services | 5,183,300 | 5,417,631 | 5,411,818 | 5,813 |
| Contractual services | 1,083,200 | 684,725 | 633,105 | 51,620 |
| Other costs | 368,400 | 653,544 | 637,387 | 16,157 |
| Capital outlay | - | - | - | - |
| Total expenditures | <u>6,634,900</u> | <u>6,755,900</u> | <u>6,682,310</u> | <u>73,590</u> |
| Excess (deficiency) of revenues over (under) expenditures | (6,316,100) | (6,421,100) | (6,358,494) | 62,606 |
| OTHER FINANCING SOURCES (USES) | | | | |
| State general fund appropriations | 6,007,600 | 6,007,600 | 6,007,600 | - |
| Interagency transfers in | 308,500 | 413,500 | 368,332 | (45,168) |
| Interfund transfers in | - | - | - | - |
| Total Other financing sources | <u>6,316,100</u> | <u>6,421,100</u> | <u>6,375,932</u> | <u>(45,168)</u> |
| Reversion to SGF | - | - | - | - |
| Reversions to SGF - other | - | - | (17,008) | (17,008) |
| Net interagency transfers and financial sources (uses) | <u>6,316,100</u> | <u>6,421,100</u> | <u>6,358,924</u> | <u>(62,176)</u> |
| Net change in fund balance | - | - | 430 | 430 |
| Fund balance, beginning | 15,344 | 15,344 | 15,344 | 152,511 |
| Fund balance, ending | <u>\$ 15,344</u> | <u>15,344</u> | <u>15,774</u> | <u>152,941</u> |

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO
THIRTEENTH JUDICIAL DISTRICT COURT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET TO ACTUAL
(Modified Accrual Budgetary Basis) For The Year Ended June 30, 2012**

| Alternative Dispute Resolution (88000) | | | | |
|--|-------------------------|---------------|---|---|
| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) | Variance with Final Budget Favorable (Unfavorable) |
| | Original | Final | | |
| REVENUES | | | | |
| Court fees | \$ 76,400 | 76,400 | 61,680 | (14,720) |
| Miscellaneous revenue | - | - | - | - |
| Total revenues | <u>76,400</u> | <u>76,400</u> | <u>61,680</u> | <u>(14,720)</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | | | | |
| Contractual services | 74,400 | 74,400 | 74,187 | 213 |
| Other costs | <u>2,000</u> | <u>2,000</u> | <u>358</u> | <u>1,642</u> |
| Total expenditures | <u>76,400</u> | <u>76,400</u> | <u>74,545</u> | <u>1,855</u> |
| Excess (deficiency) of revenues over (under) expenditures | - | - | (12,865) | (12,865) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Interfund transfers out | - | - | - | - |
| Net change in fund balance | - | - | (12,865) | (12,865) |
| Fund balance, beginning | <u>65,198</u> | <u>65,198</u> | <u>65,198</u> | <u>-</u> |
| Fund balance, ending | <u>\$ 65,198</u> | <u>65,198</u> | <u>52,333</u> | <u>(12,865)</u> |

| Domestic Relations Mediation Fund (08300) | | | | |
|---|-------------------------|---------------|---|---|
| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) | Variance with Final Budget Favorable (Unfavorable) |
| | Original | Final | | |
| REVENUES | | | | |
| Court fees | \$ 29,500 | 34,500 | 46,005 | 11,505 |
| Total revenues | <u>29,500</u> | <u>34,500</u> | <u>46,005</u> | <u>11,505</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | | | | |
| Contractual services | 27,500 | 67,500 | 42,716 | 24,784 |
| Other costs | <u>2,000</u> | <u>2,000</u> | <u>-</u> | <u>2,000</u> |
| Total expenditures | <u>29,500</u> | <u>69,500</u> | <u>42,716</u> | <u>26,784</u> |
| Excess (deficiency) of revenues over (under) expenditures | - | (35,000) | 3,289 | 38,289 |
| Fund balance, beginning | <u>39,831</u> | <u>39,831</u> | <u>39,831</u> | <u>-</u> |
| Fund balance, ending | <u>\$ 39,831</u> | <u>4,831</u> | <u>43,120</u> | <u>-</u> |

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO
THIRTEENTH JUDICIAL DISTRICT COURT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - AGENCY FUNDS
As of June 30, 2012**

| | <u>Agency Fund</u> |
|---------------------------------|----------------------------|
| ASSETS | |
| State Treasurer accounts | \$ 14,532 |
| Cash in authorized bank account | <u>6,022,849</u> |
| TOTAL ASSETS | \$ <u><u>6,037,381</u></u> |
| LIABILITIES | |
| Due to other state agencies | \$ 14,532 |
| Due to litigants | <u>6,022,849</u> |
| TOTAL LIABILITIES | \$ <u><u>6,037,381</u></u> |

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO
THIRTEENTH JUDICIAL DISTRICT COURT
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2012**

NATURE OF BUSINESS AND REPORTING ENTITY

The Thirteenth Judicial District Court (Court) operates under Section 34-6-1, 34-6-2 and 34-6-16 through 34-6-46, NMSA 1978 Compilation. The Court covers Valencia, Sandoval, and Cibola Counties. The Court is comprised of six 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. Additionally, the Court is part of the primary government of the State of New Mexico and its financial data should be included with the financial data of the State, when it issues an audited Comprehensive Annual Financial Report inclusive of all agencies of the primary government.

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

The basic, but not the only criterion for including a potential component unit within the reporting entity, is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters.

A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens.

A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Court is able to exercise oversight responsibility. Based on the application of these criteria, there are no component units identified or excluded from the reporting entity.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basic Financial Statements

The financial statements of the Court have been prepared in conformity with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. The Governmental Account Standards Board (GASB) is the accepted Standard-setting body for

**STATE OF NEW MEXICO
THIRTEENTH JUDICIAL DISTRICT COURT
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2012**

establishing governmental Accounting and financial reporting principles. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of the Court's accounting policies are described below.

The basic financial statements include both government-wide (based on the Court as a whole) and fund financial statements. The reporting model focus is on either the Court as a whole or major individual fund (within the fund financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type activities. In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are presented on a consolidated basis by column, and are reflected on a full accrual, economic resources measurement focus basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. The Court did not have any business-type activities during the year ended June 30, 2012.

