



**LOFTIS GROUP** LLC  
CERTIFIED PUBLIC ACCOUNTANTS ▪ BUSINESS ADVISORS

# **The Disciplinary Board of the Supreme Court of the State of New Mexico**

Financial Statements  
and  
Independent Auditors' Report

December 31, 2015 and 2014

# The Disciplinary Board of the Supreme Court of the State of New Mexico

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## Independent Auditors' Report

To the Board Members of  
The Disciplinary Board of the Supreme Court of the State of New Mexico  
Albuquerque, New Mexico

We have audited the accompanying financial statements of the Disciplinary Board of the Supreme Court of the State of New Mexico (the "Disciplinary Board"), an agency of the Supreme Court of New Mexico, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Disciplinary Board as of December 31, 2015 and 2014, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Emphasis of Matter

As discussed in Note 1, the financial statements of the Disciplinary Board are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the Supreme Court of New Mexico that is attributable to the transactions of the Disciplinary Board. They do not purport to, and do not, present fairly the financial position of the Supreme Court of New Mexico as of December 31, 2015 and 2014, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2016, on our consideration of the Disciplinary Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Disciplinary Board's internal control over financial reporting and compliance.

Loftis Group LLC

May 20, 2016  
Albuquerque, NM

Required Supplementary Information  
Management's Discussion and Analysis

**The Disciplinary Board of the Supreme  
Court of the State of New Mexico  
Management's Discussion and Analysis  
For the Years Ended December 31, 2015 and 2014**

This section of the financial report presents our discussion and analysis of the Disciplinary Board of the Supreme Court of the State of New Mexico's (the "Disciplinary Board") financial performance during the years ended December 31, 2015 and 2014. Please read management's discussion and analysis in conjunction with the Disciplinary Board's financial statements, which follow this section.

The Disciplinary Board's financial information is generally limited to management of the Disciplinary Board, the Board of Commissioners, the Supreme Court of the State of New Mexico and those parties as authorized in writing by the Disciplinary Board.

The Disciplinary Board is accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operation are included on the statement of net position.

### **Financial Highlights**

The Disciplinary Board's operating income increased from \$144,452 during the year ended December 31, 2014 to \$287,268 during the year ended December 31, 2015.

Cash and cash equivalents increased by \$322,211 during 2015. The funds increased due to revenue exceeding expenses.

### **Overview of Financial Statements**

This annual report consists of management's discussion and analysis (this section) and the financial statements. The financial statements provide information about the Disciplinary Board's financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detail.

The statements of net position present information on all of the Disciplinary Board's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position serves as a useful indicator of whether the financial position of the Disciplinary Board is improving or deteriorating.

The statements of revenues, expenses and changes in net position present information showing how the Disciplinary Board's net position changed. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., accrued vacation leave).

**The Disciplinary Board of the Supreme  
Court of the State of New Mexico  
Management's Discussion and Analysis  
For the Years Ended December 31, 2015 and 2014**

The statement of cash flows presents information showing how the Disciplinary Board's cash balances changed from year to year. All changes in cash balances are reported based on the timing of the Disciplinary Board's cash transactions.

**Assets, Liabilities and Net Position**

Table 1 summarizes the Disciplinary Board's assets, liabilities and net position.

**Table 1  
Summarized Statements of Net Position  
As of December 31,**

|                                  | <u>2015</u>         | <u>2014</u>         | <u>2013</u>         |
|----------------------------------|---------------------|---------------------|---------------------|
| Current assets                   | \$ 1,718,043        | \$ 1,480,258        | \$ 1,298,506        |
| Capital assets, net              | <u>25,467</u>       | <u>19,873</u>       | <u>20,539</u>       |
| Total assets                     | <u>\$ 1,743,510</u> | <u>\$ 1,500,131</u> | <u>\$ 1,319,045</u> |
| Current liabilities              | <u>\$ 61,192</u>    | <u>\$ 108,582</u>   | <u>\$ 75,809</u>    |
| Total liabilities                | <u>61,192</u>       | <u>108,582</u>      | <u>75,809</u>       |
| Net investment in capital assets | 25,467              | 19,873              | 20,539              |
| Unrestricted                     | <u>1,656,851</u>    | <u>1,371,676</u>    | <u>1,222,697</u>    |
| Total net position               | <u>\$ 1,682,318</u> | <u>\$ 1,391,549</u> | <u>\$ 1,243,236</u> |

The majority of the Disciplinary Board's current assets are made up of cash and cash equivalents. Cash and cash equivalents increased from 2014 to 2015 which caused assets to increase. Liabilities decreased from December 31, 2014 to December 31, 2015 due to a decrease in accounts payable.

