

STATE OF NEW MEXICO



ANNUAL FINANCIAL REPORT

JUNE 30, 2017

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INTRODUCTORY SECTION

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STATE OF NEW MEXICO
Town of Estancia
ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2017

TABLE OF CONTENTS

| | <u>Exhibit</u> | <u>Page</u> |
|---|----------------|-------------|
| INTRODUCTORY SECTION | | |
| Table of Contents | | 1 |
| Official Roster | | 5 |
| FINANCIAL SECTION | | |
| Independent Auditor’s Report | | 9 |
| Management’s Discussion and Analysis | | 12 |
| Basic Financial Statements | | |
| Government-wide Financial Statements: | | |
| Statement of Net Position | A-1 | 22 |
| Statement of Activities | A-2 | 24 |
| Fund Financial Statements: | | |
| Balance Sheet – Governmental Funds | | |
| Reconciliation of the Balance Sheet to the Statement of Net Position | | 2 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds | B-2 | 3 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities | | 33 |
| Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual: | | |
| General Fund | C-1 | 3 |
| Statement of Fund Net Position – Proprietary Funds | D-1 | 37 |
| Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds | D-2 | 3 |
| Statement of Cash Flows – Proprietary Funds | D-3 | 4 |
| Notes to the Financial Statements | | 43 |
| SUPPLEMENTARY INFORMATION | | |
| Non-major Fund Descriptions | | |
| Combining and Individual Fund Statements and Schedules: | | |
| Combining Balance Sheet – Nonmajor Governmental Funds | A-1 | 72 |
| Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds | A-2 | 7 |

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STATE OF NEW MEXICO
Town of Estancia
ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2017

TABLE OF CONTENT

| | <u>Statement/ Schedule</u> | <u>Page</u> |
|--|--------------------------------|-------------|
| Pension Liability – Required Supplementary Information | | |
| Schedule of Proportionate Share of the Net Pension Liability of PERA Fund Division – General | | 3 |
| Schedule of Proportionate Share of the Net Pension Liability of PERA Fund Division – Police | | |
| Schedule of Contributions, PERA Fund Division – General | | 7 |
| Schedule of Contributions, PERA Fund Division – Police | | |
| Notes to Required Supplementary Information | | |
| SUPPORTING SCHEDULES | | |
| Schedule of Collateral Pledged by Depository for Public funds | I | |
| Schedule of Cash and Temporary Investment Accounts | II | 7 |
| COMPLIANCE | | |
| 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 | | 1 |
| Schedule of Findings and Responses | | 1 23 |
| Other Disclosures | | 124 |

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STATE OF NEW MEXICO
Town of Estancia

OFFICIAL ROSTER
June 30, 2017

| <u>Name</u> | | <u>Title</u> |
|-----------------|-----------------------|--|
| | <u>Town Council</u> | |
| Sylvia Chavez | | Mayor |
| J Morrow Hall | | Mayor Pro Tem |
| Manuel Romero | | Trustee |
| Cory Dryden | | Trustee |
| Stella Chavez | | Trustee |
| | <u>Town Officials</u> | |
| Michelle Jones | | Clerk/Treasurer |
| Debra Kelly | | Clerk/Treasurer 7/1/2016 to 3/15/2017 |
| Michelle Dunlap | | Deputy Clerk |

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Timothy Keller
New Mexico State Auditor
The Office of Management and Budget and
The Governing Board
Town of Estancia
Estancia, New Mexico

Report on Financial Statements

We were engaged to audit the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, and the budgetary comparisons of the general fund of the Town of Estancia (the "Town") as of and for the year ended June 30, 2017, and the related notes to the financial statements which collectively comprise the Town of Estancia's basic financial statements as listed in the table of contents. We did not audit the 2016 Schedule of Employer Allocations and Pension Amounts of the State of New Mexico Public Employee Retirement Association (PERA), the administrator of the cost sharing pension plan for the Town. The schedules and statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Town, is based solely on the report of the other auditors.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an opinion.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Town of Estancia'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 Town of Estancia'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 were not able to obtain sufficient and appropriate audit evidence to provide a basis for our audit opinion.

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Basis for Disclaimer of Opinion

The Town of Estancia was unable to provide sufficient evidential matter in support of certain transactions and account balances, as presented in the Town's financial statements as of and for the year ended June 30, 2017, particularly with respect to the cash balances, related internal funds, capital assets and depreciation and current year activities.

It was impracticable to extend our audit procedures sufficiently to determine the extent to which Town of Estancia's financial statements as of and for the year ended June 30, 2017 may have been affected by the matters discussed in the preceding paragraph; accordingly, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the accompanying financial statements as of and for the year ended June 30, 2017.

Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 12-20, the *Schedule of the Town's Proportionate Share of the Net Pension Liability of PERA Fund Divisions* on pages 3 , the *Schedule of Contributions* on pages 7 , and the notes to required supplementary information on page 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 the 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 Information

We were engaged for the purpose of forming opinions on Town of Estancia's financial statements that collectively comprise the Town of Estancia's basic financial statements. The combining and individual fund financial statements, and other supplemental information required by 2.2.2 NMAC, presented in the supplementary information section of the Table of Contents, are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund statements and other Schedules, presented in the supplementary information section of the Table of Contents, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. 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 November 9, 2017 on our consideration of the Town of Estancia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Estancia's internal control over financial reporting and compliance.

Precision Accounting, LLC

Precision Accounting, LLC
Albuquerque, New Mexico
November 9, 2017

STATE OF NEW MEXICO
Town of Estancia
Management's Discussion and Analysis
for the Year Ended June 30, 2017
Unaudited

As management of the Town of Estancia, we offer readers of the Town of Estancia's financial statements this narrative overview and analysis of the financial activities of the Town of Estancia for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with the financial statements of the Town of Estancia and additional information provided.

FINANCIAL HIGHLIGHTS

- The assets of the Town of Estancia exceeded its liabilities at the close of the most recent fiscal year by \$9,233,049 (*net position*). Of this amount, \$(,) (*unrestricted*) is obligated to creditors.
- The government's total net position decreased by \$4 3, 4 during the fiscal year. The majority of this decrease is due to a increase in expenditures and an decrease in capital grants and contributions.
- As of June 30, 2017, the Town's governmental funds reported combined ending fund balances of \$1,93 ,966. Of this total, \$28,639 is restricted for capital projects, \$56,765 is restricted for special revenue funds and \$1,000,000 is restricted for the general fund.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town of Estancia's basic financial statements. The Town of Estancia's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Town of Estancia's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the Town of Estancia's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town of Estancia is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Town of Estancia that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town of Estancia include general government, public safety, public works, culture and recreation, and health and welfare. The business-type activities of the Town include Sewer/AWWT, Solid Waste, Water and Meter Deposits.

The government-wide financial statements can be found at Exhibits A-1 and A-2 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Estancia, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town of Estancia can be divided into two categories: governmental funds, and proprietary funds.

Governmental Funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide

STATE OF NEW MEXICO
Town of Estancia
Management's Discussion and Analysis
for the Year Ended June 30, 2017
Unaudited

financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in determining what financial resources are available in the near future to finance the Town's programs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Town of Estancia maintains fifteen individual governmental funds organized according to their type (special revenue, debt service and capital projects). Information is presented separately in the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balances for the General Fund, and Grants Capital Projects Fund, all of which are considered to be major funds. Data from the other thirteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The Town of Estancia adopts an annual appropriated budget for its general fund and all other funds. A budgetary comparison statement has been provided for the General Fund, and Grants Capital Projects Fund, to demonstrate compliance with this budget. In addition, the individual financial statements of the non-major governmental fund types include budgetary comparison data.

The basic governmental fund financial statements can be found at exhibits B-1 through D-3 of this report.

Proprietary funds. Proprietary funds are generally used to account for services for which the Town charges customers either outside customers or internal units or departments of the Town. Proprietary funds provide the same type of information as shown in the government-wide financial statements, only in more detail. The Town maintains three types of proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 39-62 of this report.

Combining statements. The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 70-97 of this report.

STATE OF NEW MEXICO
Town of Estancia
Management's Discussion and Analysis
for the Year Ended June 30, 2017
Unaudited

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The Town has presented its financial statements under the new reporting model required by the Governmental Accounting Standards Board Statement No. 34 (GASB #34), *Basic Financial Statements –and Management's Discussion and Analysis (MD&A) -for State and Local Governments*.

Analysis of Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Town of Estancia, assets exceeded liabilities by \$9,233, 4 at the close of the current fiscal year.