For its government-wide activities, the Court has elected to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles or any Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

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

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

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

The governmental fund statements are presented on a current financial resource and modified accrual basis of accounting. This presentation is deemed appropriate to (a) demonstrate legal compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the Court's actual experience conforms to the budget of fiscal plan. Since the governmental fund statements are presented on a different focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented on the page following each

**STATE OF NEW MEXICO
THIRTEENTH JUDICIAL DISTRICT COURT
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2012**

statement, which briefly explains the adjustment necessary to transform the fund based financial statements in to the governmental column on the government-wide presentation.

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

2. Basis of Presentation

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

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

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

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

The following are the Court's major funds:

General Fund—(15300) The general operating fund of the Court. It is used to account for all financial resources except those required to be accounted for in other funds. Any unencumbered balance remaining in the General Fund at the end of the fiscal year reverts to the State of New Mexico, with the exception of what is noted as unencumbered balances presented on the schedule of special, deficiency, specific and capital appropriation located in the other supplementary information section of the audit report. All appropriations received in this fund are revertible funds if not expended in the appropriate time frame. Please refer to the schedule of interagency transfers for details of state appropriations and other financing sources.

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

Court Mediation—(08300) 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 fund 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 fund is a special revenue fund and is non-reverting. For purposes of financial statement presentation, the fund is considered a major fund.

Alternative Dispute Resolution—(88000) The Court has established an alternative dispute resolution program pursuant to Section 34-6-45, NMSA, 1978 Comp. The purpose of the program is to resolve disputes through alternative means, including, but not limited to, arbitration, mediation and settlement mediation. To finance the cost of the program, the Court charges a \$15 fee on all new and reopened cases. In accordance with Section 34-6-44, NMSA, 1978 Comp., the fee is deposited into the alternative dispute resolution fund. The fund is a special revenue fund and is non-reverting. For purposes of financial statement presentation, the fund is considered a major fund.

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

3. Basis of Accounting

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

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

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

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

4. Budgetary Data

The New Mexico State Legislature makes annual appropriations to the Court. Legal compliance is monitored through the establishment of a budget (modified-accrual basis) and a financial control system, which permits a budget to actual expenditure comparison. Expenditures may not legally exceed appropriations for each budget at the appropriation unit level.

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Budgeted appropriation unit amounts may be amended upon approval from the Budget Division of the State of New Mexico Department of Finance and Administration within the limitation as specified in the General Appropriation Act. The budget amounts shown in the financial statements are both the original appropriation and the final authorized amounts as legally revised during the year.

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

1. No later than September 1, the Court submits to the Judicial Budget Office (JBO), the Legislative Finance Committee (LFC) and the Department of Finance and Administration 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 Court.
3. Budget hearings are scheduled before the New Mexico House Appropriations and Senate Finance Committees. The final outcome of these hearings is incorporated into the General Appropriations Act.
4. The Court's budget for the fiscal year ending June 30, 2012 was amended in a legally permissible manner by increasing or reallocating appropriation unit totals as the need arose during the fiscal year. Individual amendments were not material in relation to the original budget.
5. The Act is signed into law by the Governor of the State of New Mexico within the legally prescribed time limit. The Court submits, no later than May 1st, to DFA an annual operating budget by category and line item based upon the appropriations made by the Legislature. The DFA - Budget Division reviews and approves the operating budget which becomes effective on July 1.
6. All subsequent budget adjustments must be approved by the JBO and the Director of the DFA - Budget Division. The budget for the current year was properly amended.
7. Formal budgetary integration is employed as a management control device during the fiscal year for the General Fund and the Special Revenue Funds.
8. The budget for the General Fund and the Special Revenue Funds are not adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP). The budgets do not include prior year encumbrances paid in the current year in the budgetary amounts. The budgets do not include prior year encumbrances paid in the current year in the budgetary amounts except as noted in Note F of this report.
9. Appropriations lapse at the end of the fiscal year beginning with the year ended June 30, 2012. The Court's General Fund is a reverting fund (funds revert back to the State General Fund).
10. Appropriations lapse at the end of the year except for those amounts encumbered with the exception of appropriations presented in the "schedule of special, deficiency, specific and capital outlay appropriation" as referenced in the table of contents of this report.
11. Budgets for the General Fund and Special Revenue Funds are presented on the modified accrual basis of accounting. Encumbrances related to single year appropriations lapse at year end. The portion of an encumbrance representing goods and services received by the last day of the fiscal year should be reclassified as accounts payable. Any remaining encumbrances related to single year appropriations must be reclassified as unreserved fund balance and a liability recorded to recognize any amount subject to reversion. Budgetary comparisons presented for the General fund and Special Revenue fund in this report are on the modified accrual budgetary basis, which does not conform to accounting principles generally accepted in the United States of America as

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encumbrances are treated as expenditures. This procedure conforms to Department of Finance and Administration and state requirements.

12. The budget for this State Agency is adopted on the modified accrual basis of accounting except for accounts payable accrued at the end of the fiscal year that do not get paid by statutory deadline (Section 6-10-4 NMSA 1978), that must be paid out of next year's budget. See Note F for amounts paid out of different budget years.
13. If there are appropriations for multiple years and related funds are encumbered, there is a reservation of fund balance for encumbrances in the financial statements. This State Agency has no encumbered funds outstanding as of June 30, 2012.
14. The legal level of budgetary control is at the appropriation program level.

5. Encumbrances

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

6. Net Assets

The government-wide financial statements utilize a net asset presentation. Net Assets are categorized as invested in capital assets (net of related debt), restricted and unrestricted.

Invested in Capital Assets (net of related debt) is intended to reflect the portion of net assets which are associated with non-liquid, capital assets less outstanding capital asset related debt. The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost. The Court did not have any related debt during the year ended June 30, 2012.

Restricted net assets reflect the portion of net assets that have third party limitations on their use.

Unrestricted (Deficit) Net Assets represents net assets of the Court that are not restricted for any project or other purpose.

GASB Statement #54

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

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

Spending Policy

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

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Net Assets Restricted by Enabling Legislation

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

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

7. Fund Balance

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

- **Nonspendable:** Nonspendable fund balance classification includes amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact. The Court does not have any nonspendable fund balance for the year ended June 30, 2012.
- **Restricted:** Restricted fund balance represents amounts constrained to specific purposes that are externally imposed or imposed by law through constitutional provisions or enabling legislation (such as taxpayers, grantors, bondholders, and higher levels of government) The Court's restricted funds in the general fund represent restricted grants and in the special revenue funds the restricted funds represent funds held for the Court's dispute and mediation programs for the year ended June 30, 2012.
- **Committed:** Committed fund balance is constrained to specific purposes by the highest level of decision-making authority (the New Mexico Legislature and Governor). The Court does not have any committed fund balance for the year ended June 30, 2012.
- **Assigned:** Assigned fund balance is constrained by the Legislature and Executive branch's intent to be used by the government for specific purposes or in some cases by legislation. Intent can be expressed by the governing body or an official or body to which the governing body delegates authority. The Court does not have any assigned fund balance for the year ended June 30, 2012.
- **Unassigned:** Unassigned fund balance is the residual classification for the general fund. The Court does not currently have a minimum fund balance policy. The unassigned amount represents a deficit of \$50,000 of overspent special appropriation 06-0752 in the General Fund.