The significant changes to assets, liabilities and net assets in 2014 compared to 2013 were attributable to an increase in cash and cash equivalents of \$127,449. Liabilities increased by \$32,773 between 2014 and 2013.

**The Disciplinary Board of the Supreme  
Court of the State of New Mexico  
Management's Discussion and Analysis  
For the Years Ended December 31, 2015 and 2014**

**Statements of Revenues, Expenses and Changes in Net Position**

Table 2 summarizes the Disciplinary Board's revenues, expenses and changes in net position for the years ended December 31, 2015, 2014 and 2013.

**Table 2  
Revenues, Expenses and Changes in Net Position  
For the Years Ended December 31,**

|                         | <u>2015</u>       | <u>2014</u>       | <u>2013</u>       |
|-------------------------|-------------------|-------------------|-------------------|
| Total revenue           | \$ 1,127,203      | \$ 1,099,071      | \$ 1,034,443      |
| Total operating expense | <u>(836,434)</u>  | <u>(950,758)</u>  | <u>(901,998)</u>  |
| Change in net position  | <u>\$ 290,769</u> | <u>\$ 148,313</u> | <u>\$ 132,445</u> |

The Disciplinary Board operates on administration fees and interest income, all of which are approved by the Board of Directors and Supreme Court of New Mexico each year.

**Capital Asset and Debt Administration**

*Capital Assets* – As of December 31, 2015 and 2014, the Disciplinary Board had \$25,467 and \$19,873, respectively, invested in capital assets net of depreciation. During 2015, the Disciplinary Board had capital asset additions of approximately \$14,000, which was mainly made up of furniture and conversion of office space to a hearing room. More detailed information on capital assets is presented in the notes to the financial statements.

*Debt Administration* – The Disciplinary Board does not, and historically has not, carried any debt. Any issuance of debt would need to be approved by the Board of Directors and the Supreme Court of New Mexico.

**Budgetary Comparisons**

Although the Disciplinary Board is not legally mandated to adopt a budget, a budget is prepared by management and approved by the Board of Directors. During the year the Chief Disciplinary Counsel and the Board of Directors monitor the budget. Any significant amendments to the budget require approval of the Board of Directors and the Supreme Court of New Mexico.

**The Disciplinary Board of the Supreme  
Court of the State of New Mexico  
Management's Discussion and Analysis  
For the Years Ended December 31, 2015 and 2014**

**Anticipated Changes**

Management does not anticipate significant future changes in the fiscal year 2016 budgeted revenues and expenses. In addition, operations are expected to remain relatively consistent with the current and prior years.

**Contacting the Disciplinary Board**

The Disciplinary Board's financial statements are designed to present the New Mexico Supreme Court with a general overview of the Disciplinary Board's finances and to demonstrate the Disciplinary Board's accountability. For questions about this report, please contact William D. Slease, Esq., Chief Disciplinary Counsel, PO Box 1809, Albuquerque, NM 87103.