The largest portion of the Town of Estancia's net position represents the Town's investment of \$8,753,076 in capital assets (e.g., land improvements, buildings, infrastructure and machinery & equipment); less any related outstanding debt used to acquire those assets. The Town of Estancia uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Town of Estancia's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Statement of Net Position
For the Year Ended June 30, 2017 and June 30, 2016

| | June 30, 2017 | | | June 30, 2016 | | |
|--|------------------|---------------------|--------------------|---------------------|---------------------|----------------------|
| | Governmental | Business Type | Total | Governmental | Business Type | Total |
| Assets | | | | | | |
| Current and other assets | \$, 343 | \$ 290,918 | \$ 1, , 2 | \$ 2,529,264 | \$ 208,945 | \$ 2,738,209 |
| Capital assets, net of accumulated depreciation | 6,368,626 | 2,653,074 | 9,021,700 | 5,260,094 | 2,932,566 | 8,192,660 |
| Deferred Outflows of resources | 468,846 | - | 468,846 | 98,816 | - | 98,816 |
| Total Assets | ,437, | 2,943,992 | ,3 , 7 | 7,888,174 | 3,141,511 | 11,029,685 |
| Liabilities | | | | | | |
| Long-term liabilities outstanding | 1,328,191 | 61,850 | 1,390,041 | 800,392 | 72,957 | 873,349 |
| Other Liabilities | 680,371 | 52,881 | 733,252 | 309,196 | 41,562 | 350,758 |
| Total Liabilities | 2,008,562 | 114,731 | 2,123,293 | 1,109,588 | 114,519 | 1,224,107 |
| Deferred Inflows of Resources | 25,465 | - | 25,465 | 18,937 | - | 18,937 |
| Net Position | | | | | | |
| Net investment in capital assets | 6,160,857 | 2,592,219 | 8,753,076 | 5,027,011 | 2,867,548 | 7,894,559 |
| Restricted | 1,030,042 | - | 1,030,042 | 2,102,317 | - | 2,102,317 |
| Unrestricted | (7 7,111) | 237,042 | (,) | (324,877) | 159,444 | (165,433) |
| Total Net Position | ,4 3,7 | 2,829,261 | 9,233, 4 | 6,759,649 | 3,026,992 | 9,786,641 |
| Total Liabilities, Deferred Inflows of Resources and Net Position | \$ 8,437, | \$ 2,943,992 | \$ 11,3 , 7 | \$ 7,888,174 | \$ 3,141,511 | \$ 11,029,685 |

STATE OF NEW MEXICO
Town of Estancia
Management's Discussion and Analysis
for the Year Ended June 30, 2017
Unaudited

A portion of the Town of Estancia's net position represents resources that are subject to restrictions. The restrictions relate to capital projects and debt service.

At the end of the current fiscal year, the Town of Estancia is able to report positive balances in all of the categories of net position, for the government as a whole as well as for the business-type activities.

The Town of Estancia's net position decreased by \$4 3, 4 during the current fiscal year. This increase is explained in the government and business-type activities discussion below and is primarily a result of an increase in expenditures.

Changes in Net Position
For the Year Ended June 30, 2017

| | Governmental Activities | Business Type Activities | Total |
|---|----------------------------|-----------------------------|--------------|
| <u>Revenue</u> | | | |
| Program revenue | | | |
| Charges for Service | \$ 85,927 | \$ 817,227 | \$ 903,154 |
| Operating grants and contributions | 403,763 | - | 403,763 |
| Capital Grants | 47, 4 | - | 47, 4 |
| General Revenue | | | |
| Property Tax | 18,034 | - | 18,034 |
| Franchise Tax | 3,429 | - | 3,429 |
| Gross Receipts Tax | 776,917 | - | 776,917 |
| Public Service Tax | 27,144 | - | 27,144 |
| Miscellaneous | 1,645 | - | 1,645 |
| Total Revenue | \$,4 4, 73 | \$ 817,227 | \$ 2,2 , |
| <u>Expenses</u> | | | |
| General Government | 869,081 | - | 869,081 |
| Public Safety | 434,616 | - | 434,616 |
| Culture and Recreation | 203,436 | - | 203,436 |
| Health and Welfare | 202,490 | - | 202,490 |
| Public Works | 110,651 | - | 110,651 |
| Interest on Long-term debt | 2,217 | - | 2,217 |
| Business-type activities | - | 873,255 | 873,255 |
| Total Expenses | \$ 1,822,491 | \$ 873,255 | \$ 2,695,746 |
| (Decrease) Increase in Assets before transfer | (3 7,) | (56,028) | (4 3, 4) |
| Transfers | 1,957 | (1,957) | - |
| (Decrease) Increase in Net Position | (3 ,) | (57,985) | (4 3, 4) |
| Net Position, Beginning of year | 6,759,649 | 2,887,246 | 9,646,895 |
| Ending Net Position | \$,4 3,7 | \$ 2,829,261 | \$,233, 4 |

Governmental activities: Governmental activities decreased the Town of Estancia's net position by \$3 ,861. The key element of this decrease was a decrease in revenues and an increase in expenditures.

STATE OF NEW MEXICO
Town of Estancia
Management's Discussion and Analysis
for the Year Ended June 30, 2017
Unaudited

Business-type activities: Business-type activities decreased the Town's net position by \$56,028. The key element of this increase was the due to the expenses exceeded revenues.

Changes in Net Position
For the Year Ended June 30, 2016

| | Governmental Activities | Business Type Activities | Total |
|---|----------------------------|-----------------------------|--------------|
| <u>Revenue</u> | | | |
| Program revenue | | | |
| Charges for Service | \$ 155,178 | \$ 663,216 | \$ 818,394 |
| Operating grants and contributions | 349,626 | - | 349,626 |
| Capital Grants | 945,217 | - | 945,217 |
| General Revenue | | | |
| Property Tax | 17,275 | - | 17,275 |
| Gross Receipts Tax | 2,838 | - | 2,838 |
| Motor Vehicle & Fuel Tax | 714,538 | - | 714,538 |
| Other taxes | 19,628 | - | 19,628 |
| Miscellaneous revenue | 1,880 | - | 1,880 |
| Total Revenue | \$ 2,206,180 | \$ 663,216 | \$ 2,896,494 |
| <u>Expenses</u> | | | |
| General Government | \$ 592,247 | - | 592,247 |
| Public Safety | 462,880 | - | 462,880 |
| Culture and Recreation | 282,654 | - | 282,654 |
| Health and Welfare | 86,872 | - | 86,872 |
| Public Works | (2,768) | - | (2,768) |
| Interest on Long-term debt | (1,786) | - | (1,786) |
| Business-type activities | - | 605,374 | 605,374 |
| Total Expenses | \$ 1,420,099 | \$ 605,374 | \$ 2,025,473 |
| (Decrease) Increase in Assets before transfer | 786,081 | 57,842 | 843,923 |
| Transfers | 12,772 | (12,772) | - |
| (Decrease) Increase in Net Position | 798,853 | 45,070 | 843,923 |
| Net Position, Beginning of year | \$ 5,960,796 | \$ 2,981,922 | \$ 8,942,718 |
| Ending Net Position | \$ 6,759,649 | \$ 3,026,992 | \$ 9,786,641 |

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

As noted earlier, the Town of Estancia uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

STATE OF NEW MEXICO
Town of Estancia
Management's Discussion and Analysis
for the Year Ended June 30, 2017
Unaudited

Governmental funds. The focus of the Town of Estancia's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Town of Estancia's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. The types of Governmental funds reported by the Town include the General Fund, Special Revenue Funds, Debt Service Funds and Capital Project Funds.

As of the end of the current fiscal year, the Town of Estancia's governmental funds reported combined ending fund balances of \$1,939,966 a decrease of \$3, in comparison with the prior year. \$3, constitutes *unreserved fund balance*, which is available for spending at the government's discretion.

Revenues for governmental activities overall totaled \$1,237,224 in the fiscal year ended June 30, 2017, which represents a decrease of \$683,507 from the fiscal year ended June 30, 2016. Expenditures for governmental activities, totaling \$1,545,796, increased by \$125,697 from the fiscal year ended June 30, 2016. In the fiscal year ended June 30, 2017, expenditures exceeded revenues by \$308,572.

The General Fund is the chief operating fund of the Town of Estancia. At the end of the current fiscal year, *unreserved* fund balance of the general fund was \$1,139,559 while total fund balance was \$2,161,644.

The fund balance of the Town of Estancia's general fund decreased by \$56,510 during the current fiscal year due to expenditures in excess of revenues. Overall, the general fund's performance in the fiscal year ended June 30, 2017 is due to the increase in general operations.