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Modified Accrual - All governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period which is considered to be within sixty days of year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general long-term debt, if any, is recognized when due.

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

The interfund transactions are eliminated. Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "transfers in or out from other funds".

If the New Mexico State Legislature provides a new appropriation for a specific encumbrance, it is carried forward to a new appropriation period to be charged against the new budget. If the Legislature does not provide a new appropriation for an encumbrance, the encumbrance is no longer authorized.

Revenues, Expenditures and Expenses

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

Expenditures are recognized when the related fund liability is incurred.

8. Use of Estimates

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

9. 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.

10. Program Revenues

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

11. Receivables

Receivables consist of amounts due from federal, and other state and local governments. No allowance for doubtful accounts is established, since all amounts are considered collectible in the subsequent fiscal year.

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Schedule of Net Assets/Fund Balance

The General Fund (15300) has a deficit fund balance for the following reasons.

| <u>Amount</u> | <u>Description</u> |
|---------------|--|
| \$ (50,000) | Overspent Special Appropriation |
| \$ (50,000) | Per Balance Sheet: General Fund- Fund Balance - Governmental Funds |

Government-Wide Net Assets - Consists of the following:

| | |
|------------------|---|
| \$ 174,602 | Net assets invested in capital assets |
| (54,700) | Long-term compensated absences payable as of year end |
| (218,802) | Current portion of compensated absences payable as of year end |
| (98,900) | Total of Net Assets invested in capital assets and compensated absences |
| (50,000) | Overspent Special Appropriation |
| <u>161,227</u> | Per Balance Sheet - Governmental Funds net assets before deficit |
| <u>\$ 12,327</u> | Grand Total Net Assets at year end |

A negative \$323,502 was unrestricted. \$273,502 was related to compensated absences payable which is expected to be financed by future state appropriations. The remaining \$50,000 is related to the general fund as described in the first table under this note.

\$161,227 was restricted net assets related to grants and mediation and dispute programs.

12. Cash and Cash Equivalents

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

13. Capital Assets

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

| | |
|-------------------------|------------|
| Machinery and equipment | 5—15 years |
| Furniture and equipment | 5—15 years |
| Vehicles | 5 years |
| Library | 3 years |

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14. Accrued Compensated Absences

Qualified employees accumulated annual leave as follows:

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

The maximum accrued annual leave may be carried forward into the beginning of the next calendar year and any excess is lost. When employees terminate, they are compensated for accumulated unpaid annual leave as of the date of termination, up to the aforementioned maximums at their current hourly rate. At June 30, 2012, accrued compensated absences payable for accumulated annual leave can be seen in the note for long-term debt.

15. Accrued Sick Leave

Chapter 150 Laws of 1983, provides for the payment to employees for accumulated sick leave under certain conditions. Employees who have over 600 hours of accumulated sick leave can receive payment for the hours over 600 up to 120 hours on July 1st and January 1st of each year. However, the sick leave will be paid at fifty percent of the employee’s regular hourly wage. At retirement, employees can receive fifty percent payment for up to 400 hours for the hours over 600 hours of accumulated sick leave. Employees who terminate receive no payment for accumulated sick leave. Therefore, the only sick leave which has been accrued represents the hours earned at June 30, 2012 over 600 hours. In accordance with GASB 16, accrued compensated absences consisted of accumulated annual leave and related salary payments (employers’ matching FICA and Medicare payroll taxes).

Expenditures for accumulated sick pay for hours under 600 hours will be recognized as employees take such absences. Accrued vested sick pay is recorded as a liability in the governmental-wide financial statements. As of June 30, 2012, Seven (7) employees of the Court have accrued leave benefits in excess of 600 hours, which amounted to \$9,638 of the total noted below in the long-term debt note.

B. CASH AND INVESTMENTS POLICY

Investments in the State Treasurer’s General Fund Investment Pool (GFIP)

All investments are on deposit with the State Treasurer, and cash is on deposit with four financial institutions. Please see the “Schedule of Deposits and Investments” in the “Other Supplementary Information” section of the audit report. Below are required disclosures regarding credit and interest risk.

General Fund Investment Pool Not Reconciled

In June 2012 an independent diagnostic report revealed that the State of New Mexico’s General Fund Investment Pool has not been reconciled since the implementation of the Statewide Human

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resources, Accounting, and management REporting system (SHARE) in July of 2006. The Department of Finance and Administration (DFA) has commissioned two reports that address statewide cash reconciliation issues. They are (1) *Current State of Diagnostic of Cash Controls*, dated June 20, 2012 prepared by Deloitte Consulting, LLP and (2) *Cash Management Plan and Business Processes*, dated October 11, 2012, also prepared by Deloitte Consulting, LLP. The Diagnostic reports are available in the Resources section of the Cash Control page of the NM Department of Finance & Administration's website: www.nmdfa.state.nm.us/Cash_Control.aspx.

DFA has commenced the Cash Management Remediation Project (Remediation Project) in partnership with the New Mexico State Treasurer's Office, the New Mexico Department of Information Technology, and a contracted third party PeopleSoft Treasury expert. The purpose of the Remediation Project is to design and implement the changes necessary to reconcile the General Fund Investment Pool in a manner that is complete, accurate, and timely. The Remediation Project will make changes to the State's current SHARE system configuration, cash accounting policies and procedures, business practices, and banking structure. The scheduled implementation date for the changes associated with the Remediation Project is February 1, 2013. An approach and plan to address the population of historical reconciling items will be developed during the Remediation Project, but a separate initiative will be undertaken to resolve the historical reconciling items. It is DFA's responsibility to perform the monthly reconciliation of the General Fund Investment Pool.

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

That directive instructed agencies to do the following:

1. Provide copies of the referenced reports to the agency's Independent Public Accountant (IPA) performing the FY12 audit;
2. Explain to the IPA what policies and procedures the agency has in place to ensure that the agency's cash balances in SHARE are correct; and
3. Disclose in the agency's notes to the financial statements the facts about the statewide cash reconciliation as of June 30, 2012, and what the agency's policies and procedures were during the FY12 to mitigate the risk that the agency's cash balances would be misstated as of June 30, 2012.