Financial Statements

**The Disciplinary Board of the Supreme  
Court of the State of New Mexico**  
Statements of Net Position  
December 31,

|                                     | <u>2015</u>             | <u>2014</u>             |
|-------------------------------------|-------------------------|-------------------------|
| <b>Assets</b>                       |                         |                         |
| Current assets                      |                         |                         |
| Cash and cash equivalents           | \$ 1,699,407            | \$ 1,377,196            |
| Due from State Bar of New Mexico    | -                       | 86,619                  |
| Prepaid expenses                    | <u>18,635</u>           | <u>16,443</u>           |
| Total current assets                | <u>1,718,042</u>        | <u>1,480,258</u>        |
| Capital assets:                     |                         |                         |
| Furniture and equipment             | 97,081                  | 83,115                  |
| Less accumulated depreciation       | <u>(71,614)</u>         | <u>(63,242)</u>         |
| Total non-current assets            | <u>25,467</u>           | <u>19,873</u>           |
| <br>Total assets                    | <br><u>\$ 1,743,509</u> | <br><u>\$ 1,500,131</u> |
| <b>Liabilities and Net Position</b> |                         |                         |
| Current liabilities                 |                         |                         |
| Accounts payable                    | \$ 5,137                | \$ 44,166               |
| Accrued expenses                    | 54,502                  | 57,424                  |
| Reinstatement deposits              | <u>1,552</u>            | <u>6,992</u>            |
| Total current liabilities           | <u>61,191</u>           | <u>108,582</u>          |
| Net Position                        |                         |                         |
| Net investment in capital assets    | 25,467                  | 19,873                  |
| Unrestricted                        | <u>1,656,851</u>        | <u>1,371,676</u>        |
| Total net position                  | <u>1,682,318</u>        | <u>1,391,549</u>        |
| Total liabilities and net position  | <u>\$ 1,743,509</u>     | <u>\$ 1,500,131</u>     |

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

**The Disciplinary Board of the Supreme  
Court of the State of New Mexico**  
Statements of Revenues, Expenses and Changes in Net Position  
For the Years Ended December 31,

|   | <u>2015</u>      | <u>2014</u>      |
|---|------------------|------------------|
| <b>Operating Revenues</b>                 |                  |                  |
| Fees                                      | \$ 1,097,246     | \$ 1,086,055     |
| Assessed costs                            | <u>26,456</u>    | <u>9,155</u>     |
| Total operating revenues                  | <u>1,123,702</u> | <u>1,095,210</u> |
| <b>Operating Expenses</b>                 |                  |                  |
| Personnel costs:                          |                  |                  |
| Salaries                                  | 440,944          | 473,534          |
| Other payroll-related expenses            | 75,667           | 96,605           |
| Retirement plan contributions             | 72,310           | 69,524           |
| Staff expenses                            | <u>3,480</u>     | <u>6,349</u>     |
| Total personnel costs                     | <u>592,401</u>   | <u>646,012</u>   |
| General and administrative costs:         |                  |                  |
| Court reporting and disciplinary hearings | 21,098           | 26,213           |
| Fee collection                            | 20,403           | 20,748           |
| Out-of-state travel                       | 18,180           | 18,140           |
| Insurance                                 | 17,625           | 24,818           |
| Accounting and audit services             | 15,138           | 15,083           |
| Contractual services                      | 10,597           | 65,707           |
| Office supplies                           | 9,219            | 5,740            |
| In-state travel                           | 8,234            | 3,511            |
| Printing                                  | 5,325            | 5,664            |
| Subscriptions and dues                    | 5,023            | 7,028            |
| Postage                                   | 4,885            | 5,577            |
| Board and commissioners                   | 3,050            | 735              |
| Miscellaneous                             | 2,816            | 1,766            |
| Bank fees, trust management               | <u>795</u>       | <u>550</u>       |
| Total general and administrative costs    | <u>142,388</u>   | <u>201,280</u>   |

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

**The Disciplinary Board of the Supreme  
Court of the State of New Mexico**  
Statements of Revenues, Expenses and Changes in Net Position – continued  
For the Years Ended December 31,

|                                  | <u>2015</u>                | <u>2014</u>                |
|----------------------------------|----------------------------|----------------------------|
| Occupancy costs:                 |                            |                            |
| Rent                             | 82,889                     | 81,332                     |
| Telephone                        | 10,384                     | 13,313                     |
| Depreciation                     | 8,372                      | 8,313                      |
| Maintenance                      | -                          | 508                        |
| Total occupancy costs            | <u>101,645</u>             | <u>103,466</u>             |
| Total operating expenses         | <u>836,434</u>             | <u>950,758</u>             |
| Operating income                 | 287,268                    | 144,452                    |
| <b>Nonoperating Revenues</b>     |                            |                            |
| Interest income                  | <u>3,501</u>               | <u>3,861</u>               |
| Total nonoperating revenues      | <u>3,501</u>               | <u>3,861</u>               |
| Change in net position           | 290,769                    | 148,313                    |
| Net Position, beginning of year  | <u>1,391,549</u>           | <u>1,243,236</u>           |
| <b>Net Position, end of year</b> | <u><u>\$ 1,682,318</u></u> | <u><u>\$ 1,391,549</u></u> |