Grants Fund. The Grants Fund has a fund balance of \$28,639. The fund balance increased by \$522 compared to the fiscal year ended June 30, 2016.

Proprietary Funds. The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

At the end of the fiscal year, the unrestricted net position for Sewer, Solid Waste, Water and Meter Deposits funds were \$189,602, \$110,734, \$2,528,925 and \$0, respectively. The change in net position for the proprietary funds was (\$57,985). Factors concerning the finances of this fund have been addressed previously in the discussion of the Town's business-type activities.

STATE OF NEW MEXICO
Town of Estancia
Management's Discussion and Analysis
for the Year Ended June 30, 2017
Unaudited

General Fund Budgetary Highlights

The Town budgets reflect the same pattern as seen in the revenue and expenditures of the Town. The State of New Mexico budget process is defined under state law and regulation. To enhance the process of developing a budget at the Town level, the Town of Estancia utilizes goals and objectives defined by the Town Trustees, community input meetings, long-term plans and input from various staff groups to develop the Town budget. The Town priorities are well defined through this process.

GASB Statement No. 34 does not require a statement presenting the overall result of the budget for each year; however, all major budgetary funds are required to be reported as a separate statement.

General Fund Expenditure Budget Performance

| Final Budget | Actual non-GAAP Cash Basis | Favorable (Unfavorable) Variance |
|--------------|-------------------------------|--|
| \$1,135,156 | \$920,402 | \$214,754 |

The Town's final budget differs from the original budget due to budget increases and decreases that were made during the fiscal year.

The Capital Project Funds are included in the original budget which is submitted to the Department of Finance and Administration (DFA). These funds are spent on a project-by-project basis so the budgets are constantly changing. Instead, the budgets for these funds are created during the year through budget adjustment requests (BARs).

Capital Asset and Debt Administration

Capital assets. The Town of Estancia's capital assets for its governmental and business-type activities as of June 30, 2017 amount to \$3,505,967 (net of accumulated depreciation). Capital assets include land, infrastructure, buildings, and machinery & equipment. The total increase in the Town's capital assets (excluding accumulated depreciation) for the current fiscal year was \$6,482,005 for governmental activities due primarily to an addition to construction in progress placed in service in the fiscal year 2017. There was an increase in capital assets (excluding accumulated depreciation) in business-type capital assets during the current fiscal year of \$0.

Capital Assets, Net of Depreciation
June 30, 2017

| | Governmental Activities | Business Type Activities | Total |
|--|----------------------------|-----------------------------|---------------------|
| General Capital Assets | \$ 5,694,279 | \$ - | \$ 5,694,279 |
| Land | - | 1,177,316 | 1,177,316 |
| Buildings & Improvements | - | 206,200 | 206,200 |
| Equipment & Vehicles | - | 389,473 | 389,473 |
| Utility Plant in service | - | 3,272,673 | 3,272,673 |
| Construction in progress | 787,726 | - | 730,506 |
| Total capital assets | 6,482,005 | 5,045,662 | 11,527,667 |
| Accumulated depreciation | (1,113,379) | (2,392,588) | (3,505,967) |
| Capital assets, net of accumulated depreciation | <u>\$ 5,368,626</u> | <u>\$ 2,653,074</u> | <u>\$ 8,021,700</u> |

STATE OF NEW MEXICO
Town of Estancia
Management's Discussion and Analysis
for the Year Ended June 30, 2017
Unaudited

For government-wide financial statement presentation, all depreciable capital assets were depreciated from acquisition date to the end of the current fiscal year. Fund financial statements record capital asset purchases as expenditures. See Note 7 in the accompanying Notes to the Financial Statements for further information regarding capital assets.

Debt Administration. At the end of the current fiscal year, the Town of Estancia had total debt obligations outstanding of \$285,061 of this \$16,252 is current portion of debt.

Outstanding Debt
As of June 30, 2017

| | Governmental Activities | Business Type Activities | Total |
|------------------------------|------------------------------------|-------------------------------------|--------------|
| Loans and Notes payables | \$ 195,805 | 56,567 | \$ 252,372 |
| Accrued compensated absences | 10,154 | 5,283 | 15,437 |
| Total long-term liabilities | \$ 205,959 | \$ 61,850 | \$ 267,809 |

Long-term debt additions and retirements related to revenue bonds and loans for governmental activities for the current year were \$0 and \$25,294, respectively. Accrued compensated absences additions and retirements were \$10,602 and \$11,767, respectively, for governmental activities. Long-term debt additions and retirements related to notes and loans for business type activities for the current year were \$0 and \$4,163, respectively. Business type activities accrued compensated absences additions and retirements were \$5,465 and \$10,920, respectively.

See Note 8 in the accompanying Notes to the Financial Statements for further information regarding the Town of Estancia's long-term debt.

Economic Factors and Next Year's Budgets and Rates

The Torrance County Detention Facility has closed as of October 23, 2017. The facility employed 204 people, many of whom are Estancia residents. The Facility paid \$140,000.00 annually in utility bills to the Town; 26% of our annual billing and contributes approximately 60% of our annual GRTs- approximately \$480,000.00. We will not know the exact impact to our GRTs until December. We have been proactive in addressing this issue in several ways. We have implemented a hiring freeze. We are currently running our Public Works Department with two paid employees and two employees who are working with us through Workforce Connection, which means that Workforce Connection is paying their salaries and benefits. We have cut our Animal Control Department, and we now have a volunteer Fire Chief. We have also moved to a 4-ten hour day work week. This will help with utility expenses. We have also cut the stipends we were paying our library volunteers, and we are only approving mandatory training and travel. We have also enacted a hold harmless tax which has been producing approximately \$8,000.00 per month in additional revenues.

We are optimistic about the future of our Town. We have recently had two small businesses open and we will have another open on December 1. We recently approved a restaurant liquor license for a local restaurant that will improve their business. We are also optimistic about our audit. We know that each finding is an opportunity for us to do better; to run our town in a manner that is transparent, ethical, and in the best interest of our residents. We corrected 17 of the 34 findings we received last year. We received 17 repeated and revised findings this year and no new findings. We are looking forward to cutting that number significantly again next year. We have a detailed plan in place to address and resolve each finding.

We want to thank Melissa Santistevan and her team at Precision Accounting for their professionalism, attention to detail, and adherence to the law throughout this audit process.

STATE OF NEW MEXICO
Town of Estancia
Management's Discussion and Analysis
for the Year Ended June 30, 2017
Unaudited

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town of Estancia's finances for all of those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Town of Estancia Administration, Town of Estancia, P.O. Box 166, Estancia, New Mexico, 87016.

**BASIC
FINANCIAL STATEMENTS**

STATE OF NEW MEXICO
TOWN OF ESTANCIA
STATEMENT OF NET POSITION
June 30, 2017

Exhibit A-1

| | Governmental Activities | Business-type Activities | Total |
|--|----------------------------|-----------------------------|---------------|
| Assets | | | |
| Current Assets | | | |
| Cash and cash equivalents | \$ 651,556 | \$ - | \$ 651,556 |
| Internal pooled cash | 43,115 | 242,522 | 285,637 |
| Due from other funds for negative cash | - | - | - |
| Investments | 855,226 | - | 855,226 |
| Taxes receivable | - | - | - |
| Accounts receivable | 50,446 | 48,396 | 98,842 |
| | 1,600,343 | 290,918 | 1,891,261 |
| Total Current Assets | | | |
| Noncurrent Assets | | | |
| Restricted Cash for Library Building Fund | 1,000,000 | - | 1,000,000 |
| Capital assets | 6,482,005 | 5,045,662 | 11,527,667 |
| Less: accumulated depreciation | (1,113,379) | (2,392,588) | (3,505,967) |
| | 6,368,626 | 2,653,074 | 9,021,700 |
| Total Noncurrent Assets | | | |
| Deferred Outflows of Resources | | | |
| Deferred Outflows related to Net Pension Liability | 468,846 | - | 468,846 |
| | 468,846 | - | 468,846 |
| Total Deferred Outflows of Resources | | | |
| Total Assets and Deferred Outflows of Resources | \$ 8,437,815 | \$ 2,943,992 | \$ 11,381,807 |