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

The Court has an interest in the State General Fund Investment Pool allocated between three fund operating under the oversight of SHARE and the State Treasurers Office. The cash transactions processed by the Court flow through the state general fund investment pool. Since SHARE was implemented, the Court recognized the statewide cash reconciliation issue and in response, developed internal reconciliation procedures to ensure that cash receipts and disbursements

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

Credit Risk for Investments

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

Interest Rate Risk for Investments

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

The Court does not have an investment policy that limits investment interest rate risk.

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

The New Mexico State Treasurer monitors the collateral for deposits held by it for other state entities, which would include the investment accounts of the Court. The Office of the State Treasurer has its own separate annual independent audit in which the collateral pledged to secure these deposits is disclosed. By law, the Court is not permitted to have any investments other than what is held at the State Treasurer’s Office and the Court did not have any other investments during the year ended June 30, 2012. There is no custodial risk at the Court level since the cash amount is under the contract of the New Mexico State Treasurer.

See the “Schedule of Pledged Collateral” for information on Court’s Custodial Credit Risk for its bank deposits as reference in the table of contents.

C. RECEIVABLES

As of June 30, 2012, receivables consist of:

| Due from Agency | Due To SHARE Fund | Due From SHARE Fund | Purpose | Amount |
|------------------------|----------------------------------|------------------------------------|-----------------------------|------------------|
| PERA | 15300 | 21370 | Reimbursement of PERA funds | \$ 400 |
| HSD | 15300 | 21800 | Child Support Grant | 50,666 |
| | | | | <u>\$ 51,066</u> |

An allowance for doubtful accounts has not been established, as all receivables are considered fully collectible.

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D. DUE TO OTHER GOVERNMENTS

As of June 30, 2012, no funds were due to other governments:

E. RECONCILIATION BETWEEN BUDGETARY BASIS AND GAAP BASIS

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

F. REVERSIONS AND DUE TO STATE GENERAL FUND

Section 6-5-10 NMSA 1978 requires all unreserved, undesignated fund balances in reverting funds and accounts revert to the State General Fund within ten days of the audit report. The amount due to the State General Fund as of June 30, 2012 is as follows:

| <u>Description</u> | <u>General Fund</u> | <u>Due To SHARE Fund</u> | <u>Due From SHARE Fund</u> |
|---|---------------------|--------------------------|----------------------------|
| Reversion of appropriations FY 12 | \$ 1,360 | 34100 | 15300 |
| Other miscellaneous items | 3,505 | 34100 | 15300 |
| Stale-dated warrants-due to the SGF | 27 | 34100 | 15300 |
| Current year collection for tapes and copies not expended | <u>15,648</u> | 34100 | 15300 |
| Total due to State General Fund | <u>\$ 20,540</u> | | |

All amounts in the general fund of the Court's fund balance revert except what is noted as grants, on the balance sheet-governmental funds per the table of contents.

G. CHANGES IN LONG-TERM DEBT

A summary of changes in long-term debt for the year ended June 30, 2012 is as follows:

| | <u>2011</u> | <u>Increases</u> | <u>Decreases</u> | <u>2012</u> | <u>Current Portion</u> |
|---------------------------------|----------------|------------------|------------------|----------------|------------------------|
| Compensated absences payable \$ | <u>310,272</u> | <u>166,741</u> | <u>(203,511)</u> | <u>273,502</u> | <u>218,802</u> |

Prior year compensated absences have been liquidated by the general fund

H. CONTINGENCIES

Risk of loss

The Court is insured through the Risk Management Division of the General Services Department, which is accounted for as an internal service fund of the State of New Mexico. In general, Risk Management Division responds to suits against the State and state agencies, manages funds to provide unemployment compensation, tort liability insurance, workers' compensation and general and property insurance, and attempts to reduce the number of suits against the State and state agencies through the risk management process. The actuarial gains

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and losses of Risk Management Division were not available and were not included in this report. However, the Court is not liable for more than the premiums paid.

I. INTERFUND RECEIVABLES AND PAYABLES AND INTERFUND TRANSFERS

Interfund receivables and payables reflect short term (current) borrowings among the Court's funds in the normal course of business. As of June 30, 2012, there were no inter fund payables and receivables outstanding. Also, there were no interfund transfers.

J. CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2012 is as follows:

| Governmental Activities | Balance 2011 | Additions | Deletions | Balance 2012 |
|---|-------------------------|------------------|------------------|-------------------------|
| Furniture and equipment | \$ 298,257 | 19,200 | - | 317,457 |
| Machinery and equipment | 670,694 | - | - | 670,694 |
| Vehicles | 309,445 | 35,815 | (72,615) | 272,645 |
| Library | 85,061 | - | - | 85,061 |
| | <u>1,363,457</u> | <u>55,015</u> | <u>(72,615)</u> | <u>1,345,857</u> |
| Less accumulated depreciation for: | | | | |
| Furniture and equipment | (284,092) | (7,042) | - | (291,134) |
| Machinery and equipment | (566,940) | (36,811) | - | (603,751) |
| Vehicles | (220,797) | (32,907) | 62,395 | (191,309) |
| Library | (85,061) | - | - | (85,061) |
| | <u>(1,156,890)</u> | <u>(76,760)</u> | <u>62,395</u> | <u>(1,171,255)</u> |
| Capital assets, net | <u>\$ 206,567</u> | <u>(21,745)</u> | <u>(10,220)</u> | <u>174,602</u> |

The Court is a single function organization and all depreciation is recorded to its only activity, general government, in the amount of \$76,760.

The Court has idle capital assets as follows; equipment and machinery of \$166,290 with a book basis of \$0 and furniture and fixtures of \$176,826 with a book basis of \$0.

K. PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

Plan Description. Substantially all of the 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 15.09% of the gross covered salary. The contribution requirements of plan

**STATE OF NEW MEXICO
THIRTEENTH JUDICIAL DISTRICT COURT
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2012**

members and the Court are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Court's contributions to PERA for the fiscal years ending June 30, 2012, 2011 and 2010 were \$490,811, \$569,906, and \$587,923, less the amounts disclosed in the JRA Pension plan shown below respectively, which equal the amount of the required contributions for each fiscal year.

L. JRA PENSION PLAN

Substantially all of the 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.