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

**The Disciplinary Board of the Supreme  
Court of the State of New Mexico**  
Statements of Cash Flows  
For the Years Ended December 31,

|  | <u>2015</u>         | <u>2014</u>         |
|--|---------------------|---------------------|
| <b>Cash flows from operating activities</b>  |                     |                     |
| Fees and assessed costs received   | \$ 1,204,881        | \$ 1,034,783        |
| Cash paid to employees and related costs   | (595,323)           | (631,258)           |
| Cash paid to suppliers   | <u>(276,882)</u>    | <u>(272,290)</u>    |
| Net cash provided by operating activities  | <u>332,676</u>      | <u>131,235</u>      |
| <b>Cash flows from capital financing activities</b>                                    |                     |                     |
| Purchases of capital assets  | <u>(13,966)</u>     | <u>(7,647)</u>      |
| Net cash used in capital financing activities  | <u>(13,966)</u>     | <u>(7,647)</u>      |
| <b>Cash flows from investing activities</b>  |                     |                     |
| Investment income received   | <u>3,501</u>        | <u>3,861</u>        |
| Net cash provided by investing activities  | <u>3,501</u>        | <u>3,861</u>        |
| Net increase in cash and cash equivalents  | 322,211             | 127,449             |
| Cash and cash equivalents, beginning of year   | <u>1,377,196</u>    | <u>1,249,747</u>    |
| Cash and cash equivalents, end of year   | <u>\$ 1,699,407</u> | <u>\$ 1,377,196</u> |
| <b>Reconciliation of operating income to net cash provided by operating activities</b> |                     |                     |
| Operating income   | <u>\$ 287,268</u>   | <u>\$ 144,452</u>   |
| Adjustments to reconcile operating income to net cash provided by operating activities |                     |                     |
| Depreciation   | 8,372               | 8,313               |
| Changes in assets and liabilities  |                     |                     |
| Due from State Bar of New Mexico   | 86,619              | (64,419)            |
| Prepaid expenses   | (2,192)             | 10,116              |
| Reinstatement deposits   | (5,440)             | 3,992               |
| Accounts payable   | (39,029)            | 14,027              |
| Accrued expenses   | <u>(2,922)</u>      | <u>14,754</u>       |
| Total adjustments  | <u>45,408</u>       | <u>(13,217)</u>     |
| Net cash provided by operating activities  | <u>\$ 332,676</u>   | <u>\$ 131,235</u>   |

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

# The Disciplinary Board of the Supreme Court of the State of New Mexico

Notes to Financial Statements  
December 31, 2015 and 2014

## 1) Summary of Significant Accounting Policies

### Nature of Operations

The Disciplinary Board of the Supreme Court of the State of New Mexico (the "Disciplinary Board") was created by, and is an agency of, the Supreme Court of New Mexico. Eleven of the board members are appointed by the Supreme Court of New Mexico, and one board member is appointed by the State Bar of New Mexico (the "State Bar") with the consent and agreement of the New Mexico Supreme Court. The Disciplinary Board is charged with the responsibility of conducting adversary hearings and operating within the framework of procedures prescribed by the Supreme Court of New Mexico for the discipline of attorneys engaged in the practice of law in New Mexico.

### Restricted Distribution and Use of Financial Statements

These financial statements and accompanying notes are generally limited to the management of the Disciplinary Board, the board members, the New Mexico Supreme Court and those as authorized in writing by the Disciplinary Board.

### Basis of Presentation and Measurement Focus

The financial statements for the Disciplinary Board have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units accounted for as a proprietary enterprise fund. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. 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 Disciplinary Board's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of when the related cash flow takes place.

# The Disciplinary Board of the Supreme Court of the State of New Mexico

## Notes to Financial Statements December 31, 2015 and 2014

### 1) Summary of Significant Accounting Policies — continued

#### Cash and Cash Equivalents

For purposes of reporting cash flows, the Disciplinary Board considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

#### Assessed Costs Receivable

Assessed costs receivable relates to fees charged to attorneys pursuant to disciplinary action that have not been paid. At December 31, 2015 and 2014, \$30,352 and \$27,576, respectively, of outstanding assessment accounts receivable were fully reserved by the Disciplinary Board due to the uncertainty of collection.