STATE OF NEW MEXICO
TOWN OF ESTANCIA
STATEMENT OF NET POSITION
June 30, 2017

Exhibit A-1

| | Governmental Activities | Business-type Activities | Total |
|--|----------------------------|-----------------------------|------------|
| Liabilities | | | |
| Current Liabilities | | | |
| Internal pooled cash | \$ 395,584 | \$ - | \$ 395,584 |
| Due to other funds for negative cash | 51,378 | - | 51,378 |
| Accounts payable | 203,055 | 6,505 | 209,560 |
| Accrued salaries and wages | 16,513 | 6,077 | 22,590 |
| Accrued interest | 30 | 380 | 410 |
| Accrued compensated absences | 1,847 | 1,364 | 3,211 |
| Unearned Revenue | - | 34,267 | 34,267 |
| Current portion of bonds and loans payable | 11,964 | 4,288 | 16,252 |
| Total Current Liabilities | 680,371 | 52,881 | 733,252 |
| Noncurrent Liabilities | | | |
| Bonds payable | - | - | - |
| Accrued Compensated Absences | 10,154 | 5,283 | 15,437 |
| Loans and notes payable | 195,805 | 56,567 | 252,372 |
| Net Pension Liability | 1,122,232 | - | 1,122,232 |
| Total Noncurrent Liabilities | 1,328,191 | 61,850 | 1,390,041 |
| Total Liabilities | 2,008,562 | 114,731 | 2,123,293 |
| Deferred Inflows of Resources | | | |
| Unavailable revenue-property taxes | - | - | - |
| Deferred Inflows related to Net Pension Liability | 25,465 | - | 25,465 |
| Total Deferred Inflows of Resources | 25,465 | - | 25,465 |
| Net Position | | | |
| Net Investment in Capital Assets | 6,160,857 | 2,592,219 | 8,753,076 |
| Restricted for: | | | |
| Debt Service | (39,157) | - | (39,157) |
| Capital Project Funds | 185,282 | - | 185,282 |
| Special Revenue Funds | (116,083) | - | (116,083) |
| General Fund- Library Building fund | 1,000,000 | - | 1,000,000 |
| Unrestricted | (787,111) | 237,042 | (550,069) |
| Total Net Position | 6,403,788 | 2,829,261 | 9,233,049 |
| Total Liabilities, Deferred Inflows of Resources, and Net Position | \$ 8,437,815 | \$ 2,943,992 | 11,381,807 |

STATE OF NEW MEXICO
TOWN OF ESTANCIA
STATEMENT OF ACTIVITIES
For the Year Ending June 30, 2017

Exhibit A-2

| Functions/Programs | Program Revenues | | |
|---|---------------------|-------------------------|---------------------------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions |
| Primary Government | | | |
| General government | \$ 869,081 | \$ 57,983 | \$ 245,533 |
| Public safety | 434,616 | 21,200 | 108,230 |
| Public works | 110,651 | - | 50,000 |
| Culture and recreation | 203,436 | - | - |
| Health and welfare | 202,490 | 6,744 | - |
| Interest on long-term debt | 2,217 | - | - |
| | <u>1,822,491</u> | <u>85,927</u> | <u>403,763</u> |
| <i>Total governmental activities</i> | | | |
| Business-type Activities: | | | |
| Sewer/AWWT | 95,538 | 122,731 | - |
| Solid Waste | 171,856 | 201,425 | - |
| Water | 605,861 | 493,071 | - |
| | <u>873,255</u> | <u>817,227</u> | <u>-</u> |
| <i>Total business type activities</i> | | | |
| Total | <u>\$ 2,695,746</u> | <u>\$ 903,154</u> | <u>\$ 403,763</u> |
| General Revenues: | | | |
| Taxes | | | |
| Property taxes, levied for general purposes | | | |
| Franchise taxes | | | |
| Gross receipts taxes | | | |
| Public service taxes | | | |
| Interest income | | | |
| Transfers | | | |
| Miscellaneous income | | | |
| Total General Revenues and Transfers | | | |
| Excess (deficiency) of revenues over expenses | | | |
| Change in net position | | | |
| Net position, beginning | | | |
| Net position, ending | | | |

STATE OF NEW MEXICO
TOWN OF ESTANCIA
STATEMENT OF ACTIVITIES
For the Year Ending June 30, 2017

Exhibit A-2

| Net (Expense) Revenue and Changes in Net Position | | | |
|--|------------------------------|---------------------------------|-----------------------|
| Primary Government | | | |
| <u>Capital Grants and Contributions</u> | <u>Government Activities</u> | <u>Business Type Activities</u> | <u>Total</u> |
| \$ - | \$ (565,565) | \$ - | \$ (565,565) |
| - | (305,186) | - | (305,186) |
| 147,814 | 87,163 | - | 87,163 |
| - | (203,436) | - | (203,436) |
| - | (195,746) | - | (195,746) |
| - | (2,217) | - | (2,217) |
| <u>147,814</u> | <u>(1,184,987)</u> | <u>-</u> | <u>(1,184,987)</u> |
| - | - | 27,193 | 27,193 |
| - | - | 29,569 | 29,569 |
| - | - | (112,790) | (112,790) |
| - | - | (56,028) | (56,028) |
| <u>\$ 147,814</u> | <u>\$ (1,184,987)</u> | <u>\$ (56,028)</u> | <u>\$ (1,241,015)</u> |
| | 18,034 | - | 18,034 |
| | 3,429 | - | 3,429 |
| | 776,917 | - | 776,917 |
| | 27,144 | - | 27,144 |
| | 1,645 | - | 1,645 |
| | 1,957 | (1,957) | - |
| | - | - | - |
| | <u>829,126</u> | <u>(1,957)</u> | <u>827,169</u> |
| | <u>(355,861)</u> | <u>(57,985)</u> | <u>(413,846)</u> |
| | (355,861) | (57,985) | (413,846) |
| | <u>6,759,649</u> | <u>2,887,246</u> | <u>9,646,895</u> |
| | <u>\$ 6,403,788</u> | <u>\$ 2,829,261</u> | <u>\$ 9,233,049</u> |

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STATE OF NEW MEXICO
TOWN OF ESTANCIA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2017

| | General Fund | Grants Capital Projects Fund | Other Governmental Funds | Total |
|--|---------------------|---------------------------------|--------------------------------|---------------------|
| <i>Assets</i> | | | | |
| Cash and cash equivalents | 1,255,972 | \$ - | \$ - | \$ 1,255,972 |
| Due from Pooled Cash | - | 28,639 | 72,682 | 101,321 |
| Investments | 855,226 | - | - | 855,226 |
| Taxes receivable | - | - | - | - |
| Other receivables | 50,446 | - | - | 50,446 |
| <i>Total assets</i> | <u>\$ 2,161,644</u> | <u>\$ 28,639</u> | <u>\$ 72,682</u> | <u>\$ 2,262,965</u> |
| <i>Liabilities and fund balances</i> | | | | |
| <i>Liabilities</i> | | | | |
| Due to Pooled Cash | \$ - | \$ - | \$ 109,584 | \$ 109,584 |
| Accounts payable | 8,782 | - | 194,273 | 203,055 |
| Accrued salaries and benefits | 11,456 | - | 5,057 | 16,513 |
| Accrued compensated absences | 1,847 | - | - | 1,847 |
| Unearned revenue | - | - | - | - |
| <i>Total liabilities</i> | <u>22,085</u> | <u>-</u> | <u>308,914</u> | <u>330,999</u> |
| <i>Deferred inflows of resources</i> | | | | |
| Unavailable revenue-property taxes | - | - | - | - |
| <i>Total deferred inflows of resources</i> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| <i>Fund Balances</i> | | | | |
| Fund Balance | | | | |
| Restricted for: | | | | |
| General Fund | 1,000,000 | - | - | 1,000,000 |
| Special Revenue Funds | - | - | 71,729 | 71,729 |
| Capital Projects Funds | - | 28,639 | - | 28,639 |
| Debt Service Funds | - | - | - | - |
| Committed for: | | | | |
| General Fund | - | - | - | - |
| Special Revenue Funds | - | - | - | - |
| Capital Projects Funds | - | - | - | - |
| Assigned for: | | | | |
| General Fund | - | - | - | - |
| Special Revenue Funds | - | - | - | - |
| Capital Projects Funds | - | - | - | - |
| Unassigned for: | | | | |
| General Fund | 1,139,559 | - | (307,961) | 831,598 |
| <i>Total fund balances</i> | <u>2,139,559</u> | <u>28,639</u> | <u>(236,232)</u> | <u>1,931,966</u> |
| <i>Total liabilities and fund balances</i> | <u>\$ 2,161,644</u> | <u>\$ 28,639</u> | <u>\$ 72,682</u> | <u>\$ 2,262,965</u> |