Funding Policy Of The JRA Pension Plan

Plan members are required to contribute 7.5% of their gross salary. The Court is required to contribute 12.0% of the gross covered salary. The Court's contributions to JRA for the years ending June 30, 2012, 2011 and 2010 were \$66,917, \$82,255 and \$82,916, 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 \$255,968 in filing fees for the year ending June 30, 2012.

M. 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 Court nor the State of New Mexico make any contributions to the Deferred Compensation Plan. All contributions withheld from participants by the Court have been paid to the New Mexico Public Employee's Retirement Association, which administers the plan

N. POST-EMPLOYMENT BENEFITS—STATE RETIREE HEALTH CARE PLAN

Plan Description. The Court contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit 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

**STATE OF NEW MEXICO
THIRTEENTH JUDICIAL DISTRICT COURT
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2012**

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 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. During the fiscal year ended June 30, 2011, the statute required each participating employer to contribute 1.666% of each participating employee's annual salary; each participating employee was required to contribute .8333% of their salary. In the fiscal years ending June 30, 2012 and 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</u> | <u>Employer Contribution Rate</u> | <u>Employee Contribution Rate</u> |
|--------------------|-----------------------------------|-----------------------------------|
| FY13 | 2.000% | 1.000% |

For employees who are members of an enhanced retirement plan (members who are eligible of the Judicial Retirement Act [10-12B-1 NMSA 1978]) the contribution rates will be:

| <u>Fiscal Year</u> | <u>Employer Contribution Rate</u> | <u>Employee Contribution Rate</u> |
|--------------------|-----------------------------------|-----------------------------------|
| FY13 | 2.5% | 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.

**STATE OF NEW MEXICO
THIRTEENTH JUDICIAL DISTRICT COURT
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2012**

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.

The Court's contributions to the RHCA for the years ended June 30, 2012, 2011 and 2010 were \$75,416, \$69,688 and \$52,950, respectively, which equal the required contributions for each year.

O. LEASES

The Court has equipment leases and associated maintenance agreements which can be terminated with no penalty to the Court, if the Legislature does not appropriate money to the Court. The leases are for 12 copy machines. All leases may be terminated at any time with sixty-days of notice if the New Mexico Legislature does not grant sufficient appropriation for the lease or if the Court decides that termination is necessary to protect the best interests of the State of New Mexico. The future minimum rental payments as of June 30, 2012 are as follows:

| <u>Year Ended</u> | <u>Lease Payments</u> |
|-----------------------|---------------------------|
| 2013 | \$ 47,599 |
| 2014 | 47,599 |
| 2015 | 27,346 |
| 2016 | - |
| 2017 | - |
| Total | <u>\$ 122,544</u> |

Lease expenditures and related expenses for the year ended June 30, 2012 were \$76,164.

P. JOINT POWERS AGREEMENTS AND MEMORANDUMS OF UNDERSTANDING

The Court's has one memorandum of understanding as follows:

| | |
|--------------------------------|---|
| Participant: | Court and the Valencia County (VC) |
| Responsible Party: | The Court |
| Description: | Pre-Trial Services for District and Magistrate Courts of Valencia County. |
| Term: | Begins July 1, 2011 and terminates June 30, 2012 |
| Amount Involved: | \$50,000 |
| Revenue/Expenditures Reported: | Revenue on the Court's books, expense on the VC's books |
| Audit Responsibility: | Both parties should have the contract reviewed |
| Fiscal Agent: | Not applicable |

**STATE OF NEW MEXICO
THIRTEENTH JUDICIAL DISTRICT COURT
SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES-ALL AGENCY FUNDS
For The Year Ended June 30, 2012**

| PROGRAM NAME | <u>2011</u> | <u>Receipts</u> | <u>Disburse- ments</u> | <u>2012</u> |
|---------------------------------|---------------------|------------------------|-----------------------------------|--------------------|
| ASSETS | | | | |
| State Treasurer accounts | 33,906 | 1,343,958 | (1,340,267) | 14,532 |
| Cash in authorized bank account | <u>3,132,319</u> | <u>4,493,919</u> | <u>(4,761,342)</u> | <u>6,022,849</u> |
| | <u>\$ 3,166,225</u> | <u>5,837,877</u> | <u>(6,101,609)</u> | <u>6,037,381</u> |
| LIABILITIES | | | | |
| Due to others state agencies | 33,906 | 1,343,958 | (1,340,267) | 14,532 |
| Due to litigants | <u>3,132,319</u> | <u>4,493,919</u> | <u>(4,761,342)</u> | <u>6,022,849</u> |
| | <u>\$ 3,166,225</u> | <u>5,837,877</u> | <u>(6,101,609)</u> | <u>6,037,381</u> |