#### Capital Assets

Furniture and equipment have been recorded at cost for purchased items. Depreciation is calculated using the straight-line method over the estimated useful lives of the individual assets, which range from three to seven years. The Disciplinary Board capitalizes all assets with a value of \$500 or greater and an estimated life of greater than one year.

#### Compensated Absences

Per the New Mexico Judicial Branch Rules Section 5.03, Judicial Branch employees may accrue a maximum of 240 hours of leave time. No employees exceeded the maximum as of December 31, 2015 and 2014. Accrued compensated absences were \$41,299 and \$49,523 at December 31, 2015 and 2014, respectively, and have been included in the "accrued expenses" line item in the statement of net position.

#### Fair Value of Financial Instruments

Management believes that the fair value of all its financial instruments is not materially different from their carrying values.

#### 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

**The Disciplinary Board of the Supreme  
Court of the State of New Mexico**

**Notes to Financial Statements  
December 31, 2015 and 2014**

1) Summary of Significant Accounting Policies — continued

Revenue Recognition

*Operating Activities* – Operating activities include the revenues and expenses that are usual and customary for the routine operations of the Disciplinary Board.

*Assessed Costs* – Assessed costs relate to fees charged to attorneys pursuant to disciplinary action. Fees not collected at the end of the year are fully reserved by the Disciplinary Board due to the uncertainty of collection.

Operating Revenues and Expenses

Operating revenues and expenses consist of revenues earned and expenses incurred relating to the principal ongoing operations of the Disciplinary Board. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Income Tax Status

As an agency of the Supreme Court of New Mexico, the Disciplinary Board is exempt from income taxes; therefore, there is no provision for federal or state income taxes.

Subsequent Events

Subsequent events were evaluated through May 20, 2016, which is the date the financial statements were available to be issued.

**The Disciplinary Board of the Supreme  
Court of the State of New Mexico**

Notes to Financial Statements  
December 31, 2015 and 2014

**2) Cash and Cash Equivalents**

Custodial credit risk is the risk that in the event of a bank failure, the Disciplinary Board's deposits may not be returned. The Disciplinary Board's investment policy directs funds to be invested in a manner that seeks to ensure the preservation of capital in the overall portfolio. At December 31, 2015 and 2014, the carrying amounts of the Disciplinary Board's deposits were \$1,699,407 and \$1,377,196, respectively, and the bank balances were \$1,708,351 and \$1,383,600, respectively. The Disciplinary Board's bank deposits have been categorized below to give an indication of the level of credit risk assumed by the Disciplinary Board as of December 31, 2015 and 2014.

|  | <u>2015</u>         | <u>2014</u>         |
|--|---------------------|---------------------|
| Insured (FDIC)   | \$ 961,740          | \$ 958,939          |
| Collateralized with pledged securities held by pledging<br>bank's agent in the Disciplinary Board's name | <u>746,611</u>      | <u>424,661</u>      |
| Total deposits - bank balances   | <u>\$ 1,708,351</u> | <u>\$ 1,383,600</u> |

**3) Capital Assets**

Capital asset activity for the years ended December 31, 2015 and 2014 is summarized as follows:

Year Ended December 31, 2015

|   | <u>Beginning<br/>Balances</u> | <u>Increases</u> | <u>Ending<br/>Balances</u> |
|---|-------------------------------|------------------|----------------------------|
| <i>Capital assets being depreciated</i>   |                               |                  |                            |
| Furniture and equipment                   | \$ 83,115                     | \$ 7,816         | \$ 90,931                  |
| Leasehold Improvements                    | <u>-</u>                      | <u>6,150</u>     | <u>6,150</u>               |
| Total capital assets being<br>depreciated | <u>83,115</u>                 | <u>13,966</u>    | <u>97,081</u>              |
| <i>Less: accumulated depreciation for</i> |                               |                  |                            |
| Furniture and equipment                   | 63,242                        | 8,065            | 71,307                     |
| Leasehold Improvements                    | <u>-</u>                      | <u>307</u>       | <u>307</u>                 |
| Total accumulated depreciation            | <u>63,242</u>                 | <u>8,372</u>     | <u>71,614</u>              |
| <i>Capital assets, net</i>                | <u>\$ 19,873</u>              | <u>\$ 5,594</u>  | <u>\$ 25,467</u>           |