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STATE OF NEW MEXICO

TOWN OF ESTANCIA

GOVERNMENTAL FUNDS

RECONCILIATION OF BALANCE SHEET TO THE STATEMENT OF POSITION

June 30, 2017

Exhibit B-1

Page 2 of 2

Amounts reported for governmental activities in the statements of net position are different because:

| | | |
|---|----|-------------------------|
| Fund balances - total governmental funds | \$ | 1,931,966 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds | | 5,368,626 |
| Accrued Interest is not available to pay for current period expenditures and therefore, is recorded as a liability in the funds: | | (30) |
| Long-term liabilities, including notes payable, net pension liability and related deferrals which are not due and payable in the current period and, therefore, are not reported in the funds | | <u>(896,774)</u> |
| Net position of governmental activities | \$ | <u><u>6,403,788</u></u> |

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STATE OF NEW MEXICO
TOWN OF ESTANCIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ending June 30, 2017

| | General Fund | Grants Capital Projects Fund | Other Governmental Funds | Total |
|--|---------------------|---------------------------------|--------------------------------|---------------------|
| <i>Revenues:</i> | | | | |
| Taxes | \$ 580,516 | \$ - | \$ 27,144 | \$ 607,660 |
| State Grants | 264,653 | 147,814 | 182,283 | 594,750 |
| Federal Grants | - | - | - | - |
| Charges for Services | 16,978 | - | - | 16,978 |
| Licenses and Fees | 8,919 | - | 1,024 | 9,943 |
| Investment Income (Loss) | 67 | - | 1,551 | 1,618 |
| Miscellaneous | 6,248 | - | 27 | 6,275 |
| Total Revenues | 877,381 | 147,814 | 212,029 | 1,237,224 |
| <i>Expenditures:</i> | | | | |
| <i>Current:</i> | | | | |
| General Government | 293,050 | - | - | 293,050 |
| Public Safety | 371,760 | - | 75,929 | 447,689 |
| Public Works | 14,818 | 205,292 | 96,412 | 316,522 |
| Culture and Recreation | 200,685 | - | 25,163 | 225,848 |
| Health and Welfare | 25,521 | - | - | 25,521 |
| Capital Outlay | - | - | 208,206 | 208,206 |
| <i>Debt Service:</i> | | | | |
| Principal | - | - | 26,574 | 26,574 |
| Interest | - | - | 2,386 | 2,386 |
| Total Expenditures | 905,834 | 205,292 | 434,670 | 1,545,796 |
| <i>Excess (deficiency) of revenues over expenditures</i> | <u>(28,453)</u> | <u>(57,478)</u> | <u>(222,641)</u> | <u>(308,572)</u> |
| <i>Other financing sources (uses)</i> | | | | |
| Transfers In | - | 58,000 | 10,093 | 68,093 |
| Transfers Out | (28,057) | - | (38,079) | (66,136) |
| <i>Total other financing sources (uses)</i> | <u>(28,057)</u> | <u>58,000</u> | <u>(27,986)</u> | <u>1,957</u> |
| <i>Net change in fund balance</i> | (56,510) | 522 | (250,627) | (306,615) |
| <i>Fund balance - beginning of year</i> | <u>2,196,069</u> | <u>28,117</u> | <u>14,395</u> | <u>2,238,581</u> |
| <i>Fund balance - end of year</i> | <u>\$ 2,139,559</u> | <u>\$ 28,639</u> | <u>\$ (236,232)</u> | <u>\$ 1,931,966</u> |

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STATE OF NEW MEXICO
TOWN OF ESTANCIA
RECONCILIATION OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ending June 30, 2017

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

| | | |
|--|----|-----------|
| Net change in fund balances - total governmental funds | \$ | (306,615) |
|--|----|-----------|

Governmental funds report capital outlays as expenditures. However in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

| | | |
|----------------------|--|-----------|
| Capital expenditures | | 225,414 |
| Depreciation expense | | (131,882) |
| Disposal of asset | | 15,000 |

The issuance of long-term debt (e.g. bonds, notes, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities:

| | | |
|---|--|---------------|
| Change in deferred inflows/outflows for Net Pension Liability | | (188,401) |
| Decrease in accrued compensated absences | | 1,166 |
| Loan Proceeds | | - |
| Principal payments on Notes payable | | <u>29,457</u> |

| | | |
|---|----|-------------------------|
| Change in net position of governmental activities | \$ | <u><u>(355,861)</u></u> |
|---|----|-------------------------|

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STATE OF NEW MEXICO
TOWN OF ESTANCIA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
For the Year Ended June 30, 2017

| | Budgeted Amounts | | Actual | Variances |
|---|------------------|------------------|---------------------|---|
| | Original | Final | (Non-GAAP Basis) | Favorable (Unfavorable) Final to Actual |
| <i>Revenues:</i> | | | | |
| Taxes | \$ 28,590 | \$ 796,300 | \$ 831,617 | \$ 35,317 |
| State Grants | 8,803 | 272,895 | 264,653 | (8,242) |
| Charges For Services | 634 | 19,650 | 16,978 | (2,672) |
| Licenses and Fees | 410 | 12,700 | 8,899 | (3,801) |
| Interest Income | - | - | - | - |
| Investment Income(Loss) | 32 | 1,000 | 67 | (933) |
| Miscellaneous | 323 | 10,000 | (245,254) | (255,254) |
| <i>Total revenues</i> | <u>38,792</u> | <u>1,112,545</u> | <u>876,960</u> | <u>(235,585)</u> |
| <i>Expenditures:</i> | | | | |
| <i>Current:</i> | | | | |
| General Government | 52,252 | 372,498 | 306,765 | 65,733 |
| Public Safety | 303,191 | 473,945 | 366,551 | 107,394 |
| Public Works | 493 | 15,300 | 13,926 | 1,374 |
| Culture and Recreation | 8,094 | 244,770 | 207,394 | 37,376 |
| Health and Welfare | 2,641 | 28,643 | 25,766 | 2,877 |
| Capital Outlay | - | - | - | - |
| <i>Debt Service:</i> | | | | |
| Principal | - | - | - | - |
| Interest | - | - | - | - |
| <i>Total expenditures</i> | <u>366,671</u> | <u>1,135,156</u> | <u>920,402</u> | <u>214,754</u> |
| <i>Excess (deficiency) of revenues over expenditures</i> | <u>(327,879)</u> | <u>(22,611)</u> | <u>(43,442)</u> | <u>(20,831)</u> |
| <i>Other financing sources (uses)</i> | | | | |
| Designated Cash | 327,879 | 22,611 | - | (22,611) |
| Transfers In | 807 | 24,999 | (28,057) | (53,056) |
| Transfers Out | - | - | - | - |
| <i>Total other financing sources (uses)</i> | <u>328,686</u> | <u>47,610</u> | <u>(28,057)</u> | <u>(75,667)</u> |
| <i>Excess (deficiency) of revenues and other financing sources over expenditures and other financing (uses)</i> | 807 | 24,999 | (71,499) | (96,498) |
| <i>Cash Balance - Beginning of Year</i> | - | - | 2,182,697 | 2,182,697 |
| <i>Cash Balance - End of Year</i> | <u>\$ 807</u> | <u>\$ 24,999</u> | <u>\$ 2,111,198</u> | <u>\$ 2,086,199</u> |
| Excess (deficiency) of revenues over expenditures (Non-GAAP basis) | | | \$ (71,499) | |
| Adjustment expenditures for payables, payroll taxes, prepaid expenses and other accruals | | | (1,561) | |
| Adjustment for revenues for tax accruals, earnings on investments, and other deferrals and accruals | | | 16,550 | |
| Net change in Fund Balances (GAAP basis) | | | <u>\$ (56,510)</u> | |