**STATE OF NEW MEXICO
THIRTEENTH JUDICIAL DISTRICT COURT
SCHEDULE OF DEPOSITS AND INVESTMENTS
As of June 30, 2012**

| | Type of Account | Bank/ Treasurer Balance | Deposits In Transit | Outstanding Warrants/ Checks | Book Balance |
|---|----------------------------|--|------------------------------------|---|-------------------------|
| GENERAL FUND | | | | | |
| New Mexico State Treasurer 243-15300 | SGFIP | \$ 337,924 | - | - | 337,924 |
| SPECIAL REVENUE FUNDS | | | | | |
| New Mexico State Treasurer 243-88000 | SGFIP | 52,603 | - | - | 52,603 |
| New Mexico State Treasurer 243-08300 | SGFIP | 51,279 | - | - | 51,279 |
| Total Special Revenue Funds | | 103,882 | - | - | 103,882 |
| AGENCY FUNDS | | | | | |
| Wells Fargo Bank of New Mexico N.A. | | | | | |
| Court Registry - Valencia | Checking | 195,375 | 15,500 | (11,400) | 199,475 |
| Court Registry - Sandoval | Checking | 177,576 | 306,201 | (310,701) | 173,076 |
| STO Account - Sandoval County | Checking | 10,073 | - | - | 10,073 |
| STO - Cibola County | Checking | 943 | - | - | 943 |
| STO - Valencia County | Checking | 3,516 | - | - | 3,516 |
| Subtotal for Wells Fargo Checking Accounts | | 387,483 | 321,701 | (322,101) | 387,083 |
| CV-05-0930 - NMDOT vs Keith Langerman, Sr. | Savings | 19,408 | 1 | - | 19,409 |
| CV-09-2519 - Sonida vs Gately | Savings | 442,077 | 15 | - | 442,092 |
| CV-09-2886 - Residential vs Sapeta | Savings | 16,094 | 1 | - | 16,095 |
| CV-10-2316 - RR vs Sandstorm | Savings | 34,921 | 1 | - | 34,922 |
| CV-10-2414 - RR vs Vaughan | Savings | 23,161 | - | - | 23,161 |
| CV-10-778 - Bank of New York vs Lamb | Savings | 20,009 | 1 | - | 20,010 |
| PB-08-0110 - IMO: Mattie Duran | Savings | 4,046 | - | - | 4,046 |
| CV-10-1051 - GMAC Mortgage vs Alan Zingler | Savings | 6,397 | - | - | 6,397 |
| CV-11-0615 - Sandoval County vs Estate of E. Bu | Savings | 18,708 | 1 | - | 18,709 |
| CV-12-0551 - NMDOT vs Mattie Goode | Savings | 90,105 | 3 | - | 90,108 |
| CV-12-0945 - IMO: Danalla Lot B | Savings | - | 6,201 | - | 6,201 |
| CV-12-0927 - RR Bd of Educ vs Andrykowski | Savings | - | 297,007 | - | 297,007 |
| PB-11-0050 - IMO: Estate of Jesus Rubalcaba | Savings | 99,451 | 4 | (31,271) | 68,184 |
| CV-11-0052 - Chris Fandel vs Aquatic Pools, Inc | Savings | 69,880 | 2 | - | 69,882 |
| PB-09-0019 - IMO: Alfredo Federico Mirabal | Savings | 2,924,584 | 96 | - | 2,924,680 |
| CV-10-1151 - Deutsche Bank vs Stuart G. Lamb | Savings | 5,002 | - | - | 5,002 |
| Subtotal for Wells Fargo Savings Accounts | | 3,773,843 | 303,333 | (31,271) | 4,045,905 |
| Total Wells Fargo Bank of New Mexico N.A. | | 4,161,326 | 625,034 | (353,372) | 4,432,988 |
| My Bank/Belen | | | | | |
| CV-00-031 - SHD vs Allen | Savings | 18,155 | 2 | - | 18,157 |
| CV-08-0072 - Malcom S. Major | Savings | 123,520 | 30 | - | 123,550 |
| CV-09-817 - PNM vs Allwood | Savings | 13,818 | 2 | - | 13,820 |
| CV-92-0337 - Tierra Grande vs Watkins | Savings | 14,691 | 2 | - | 14,693 |
| CV-94-291 - Brannin vs Applebee | Savings | 18,617 | 2 | - | 18,619 |
| CV-94-425 - SHD vs Alumco | Savings | 1,953 | - | - | 1,953 |
| CV-95-0009 - Mid Century vs Davenport | Savings | 5,137 | 1 | - | 5,138 |
| CV-98-0592 - Federal Na'tl Mortgage vs Jones | Savings | 11,784 | 2 | - | 11,786 |
| CV-99-0375 - Lawyers vs Murphy, Pancoast | Savings | 5,303 | 1 | - | 5,304 |
| PB-10-0113 - IMO: The Estate of D.R. Schlicht | Savings | 198,864 | 48 | - | 198,912 |
| PB-09-058 - IMO: Robert Allan & Jewel Allan | Savings | 23,397 | 3 | - | 23,400 |
| Total My Bank/Belen | | 435,239 | 93 | - | 435,332 |
| Grants State Bank | | | | | |
| Cibola Clerk's Court Registry | Savings | 48,578 | 6,020 | (4,272) | 50,326 |
| CV-08-0399 - NMDOT vs NM Tax & Rev | Savings | 1,162 | - | - | 1,162 |
| CV-11-0138 - City of Grants vs G. Martinez | Savings | 30,040 | 4 | - | 30,044 |
| CV-08-0400 - NMDOT vs K. Marques, et al | Savings | 58,148 | - | - | 58,148 |
| Total My Grants State Bank | | 137,928 | 6,024 | (4,272) | 139,680 |

**STATE OF NEW MEXICO
THIRTEENTH JUDICIAL DISTRICT COURT
SCHEDULE OF DEPOSITS AND INVESTMENTS - Continued
As of June 30, 2012**

| AGENCY FUNDS - continued | Type of Account | Bank/ Treasurer Balance | Deposits In Transit | Outstanding Warrants/ Checks | Book Balance |
|--|----------------------------|--|------------------------------------|---|-------------------------|
| U.S. Bank | | | | | |
| CV-01-733 - Sippy vs Giles, D | Checking | 11,931 | 1 | - | 11,932 |
| CV-03-546 - Gldn W vs Unk Heir | Checking | 2,873 | - | - | 2,873 |
| CV-04-224 - ChrtBk vs Slotness | Checking | 10,228 | 1 | - | 10,229 |
| CV-04-470 - GE Mrtg vs Jacquez, M | Checking | 4,973 | 1 | - | 4,974 |
| CV-05-077 - NMDOT vs D.J.T. | Checking | 21,480 | 4 | - | 21,484 |
| CV-05-1429 - Ctrywd vs Esquibel | Checking | 8,689 | 1 | - | 8,690 |
| CV-03-980 - City of RR vs George Martindell | Savings | 104,132 | 17 | - | 104,149 |
| CV-05-639 - NMDOT vs Hardall Holding | Savings | 28,346 | 5 | - | 28,351 |
| CV-06-1403 - Bd of Educ vs Rancho Vista Devel. | Savings | 90,176 | 15 | - | 90,191 |
| CV-06-405 - C-RR vs Lofy, Ronal | Savings | 21,452 | 4 | - | 21,456 |
| CV-06-490 - C-RR vs Keicher, H | Savings | 34,645 | 6 | - | 34,651 |
| CV-06-591 - C-RR vs Athens, G | Savings | 34,617 | 6 | - | 34,623 |
| CV-06-719 - NMDOT vs Gilman, D | Savings | 40,259 | 7 | - | 40,266 |
| CV-06-735 - C-RR vs Kailey, L | Savings | 34,700 | 6 | - | 34,706 |
| CV-06-818 - Board of Educ vs Arlene Derise | Savings | 28,536 | 5 | - | 28,541 |
| CV-06-984 - C-RR vs Merten, M | Savings | 40,424 | 5 | - | 40,429 |
| CV-07-1778 - City of RR vs John McGurty | Savings | 62,592 | 10 | - | 62,602 |
| CV-07-277 - C-RR vs Pasley, M. | Savings | 25,249 | 4 | - | 25,253 |
| CV-07-278 - C-RR vs O'Halloran | Savings | 31,688 | 5 | - | 31,693 |
| CV-08-1885 - PNM vs One Purpose | Savings | 10,156 | 1 | - | 10,157 |
| CV-09-1652 - Arroyo vs Estelle Beane Gillman | Savings | 67,792 | 11 | - | 67,803 |
| CV-09-2408 - Sandoval Cnty vs Tesoro Prop | Savings | 240,224 | 39 | - | 240,263 |
| CV-09-2873 - PNM vs Lawrence Andreassen | Savings | 26,172 | 4 | - | 26,176 |
| CV-97-1137 - Charter Bank vs J.G. Amador | Savings | 3,794 | - | - | 3,794 |
| CV-97-906 - Cook vs Staufenberg | Savings | 11,736 | 1 | - | 11,737 |
| PB-08-037 - D Padilla vs P Taylor | Savings | 32,353 | 5 | - | 32,358 |
| Total U.S. Bank | | 1,029,217 | 164 | - | 1,029,381 |
| Grand total of deposits | | \$ 2,044,190 | 6,281 | (4,272) | 2,046,199 |