**The Disciplinary Board of the Supreme  
Court of the State of New Mexico**

**Notes to Financial Statements  
December 31, 2015 and 2014**

3) Capital Assets — continued

Year Ended December 31, 2014

|   | Beginning<br>Balances | Increases | Ending<br>Balances |
|---|-----------------------|-----------|--------------------|
| <i>Capital assets being depreciated</i>   |                       |           |                    |
| Furniture and equipment                   | \$ 75,468             | \$ 7,647  | \$ 83,115          |
| Total capital assets being depreciated    | 75,468                | 7,647     | 83,115             |
| <i>Less: accumulated depreciation for</i> |                       |           |                    |
| Furniture and equipment                   | 54,929                | 8,313     | 63,242             |
| Total accumulated depreciation            | 54,929                | 8,313     | 63,242             |
| <i>Capital assets, net</i>                | \$ 20,539             | \$ (666)  | \$ 19,873          |

4) Related Party Transactions

The State Bar, with the consent and agreement of the New Mexico Supreme Court, appoints one of the board members of the Disciplinary Board. The State Bar bills and collects disciplinary fees from its members on behalf of the Disciplinary Board.

At December 31, 2015 and 2014, the State Bar owed \$0 and \$86,619, respectively, to the Disciplinary Board in conjunction with this service. The State Bar charges the Disciplinary Board a fee for the collection of dues. In 2015 and 2014, the fee was set at 2% of amounts collected. During 2015 and 2014, total fees were \$20,403 and \$20,748, respectively.

# The Disciplinary Board of the Supreme Court of the State of New Mexico

Notes to Financial Statements  
December 31, 2015 and 2014

## 5) Reinstatement Deposits

An attorney seeking reinstatement of his/her license to practice law in New Mexico is required to provide a deposit with his/her petition for reinstatement (SCRA 1986, 17-214). The Disciplinary Board retains this deposit during the reinstatement process and applies any expenses incurred by the Disciplinary Board related to the attorney's reinstatement against the deposit balance. (These deposits have been reflected in cash and cash equivalents at December 31, 2015 and 2014). During this process, the Disciplinary Board is liable to the attorney for the net deposit amount as any remaining balance is refunded to the attorney at the conclusion of the reinstatement process. At December 31, 2015 and 2014, the Disciplinary Board's liability related to reinstatements was \$1,552 and \$6,992, respectively.

## 6) Pension Plan – Public Employees Retirement Association

*Plan Description.* Substantially all of the Disciplinary Board's 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, New Mexico 87504-2123. The report is also available on PERA's website at [www.nmpera.org](http://www.nmpera.org).

*Funding Policy.* Plan members are required to contribute 8.92% of their gross salary. The Disciplinary Board was required to contribute 16.99% of the gross covered salary. The contribution requirements of plan members and the Disciplinary Board are established under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of legislature. The Disciplinary Board's contribution to PERA for the years ending December 31, 2015 and 2014 were \$72,310 and \$69,524, respectively, which equals the amount of the required contributions for the fiscal year.

*GASB 68 – Financial Reporting and Disclosure for Multiple-Employer Cost Sharing Pension Plans by Employers.* Compliant with the requirements of Government Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions, the State of New Mexico has implemented the standard for the fiscal year ending June 30, 2015.