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STATE OF NEW MEXICO
TOWN OF ESTANCIA
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
June 30, 2017

| | Sewer/AWWT Fund | Solid Waste Fund | Water Fund | Meter Deposits | Total Joint Utility |
|---|--------------------|---------------------|---------------------|-------------------|------------------------|
| <i>Assets</i> | | | | | |
| <i>Current assets</i> | | | | | |
| Due From Pooled Cash Fund | \$ 163,476 | \$ 95,243 | \$ - | \$ 35,544 | \$ 294,263 |
| Accounts receivable | 10,010 | 15,491 | 22,895 | - | 48,396 |
| <i>Total current assets</i> | <u>173,486</u> | <u>110,734</u> | <u>22,895</u> | <u>35,544</u> | <u>342,659</u> |
| <i>Capital assets</i> | | | | | |
| Capital assets | 17,500 | - | 5,028,162 | - | 5,045,662 |
| Accumulated depreciation | - | - | (2,392,588) | - | (2,392,588) |
| <i>Total Capital assets</i> | <u>17,500</u> | <u>-</u> | <u>2,635,574</u> | <u>-</u> | <u>2,653,074</u> |
| <i>Total Assets</i> | <u>\$ 190,986</u> | <u>\$ 110,734</u> | <u>\$ 2,658,469</u> | <u>\$ 35,544</u> | <u>\$ 2,995,733</u> |
| <i>Liabilities and Net Position</i> | | | | | |
| <i>Liabilities:</i> | | | | | |
| <i>Current liabilities</i> | | | | | |
| Due to Pooled Cash Fund | \$ - | \$ - | \$ 51,741 | \$ - | \$ 51,741 |
| Accounts payable | 1,384 | - | 5,121 | - | 6,505 |
| Accrued salaries and benefits | - | - | 5,180 | 1,277 | 6,457 |
| Accrued compensated absences | - | - | 1,364 | - | 1,364 |
| Meter Deposits Payable | - | - | - | 34,267 | 34,267 |
| Notes Payable | - | - | 4,288 | - | 4,288 |
| <i>Total current liabilities</i> | <u>1,384</u> | <u>-</u> | <u>67,694</u> | <u>35,544</u> | <u>104,622</u> |
| <i>Noncurrent liabilities</i> | | | | | |
| Accrued compensated absences payable | - | - | 5,283 | - | 5,283 |
| Notes Payable | - | - | 56,567 | - | 56,567 |
| <i>Total noncurrent liabilities</i> | <u>-</u> | <u>-</u> | <u>61,850</u> | <u>-</u> | <u>61,850</u> |
| <i>Total liabilities</i> | <u>1,384</u> | <u>-</u> | <u>129,544</u> | <u>35,544</u> | <u>166,472</u> |
| <i>Net Position:</i> | | | | | |
| Net Investment in Capital Assets | 17,500 | - | 2,574,719 | - | 2,592,219 |
| Unrestricted, undesignated | 172,102 | 110,734 | (45,794) | - | 237,042 |
| <i>Total net position</i> | <u>189,602</u> | <u>110,734</u> | <u>2,528,925</u> | <u>-</u> | <u>2,829,261</u> |
| <i>Total Liabilities and Net Position</i> | <u>\$ 190,986</u> | <u>\$ 110,734</u> | <u>\$ 2,658,469</u> | <u>\$ 35,544</u> | <u>\$ 2,995,733</u> |

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STATE OF NEW MEXICO
TOWN OF ESTANCIA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the Year Ended June 30, 2017

| | Sewer/AWWT Fund | Solid Waste Fund | Water Fund | Meter Deposits | Total Joint Utility |
|--|--------------------|---------------------|---------------------|-------------------|---------------------|
| <i>Operating revenues:</i> | | | | | |
| Charges for services | \$ 122,731 | \$ 201,425 | \$ 347,843 | \$ 5,161 | \$ 671,999 |
| <i>Total operating revenues</i> | <u>122,731</u> | <u>201,425</u> | <u>347,843</u> | <u>5,161</u> | <u>671,999</u> |
| <i>Operating expenses:</i> | | | | | |
| Operating Expenses | 40,440 | 171,856 | 85,735 | 5,161 | 298,031 |
| Travel | - | - | 500 | - | 500 |
| Gross Receipts Tax | - | - | 12,615 | - | 12,615 |
| Depreciation | - | - | 139,746 | - | 139,746 |
| Purchases for Resale | - | - | - | - | - |
| Contract Services | 6,446 | - | - | - | 6,446 |
| Salaries | 48,652 | - | 217,639 | - | 266,291 |
| Supplies | - | - | 4,398 | - | 4,398 |
| <i>Total operating expenses</i> | <u>95,538</u> | <u>171,856</u> | <u>460,633</u> | <u>5,161</u> | <u>728,027</u> |
| <i>Operating income (loss)</i> | <u>27,193</u> | <u>29,569</u> | <u>(112,790)</u> | <u>-</u> | <u>(56,028)</u> |
| <i>Non-operating revenues (expenses):</i> | | | | | |
| Interest Income | - | - | - | - | - |
| Interest expense | - | - | - | - | - |
| Transfers | 100,000 | (100,000) | (1,957) | - | (1,957) |
| <i>Total non-operating revenues (expenses)</i> | <u>100,000</u> | <u>(100,000)</u> | <u>(1,957)</u> | <u>-</u> | <u>(1,957)</u> |
| <i>Change in net position</i> | 127,193 | (70,431) | (114,747) | - | (57,985) |
| <i>Total net position, beginning of year</i> | <u>62,409</u> | <u>181,165</u> | <u>2,643,672</u> | <u>-</u> | <u>2,887,246</u> |
| <i>Total net position, end of year</i> | <u>\$ 189,602</u> | <u>\$ 110,734</u> | <u>\$ 2,528,925</u> | <u>\$ -</u> | <u>\$ 2,829,261</u> |

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STATE OF NEW MEXICO
TOWN OF ESTANCIA
STATEMENT OF CASH FLOWS-PROPRIETARY FUNDS
For the Year Ended June 30, 2017

| | Sewer/AWWT Fund | Solid Waste Fund | Water Fund | Meter Fund | Total |
|---|--------------------|---------------------|--------------------|------------------|-------------------|
| <i>Cash flows from operating activities:</i> | | | | | |
| Cash received from user charges | \$ 125,123 | \$ 202,184 | \$ 356,098 | \$ 7,286 | \$ 690,691 |
| Cash payments to employees for services | (48,652) | - | (212,865) | - | (261,517) |
| Cash payments to suppliers for goods and services | (47,539) | (171,856) | (104,825) | - | (324,220) |
| <i>Net cash provided for operating activities</i> | <u>28,932</u> | <u>30,328</u> | <u>38,408</u> | <u>7,286</u> | <u>104,954</u> |
| <i>Cash flows from noncapital financing activities:</i> | | | | | |
| Change in long term accrued compensated absences | - | - | (11,575) | - | (11,575) |
| Transfers | 100,000 | (100,000) | - | - | - |
| <i>Net cash provided (used) by noncapital financing activities:</i> | <u>100,000</u> | <u>(100,000)</u> | <u>(11,575)</u> | <u>-</u> | <u>(11,575)</u> |
| <i>Cash flows from investing activities:</i> | | | | | |
| Adjustment to Capital Assets | - | - | - | - | - |
| <i>Net cash used by investing activities:</i> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| <i>Net increase (decrease) in cash and cash equivalents</i> | 128,932 | (69,672) | 26,833 | 7,286 | 93,379 |
| <i>Cash and cash equivalents - beginning of year</i> | <u>\$ 34,544</u> | <u>\$ 164,915</u> | <u>\$ (78,574)</u> | <u>\$ 28,258</u> | <u>\$ 149,143</u> |
| <i>Cash and cash equivalents - end of year</i> | <u>\$ 163,476</u> | <u>\$ 95,243</u> | <u>\$ (51,741)</u> | <u>\$ 35,544</u> | <u>\$ 242,522</u> |
| <i>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</i> | | | | | |
| Operating income (loss) | \$ 27,193 | \$ 29,569 | \$ (112,790) | \$ - | \$ (56,028) |
| Adjustments to reconcile operating (loss) to net cash provided (used) by operating activities | | | | | |
| Depreciation | - | - | 139,746 | - | 139,746 |
| Changes in assets and liabilities | | | | | |
| Receivables | 2,392 | 759 | 8,255 | - | 11,406 |
| Accrued expenses | - | - | 4,774 | 7,286 | 12,060 |
| Accounts payable | (653) | - | (1,577) | - | (2,230) |
| <i>Net cash provided by operating activities</i> | <u>\$ 28,932</u> | <u>\$ 30,328</u> | <u>\$ 38,408</u> | <u>\$ 7,286</u> | <u>\$ 104,954</u> |

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STATE OF NEW MEXICO
Town of Estancia
Notes to the Financial Statements
June 30, 2017

NOTE 1. Summary of Significant Accounting Policies

The Town of Estancia (“Town”) was incorporated in 1909, under provisions of Chapter 3, Article 2, NMSA, 1978 as amended. The Town operates under a Council-Mayor form of government and provides the following services as authorized by its charter: public safety (police and fire); highways and streets; water and sewer services; refuse collection; health and social services; culture-recreation; public improvements; planning and zoning; and general administrative services.