Reconciliation of Cash by Fund Type

| | | | | | |
|---------------------------|----|-----------|---------|-----------|-----------|
| Total Cash by Type | | | | | |
| Governmental Funds | \$ | 441,806 | - | - | 441,806 |
| Agency Funds | | 5,763,710 | 631,315 | (357,644) | 6,037,381 |
| Grand total of deposits | \$ | 6,205,516 | 631,315 | (357,644) | 6,479,187 |

**STATE OF NEW MEXICO
THIRTEENTH JUDICIAL DISTRICT COURT
SCHEDULE OF PLEDGED COLLATERAL
BY BANK AND ACCOUNT
As of June 30, 2012**

| <u>Account Name</u> | <u>Account Type</u> | <u>Bank Balance</u> | <u>Book Balance</u> |
|---|---------------------|---------------------|---------------------|
| Governmental Funds | | | |
| Cash at State Treasurer | SGFIP | \$ <u>441,806</u> | <u>441,806</u> |
| Agency Funds | | | |
| Wells Fargo Bank | Checking | \$ 387,483 | 387,083 |
| Wells Fargo Bank | Savings | 3,773,843 | 4,045,905 |
| My Bank/Belen | Savings | 435,239 | 435,332 |
| U.S. Bank | Savings | 1,029,217 | 1,029,381 |
| Grants State Bank | Savings | 137,928 | 139,680 |
| Total Agency Funds | | \$ <u>5,763,710</u> | <u>6,037,381</u> |
| Total amount of deposit in banks | | \$ 5,763,710 | <u>6,037,381</u> |
| FDIC coverage | | (1,260,479) | |
| Total uninsured public funds | | \$ <u>4,503,231</u> | |
| 50% Collateral Requirement (Section 6-10-17 NMSA 1978) | | \$ <u>2,251,616</u> | |

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

The uninsured public funds is as shown above. Deposits at My Bank/Belen and Grants State Bank, Wells Fargo Bank and U.S. Bank are not available because the banks commingle pledged collateral for all state funds they hold. The collateralization of these accounts is monitored by the State Treasurer's office. These banks provide proof of collateral sufficient to cover all State funds deposited. The State Treasurer issues separate financial statements which disclose the collateral pledged to secure amounts held by the State Treasurer.

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

As of June 30, 2012

| | |
|---|---------------------|
| Uninsured and uncollateralized as pledged collateral is commingled for all state funds | Unknown |
| Uninsured, collateral held by the pledging banks, but not in the name of the Court or the State of New Mexico | \$ <u>4,503,231</u> |

**STATE OF NEW MEXICO
THIRTEENTH JUDICIAL DISTRICT COURT
SCHEDULE OF INTERAGENCY TRANSFERS
For The Year Ended June 30, 2012**

| Description | Agency Transferred From | From Fund | To Fund | Reference | Amount Transferred In |
|--------------------------------------|-------------------------------|--------------|------------|--------------------------|--------------------------|
| State Appropriations | | | | | |
| General Fund Appropriation | SGF | 34101 | 15300 | Laws 2011, Ch 179, Sec 4 | \$ <u>6,007,600</u> |
| Other Financing Sources | | | | | |
| CASA Appropriation | AOC | 21800 | 15300 | Laws 2011, Ch 179, Sec 4 | 368,332 |
| Total Other Financing Sources | | | | | \$ <u><u>368,332</u></u> |

| Description | Agency Transferred To | From Fund | To Fund | Reference | Amount Transferred Out |
|----------------------------|-----------------------------|--------------|------------|---|---------------------------|
| General Fund Reversion | DFA | 15300 | 34100 | Reversion of current year miscellaneous income | \$ (15,648) |
| General Fund Appropriation | DFA | 15300 | 34100 | Reversion of FY 12 | <u>(1,360)</u> |
| | | | | | (17,008) |

*Note: The reversions presented in the Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds are expected to be reverted in FY 13

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

Honorable Louis P. McDonald, Presiding Judge
State of New Mexico Thirteenth Judicial District Court
and
Mr. Hector H. Balderas, New Mexico State Auditor
Office of the State Auditor
Santa Fe, New Mexico

We have audited the accompanying financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the respective budgetary comparisons for the State of New Mexico, Thirteenth Judicial District Court (Court) as of and for the year ended June 30, 2012, which collectively comprise the Court's basic financial statements and have issued our report thereon dated December 14, 2012. 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

Management of the Court is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Court's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing 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 deficiency described in the accompanying *schedule of findings and responses* to be a material weakness, 10-02.

December 14 2012

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

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 in the accompanying *schedule of findings and responses* to be a significant deficiency: 7-04.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Court's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as items: 03-02 and 10-02.

We also noted certain other matters that are required to be reported pursuant to Government Auditing Standards paragraphs 5.14 and 5.16, and pursuant to Section 12-6-5, NMSA 1978, which are described in the accompanying schedule of findings and responses as items: 03-02 and 10-02.

The Court's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Court'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 agency, the New Mexico State Auditor, the New Mexico Legislature, the New Mexico Department of Finance and Administration and applicable federal grantors and is not intended to be and should not be used by anyone other than these specified parties.