# The Disciplinary Board of the Supreme Court of the State of New Mexico

Notes to Financial Statements  
December 31, 2015 and 2014

## 6) Pension Plan – Public Employees Retirement Association – continued

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

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

## 7) Leases

Effective August 1, 2009, the Disciplinary Board entered into an operating lease for office space which requires the Disciplinary Board to pay executory costs such as insurance, property tax and management fees. The lease expires August 31, 2019. The Disciplinary Board incurred rent expense of \$82,889 and \$81,332 during the years ended December 31, 2015 and 2014, respectively. Future minimum lease payments under this lease agreement are as follows:

|      |                   |
|------|-------------------|
| 2016 | \$ 79,194         |
| 2017 | 80,425            |
| 2018 | 81,656            |
| 2019 | <u>54,985</u>     |
|      | <u>\$ 296,260</u> |

## 8) Risk Management

The Disciplinary Board, a "State Agency," as defined in the New Mexico Tort and Claims Act, is insured through the Risk Management Division of the State of New Mexico. The Risk Management Division provides coverage for liability and civil rights protection for claims made by others against the State of New Mexico. At December 31, 2015 and 2014, the Disciplinary Board had no claims that the Risk Management Division returned as not covered, which would become the responsibility of the Disciplinary Board. During the years ended December 31, 2015 and 2014, the Disciplinary Board expensed payments to the Risk Management Division of approximately \$17,600 and \$21,000, respectively.

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

To the Board Members of  
The Disciplinary Board of the Supreme Court of the State of New Mexico  
Albuquerque, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Disciplinary Board of the Supreme Court of the State of New Mexico (the "Disciplinary Board"), as of and for the year ended December 31, 2015, and the related notes to the financial statements, and have issued our report thereon dated May 20, 2016.

**Internal Control Over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control that we consider to be a material weakness.

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 as item FS 2015-001 to be a material weakness.

## **Compliance and Other Matters**

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

## **Disciplinary Board's Response to Findings**

The Disciplinary Board's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Disciplinary Board's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

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

Loftis Group LLC

Albuquerque, New Mexico  
May 20, 2016

**The Disciplinary Board of the Supreme  
Court of the State of New Mexico**  
Schedule of Findings and Responses  
December 31, 2015

**Section I — Findings**

**FS 2015-001 – Account Reconciliation and Analysis**

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*Criteria:* Maintenance of complete and accurate accounting records and preparation of annual financial statements and footnotes in accordance with generally accepted accounting principles (GAAP) ensures that timely, accurate and useful information is available to management, those charged with governance and other interested parties. Internal controls must be in place to safeguard assets and ensure accurate financial accounting and reporting. Fundamental to a good system of internal controls is thorough review processes, accurate record keeping of accounting transactions, and preparation of accurate account reconciliations.

*Condition:* Certain reconciliations were not performed at year-end. A significant year-end audit adjustment totaling \$84,390 was required to properly record revenues and unearned revenues. Additional audit adjustments ranging from \$4,595 to \$13,760 were required to properly record cash, payroll expenses, accounts payable, rent expense, and accrued liabilities.

*Cause and Effect:* An adequate review of significant transactions to ensure proper accounting treatment was not performed for the accounts listed above, resulting in differences between the Disciplinary Board's internal accounting records and the audited financial statements. The Disciplinary Board's internal accounting records were not kept in accordance with GAAP and additional effort was required in order to prepare the audited financial statements in accordance with GAAP.

*Auditors' Recommendation:* Implement effective internal controls that ensure all significant matters impacting the accounting records and financial statements are evaluated for proper accounting treatment in a timely manner.

*Management Response:* The primary issues appear to have been a failure to record the December, 2015 accrued income in a timely manner and the failure to enter, reconcile or properly categorize certain payroll-related and retirement contribution expenses in a timely manner. Management agrees that these items should have been resolved prior to the Audit. Management is consolidating the provision of financial services to the Board in a single provider which, effective May 12, 2016 will result in a new accountant providing the Board its accounting services. Management will work more closely with the new provider and take a more active role in the review of year-end statements in order to stay better informed as to GAAP compliance. Management is confident that this will resolve the issue. Management wishes to emphasize that the observed errors were recording and reporting errors and that no funds were unaccounted for in the Board's accounts and no fraud was present.

**The Disciplinary Board of the Supreme  
Court of the State of New Mexico**  
Status of Prior Year Audit Findings  
December 31, 2015

**FS 2014-001 – Account Reconciliation and Analysis**

*Condition:* Certain reconciliations were not performed at year-end. A significant year-end audit adjustment totaling \$86,619 was required to properly record receivables and revenues. In addition, a year-end audit adjustment totaling \$6,623 was required to properly record prepaid expenses and rent expense.

*Current Status:* Unresolved, see current year finding FS 2015-001.