The Town of Estancia is a body politic and corporate under the name and form of government selected by its qualified electors. The Town may:

1. Sue or be sued;
2. Enter into contracts and leases;
3. Acquire and hold property, both real and personal;
4. Have common seal, which may be altered at pleasure;
5. Exercise such other privileges that are incident to corporations of like character or degree that are not inconsistent with the laws of New Mexico;
6. Protect generally the property of its Town and its inhabitants;
7. Preserve peace and order within the Town; and
8. Establish rates for services provided by municipal utilities and revenue-producing projects, including amounts which the governing body determines to be reasonable in the operation of similar facilities.

This summary of significant accounting policies of the Town is presented to assist in the understanding of the Town’s financial statements. The financial statements and notes are the representation of the Town’s management who is responsible for their integrity and objectivity. The financial statements of the Town have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The financial statements have incorporated all applicable GASB statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on accounting procedures. The more significant of the Town’s accounting policies are described below.

A. Financial Reporting Entity

In evaluating how to define the Town, for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in GASB statements No. 61. Blended component units, although legally separate entities, are in substance part of the government’s operations. Each discreetly presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

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. 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 government is able to exercise oversight responsibilities. Finally, the nature and significance of a potential component unit to the primary government could warrant its inclusion within the reporting entity. Based upon the application of these criteria, the Town has no component units, and is not a component unit of another governmental agency.

STATE OF NEW MEXICO
Town of Estancia
Notes to the Financial Statements
June 30, 2017

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities and changes in net position) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The Statement of Net Position and the Statement of Activities were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement no. 33, *Accounting and Financial Reporting for Non-exchange Transactions*.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Sales and use taxes are classified as derived tax revenues and are recognized as revenue when the underlying exchange takes place and the revenues are measurable and available. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met and the susceptible to accrual criteria have been met.

STATE OF NEW MEXICO
Town of Estancia
Notes to the Financial Statements
June 30, 2017

C. Measurement focus, basis of accounting, and financial statement presentation (continued)

The Agency Funds are custodial in nature (assets equal liabilities) and do not present results of operations or have measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets the Town holds for others in an agency capacity. The Town had no agency funds as of June 30, 2017.

Governmental funds are used to account for the Town's general government activities, including the collection and disbursement of specific or legally restricted monies, the acquisition or construction of general fixed assets and the servicing of general long-term debt. Governmental funds include:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Revenues are provided through property and other taxes, federal sources, state sources, charges for services, licenses and fees, and other miscellaneous recoveries and revenue. Expenditures include all costs associated with the daily operation of the Town except for items included in other funds.

The *Special Revenue Funds* account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

The *Debt Service Funds* account for the services of general long-term debt not being financed by proprietary or nonexpendable trust funds.

The *Capital Projects Funds* account for the acquisition of fixed assets or construction of major capital projects not being financed by the proprietary or nonexpendable trust funds. The *Capital Projects Funds* account for the acquisition of fixed assets or construction of major capital projects not being financed by the proprietary or nonexpendable trust funds.

Under the requirements of GASB No. 34, the Town is required to present certain of its governmental funds as major based upon certain criteria. The major funds presented in the fund financial statements include only the General Fund, 911 Grant Fund, Fire Protection Fund, Lodgers' Tax Fund, and the Capital Projects Fund. No other funds were required to be presented as major at the discretion of management.

General Fund – the Town's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Revenues are provided primarily through property, gross receipts and other miscellaneous taxes.

Major Capital Project Funds:

Grants Capital Projects Fund – To account for various grant collections and expenditures. Authorization varies with each grant award.

The Town reports its proprietary funds as a major business-type fund.

Major Enterprise Funds:

Sewer/AWWT Fund – to account for the provision of sewer services to the residents of the Town.

Solid Waste Fund – to account for the provision of solid waste services to the residents of the Town.

Water Fund – to account for the provision of water services to the residents of the Town.

Meter Deposits Fund – to account for the provision of meter deposits from the residents of the Town

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes, because elimination of these charges would distort the direct costs and program revenues reported in the Statement of Activities.

STATE OF NEW MEXICO
Town of Estancia
Notes to the Financial Statements
June 30, 2017

C. Measurement focus, basis of accounting, and financial statement presentation (continued)

Program revenues reduce the cost of the function to be financed from the Town's general revenues. Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

The Town reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. The Town does not currently employ indirect cost allocation systems. Depreciation expense is specifically identified function and is included in the direct expense of each function. Interest on general and long-term debt is considered an indirect expense and is reported separately on the Statement of Activities.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing service in connection with the fund's principal ongoing operations. The principal operating revenue of the Town's enterprise fund is charges for services for the Town's various utilities. Operating expenses for enterprise funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Assets, Liabilities, and Net Position or Equity

Deposits and Investments: The Town's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the Town to invest in Certificates of Deposit, obligations of the U.S. Government, and the State Treasurer's Investment Pool.

Investments for the Town are reported at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties. The State Treasurer's Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

Receivables and Payables: Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds or internal balances" (i.e., the current portion of interfund loans) or "advances to/from other funds or internal balances" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. In the government-wide and governmental fund financial statements, delinquent property taxes are recorded when levied and the amount is available and provided. Property taxes are levied on November 1 based on the assessed value of property as listed on the previous January 1 and are due in two payments by November 10th and April 10th. Property taxes uncollected after November 10th and April 10th are considered delinquent and the County may assess penalties and interest. The taxes attach as an enforceable lien on property thirty (30) days thereafter, at which time they become delinquent.

Prepaid Items: Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and proprietary financial statements.

STATE OF NEW MEXICO
Town of Estancia
Notes to the Financial Statements
June 30, 2017

D. Assets, Liabilities, and Net Position or Equity (continued)

Capital Assets: Capital assets, which include property, plant, and equipment, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Information Technology Equipment including software is being capitalized and included in furniture, fixtures and equipment in accordance with NMAC 2.20.1.9 C (5). Library books are expensed as purchased. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. No interest was included as part of the cost of capital assets under construction.

Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

| Assets | Years |
|-----------------------------------|-------|
| Buildings & Building Improvements | 39 |
| Infrastructure & Plant in service | 39 |
| Land Improvements | 20 |
| Vehicles | 5 |
| Equipment and Furniture | 5 |

Inventory: Inventory is reflected at historical cost.

Unearned Revenues: Accounting principles generally accepted in the United States of America require that grant revenue be recognized at the time the related expense is made if the expenditure of funds is the prime factor for determining eligibility for reimbursement; therefore, amounts received and not expended in the Special Revenue Funds are shown as unearned revenues. In addition, property taxes receivable but uncollected within sixty (60) days of year-end are classified as unearned revenue.

Deferred Inflow/Outflows of Resources: GASB 63 amended previous guidance on Unearned Revenues in the Government-Wide Financial Statements to include deferred outflow of resources, which is the consumption of net assets by the government that is applicable to a future reporting period and deferred inflow of resources, which is acquisition of net assets by the government that is applicable to a future reporting period.

Compensated Absences: Qualified employees are entitled to accumulate annual leave according to a graduated schedule, depending on the length of service. Employees may accumulate annual leave and carry forward a maximum of 120 hours (15 days) from calendar year to calendar year. Upon termination employees will be paid up to 120 hours (15 days) of accrued annual leave.

Qualified employees are entitled to accumulate sick leave at a rate of eight days per year. Sick leave can be carried over from year to year with no limit. Upon resignation, lay off or involuntary dismissal, employees receive no pay for unused sick leave.

Vested or accumulated vacation is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. In prior years, substantially all of the related expenditures have been liquidated by the General Fund. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the government wide Statement of Net Position.

STATE OF NEW MEXICO
Town of Estancia
Notes to the Financial Statements
June 30, 2017

D. Assets, Liabilities, and Net Position or Equity (continued)

Long-term Obligations: In the government-wide fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

Net Position or Fund Equity:

Committed fund balance represents amounts that are useable only for specified purposes by formal action of the governments' highest level of decision-making authority.

Assigned fund balance represents amounts that are intended to be used for specific purpose, but are neither restricted nor committed. Intent is expressed by the governing body or a subordinate high level body or official whom the governing body has delegated.

Restricted fund balance represents amounts with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulation of other governments; or (2) law through constitutional provisions or enabling legislation.

Unassigned fund balance is the residual classification for the general fund and represents the amount that have not been assigned to other funds, and that have not been restricted, committed or assigned to specific purposes.

Net Investment in capital assets consists of net position including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of these assets.