Hinkle + Landers, PC
December 14, 2012

**STATE OF NEW MEXICO
THIRTEENTH JUDICIAL DISTRICT COURT
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2012**

SUMMARY OF FINDINGS AND RESPONSES

Current and prior year findings are as follows:

| Reference FY-Finding # | Findings | Status of Current and Prior Year Findings | Financial Statement Finding | State Audit Rule Finding | Material Weakness | Significant Deficiency |
|---------------------------------------|--------------------------------------|--|--|---|------------------------------|-----------------------------------|
| 03-02 | - State Treasurer's Account Balance | Repeated | No | Yes | N/A | N/A |
| 07-04 | - Cash Controls of Fiduciary Funds | Repeated/Revised | Yes | No | No | Yes |
| 10-02 | Deficit Fund Balance in General Fund | Repeated | Yes | Yes | Yes | No |
| 11-01 | Adjustment Report | Resolved | Yes | No | No | No |

03-02—State Treasurer’s Account Balance—State Audit Rule Finding

Statement of Condition

The County State Treasurer’s bank account balances were greater than \$15,000 for the following months for the following counties:

Sandoval County 12 out of 12 months in fiscal year 2012
Valencia County 12 out of 12 months in fiscal year 2012

Criteria

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

Cause

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

Effect

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

Recommendation

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

**STATE OF NEW MEXICO
THIRTEENTH JUDICIAL DISTRICT COURT
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2012**

Management Response

Due to the marked growth of this Court, and other Courts throughout the State, and the proportional increase in monies collected by the Courts, it is virtually impossible to comply with this law. It is not uncommon for the Court to receive monies in excess of this amount within a matter of days, sometimes the same day. The process by which these monies are transferred requires at least two days and sometime longer completing, thus, the resulting overlaps in transference of funds and non-compliance with the law. It is apparent that this statute should be amended to reflect cash flow in the modern era.

07-04—Cash Control Of Fiduciary Funds—Significant Deficiency

Statement of Condition

During the fiscal year ended June 30, 2011, and continuing into fiscal year June 30, 2012, the Court has been using the court case management system Odyssey that includes a bank reconciliation module. The bank reconciliation module was unable to provide an adequate reconciliation reports for four significant agency trust accounts as noted below:

STO Account - Bernalillo Branch
STO - Cibola Branch
STO - Los Lunas Branch

Additional procedures were taken by the auditor to determine that cash for the following accounts was properly reconciled and accounted for:

Criteria

The Court has the fiduciary duty to safeguard and report on the cash being held for others. This includes strong internal controls, checks and balances of the assets.

Effect

The opportunity exists for an individual to make an error or misappropriate cash and not be detected in a timely manner if at all.

Cause

The Court has made improvements to its overall controls over fiduciary cash, but will need to make adjustments to how it reconciles its cash as it appears that the case management bank reconciliation system currently has limitations.

Recommendation

All bank accounts should be fully reconciled and the bank reconciliations should be reviewed by a person independent of the reconciliations process.

Management Response

The Court agrees with this finding. The Court has been unable to reconcile the STO accounts due to “dummy checks” used to disburse funds from the ledger do not always match amounts physically receipted for a given period by the Court. Our true disbursements to the STO match our receipts and it is those deposits that get swept from the bank by the STO. Because of this, our dummy checks in Odyssey do not match the actual sweep made by the STO and therefore the system does not reconcile to true activity. The Court continues to work to resolve this issue and is in consultation with other District Courts as well as JID to isolate the issue that would appear to have its root in the case management module.

**STATE OF NEW MEXICO
THIRTEENTH JUDICIAL DISTRICT COURT
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2012**

10-02—Deficit Fund Balance—Material Weakness and State Audit Rule Finding

Statement of Condition

The General Fund has a deficit fund balance due to overspending of special appropriation, which is reference as Laws 2006-HB 622-Chapter 111/Sec 33-Item G.

Criteria

Although the fund balance appeared to exist at the beginning of the 2009 fiscal year to keep the Court's general fund from falling into a deficit fund balance. That beginning fund balance was incorrect. Therefore, it appears that the Court is not in compliance with State Auditor Rule 2.2.2.10 P. "Appropriations to Agencies", which states that budget deficits are generally not allowed.

Effect

The Court has a deficit fund balance in the general fund and it must be determined how it is going to be covered.

Cause

It appears that budgetary controls were not properly in place or properly monitored.

Recommendation

The Court should explore its options to cover the deficit fund balance and take measures to prevent the possibility of a deficit occurring again.

Management Response

Since the SHARE conversion, the Court has had a receivable on the books in the amount of \$50,000 which appears to relate to Special Capital Outlay Appropriations per the Laws 2006 - HB 622 - Ch 111 - Sec 33 - Item G in that amount. Research performed by the Court, the CAFR Unit, and the Administrative Office of the Courts indicates that the Court properly accrued for this Special Capital Outlay Appropriation in fiscal year 2006 as evidenced by the Court's financial statements. In fiscal year 2007, the Financial Control Division INCORRECTLY posted the accrual for the \$50,000 General Fund Capital Outlay Appropriation as a SHARE conversion entry. This posting duplicated and overstated the receivable amount resulting in a prior period adjustment in the 2007 audited financial statements. On May 23, 2008, the Financial Control Division transferred the appropriation to the Court to spend, which resulted in a reduction of the receivable. However, the duplicate receivable of \$50,000 remains on the Court's books. At this time, the Court had multiple appropriations in this exact amount for IT Capital Projects causing further confusion. Given the confusion and chaos surrounding the SHARE conversion, as well as the firing of the Court's auditor for the fiscal year 2007 audit, this misstatement

was not identified by the Court, the Financial Control Division, the CAFR Unit, or subsequent audits. Furthermore, there was little in the way of accurate SHARE reporting during and subsequent to the SHARE conversion for the Court to rely upon and a general lack of internal controls within the SHARE system. This made it difficult for the Court to monitor activity. It would appear that the Court has spent these monies as evidenced by fund balance analysis. It was the recommendation of the CAFR Unit that the duplicate receivable be removed from the books at this time as an error and to adjust fund balance accordingly. This adjustment resulted in a deficit fund balance in the Court's General Fund of \$50,000, as such; the Court continues to request a Special Deficiency Appropriation which has, as of yet, not been forthcoming.

**STATE OF NEW MEXICO
THIRTEENTH JUDICIAL DISTRICT COURT
EXIT CONFERENCE
For The Year Ended June 30, 2012**

An exit conference was held in a closed session on December 14, 2012, at the Court's Offices in Sandoval County, New Mexico. In attendance were the following:

Honorable Louis P. McDonald
Jamie Goldberg
Chris Wolf
Farley Vener, CPA, CFE

Chief Judge
Court Administrator
Chief Financial Officer
Independent Auditor, Hinkle + Landers, PC

FINANCIAL STATEMENTS

The financial statements of the Court as of June 30, 2012, were substantially prepared by Hinkle + Landers, PC, however, the financial statements are the responsibility of management.