Interfund Transactions: Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund from expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements are reported as transfers. Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Tax Revenues: The Town receives mill levy and ad-valorem tax revenues. Property taxes are assessed on January 1st of each year and are payable in two equal installments, on November 10th of the year in which the tax bill is prepared and April 10th of the following year with the levies becoming delinquent 30 days (one month) thereafter. The Town recognizes tax revenues in the period for which they are levied in the government-wide financial statements. The Town records only the portion of the taxes considered 'measureable' and 'available' in the governmental fund financial statements. Descriptions of the individual debt service and capital outlay funds contained in these financial statements include information regarding the authority for the collection and use of these taxes. Property taxes classified as deferred inflows of resources are recorded only when the information is available and provided.

Pensions. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the New Mexico Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, on the economic resources measurement focus and accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

STATE OF NEW MEXICO
Town of Estancia
Notes to the Financial Statements
June 30, 2017

NOTE 2. Stewardship, Compliance, and Accountability

Budgetary Information

Annual budgets of the Town are prepared prior to June 1 and must be approved by resolution of the Town Councilors, and submitted to the Department of Finance and Administration for State approval. Once the budget has been formally approved, any amendments must also be approved by the Town Councilors and the Department of Finance and Administration. The legal level of budgetary control is at the fund level. A separate budget is prepared for each fund. Line items within each budget may be over-expended; however, it is not legally permissible to over-expend any budget in total. The Town has the following unbudgeted funds: William Library and Garnet Library.

These budgets are prepared on the Non-GAAP cash basis, excluding encumbrances, and secure appropriation of the funds for only one year. Carryover funds must be re-appropriated in the budget of the subsequent fiscal year.

The budgetary information presented in these financial statements has been amended in accordance with the above procedures.

Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Funds, where applicable.

The Town is required to balance its budgets each year. Accordingly, amounts that are in excess or deficient are presented as changes in cash designated for expenditures, not as an excess or deficiency of revenues over expenditures.

The Town Council may approve amendments to the appropriated budget, which are required when a change is made affecting budgeted ending fund balance.

The accompanying Statements of Revenues, Expenditures, and Changes in Fund Balance – Budget (non-GAAP Budgetary Basis) and Actual presents comparisons of the legally adopted budget with actual data on a budgetary basis.

Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with Generally Accepted Accounting Principles, a reconciliation of resultant basis, perspective, equity, and timing differences in the excess (deficiency) of revenues and other sources of financial resources for the year ended June 30, 2017 is presented.

The reconciliations between the Non-GAAP budgetary basis amounts and the financial statements on the GAAP basis by fund are shown on each budgetary statement.

NOTE 3. Deposits and Investments

State statutes authorize the investment of the Town funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, money market accounts, and United States government obligations. All invested funds of the Town properly followed State investment requirements as of June 30, 2017.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more banks or savings and loan associations within the geographical boundaries of the Town. Deposits may be made to the extent that they are insured by an agency of the United States or by collateral deposited as security or by bond given by the financial institution.

The rate of interest in non-demand interest-bearing accounts shall be set by the State Board of Finance, but in no case shall the rate of interest be less than one hundred percent of the asked price on United States treasury bills of the same maturity on the day of deposit.

Excess of funds may be temporarily invested in securities which are issued by the State or by the United States government, or by their departments or agencies, and which are either direct obligations of the State or the United States or are backed by the full faith and credit of those governments.

STATE OF NEW MEXICO
Town of Estancia
Notes to the Financial Statements
June 30, 2017

NOTE 3. Deposits and Investments (continued)

According to the Federal Deposit Insurance Corporation, public unit deposits are funds owned by the public unit. Time deposits, savings deposits, and interest bearing NOW accounts of a public unit in an institution in the same state will be insured up to \$250,000 in aggregate and separate from the \$250,000 coverage for public unit demand deposits at the same institution.

NM State Statutes require collateral pledged for deposits in excess of the federal deposit insurance to be delivered, or a joint safekeeping receipt be issued, to the Town for at least one half the amount in excess of FDIC coverage on deposit with the institution.

The schedule listed below discloses the State of New Mexico, Office of the State Auditor's requirements on reporting the insured portion of the Town's deposits.

| | Wells Fargo Bank | State Employees Credit Union | My Bank | US Bank | NMFA Reserves |
|--|---------------------|---------------------------------------|-----------|-------------|------------------|
| Deposits, Checking | \$ 1,726,924 | \$ 5,906 | \$ - | \$ - | \$ 2,519 |
| Savings and/or Certificate of Deposits | 45,030 | 241,557 | 240,599 | 240,000 | - |
| Total Deposits | 1,771,954 | 247,463 | 240,599 | 240,000 | 2,519 |
| Less: FDIC Coverage | (545,030) | (247,463) | (240,599) | (240,000) | (2,519) |
| Total uninsured public funds | 1,226,924 | - | - | - | - |
| 50% Collateral requirement | 613,462 | - | - | - | - |
| Pledged Securities | 709,726 | - | - | 15,447 | - |
| (Over)Under collateralized | \$ (96,264) | \$ - | \$ - | \$ (15,447) | \$ - |

Custodial Credit Risk-Deposits

| | |
|---|---------------------|
| Account Balance | \$ 2,502,535 |
| FDIC Insured | 1,275,611 |
| Collateral: | |
| Collateral held by the pledging bank, not in the Town's name | 725,173 |
| Uninsured and uncollateralized | 501,751 |
| Total Deposits | <u>\$ 2,565,811</u> |

The collateral pledged is listed on Schedule II of this report. The types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by an agency, district or political subdivision of the State of New Mexico.

Reconciliation of Cash and Temporary Investments

Carrying amounts by fund per financial statement at June 30, 2017 is:

| | |
|---|---------------------|
| Governmental Funds- Balance Sheet | |
| Cash and cash equivalents per Exhibit A-1 | \$ 2,564,781 |
| Less State Treasurer LGIP | (88,040) |
| Less Petty Cash | (450) |
| Add Reconciling items | 26,244 |
| | <u>\$ 2,502,535</u> |

STATE OF NEW MEXICO
Town of Estancia
Notes to the Financial Statements
June 30, 2017

NOTE 3. Deposits and Investments (continued)

Custodial Credit Risk – Investments

For an investment, custodial credit risk is the risk that in the event of counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town does not have an investment policy for custodial credit risk. New Mexico State Statutes require collateral pledged for bank accounts in excess of the federal deposit insurance to be delivered, or a joint safekeeping receipt be issued, to the Town for at least 50% of the amount on deposit with the institution.

The New MexiGrow Local Governmental Investment Pool’s (LGIP) investments are valued at fair value based on quoted market prices as of the valuation date. The LGIP is not SEC registered. The New Mexico State Treasurer is authorized to invest the short-term investment funds, with the advice and consent of the State Board of Finance. In accordance with Sections 6-10-10 I through 6-10-10-P and Section 6-10-10.1 A and E, NMSA 1978. The pool does not have unit shares. Per Section 6-10-10.1F, NMSA 19078, as the end of each month all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the fund amounts were invested. Participation in the LGIP is voluntary.

As of June 30, 2017, the Town’s investment balances were exposed to custodial credit risk as follows:

| | |
|-----------------------|-----------|
| NMFA reserves | \$ 2,519 |
| State Investment Pool | \$ 88,040 |

Interest Rate Risk and Credit Rating

The Town does not have a formal policy limiting investment maturities to manage its exposure to fair value losses from increasing interest rates. The Town’s investments at June 30, 2017 include the following:

| | |
|--|-----------|
| NMFA reserves | \$ 2,519 |
| State Investment Pool, 58 day, WAM(R) AAAM | \$ 88,040 |

NOTE 4. Receivables

Receivables as of June 30, 2017, are as follows:

| | General Fund | Total |
|-----------------------------|------------------|------------------|
| Property Taxes Receivables: | \$ - | \$ - |
| Due from other governments: | 50,446 | 50,446 |
| Other accounts receivable | - | - |
| Total | \$ 50,446 | \$ 50,446 |

| | Sewer/AWWT Fund | Solid Waste Fund | Water Fund | Total |
|---------------------|--------------------|---------------------|------------|-----------|
| Accounts Receivable | \$ 10,010 | \$ 15,491 | \$ 22,895 | \$ 48,396 |

The above governmental receivables are deemed 100% collectible.

STATE OF NEW MEXICO
Town of Estancia
Notes to the Financial Statements
June 30, 2017

NOTE 5. Accounts Payables

Accounts payable as of June 30, 2017, are as follows:

| | Governmental activities | | Business-like activities |
|-----------------------|-------------------------|----|--------------------------|
| Payable to suppliers | \$ 203,055 | \$ | 6,505 |
| Payables to employees | 16,513 | | 6,457 |
| Total | \$ 219,568 | \$ | 12,962 |

NOTE 6. Interfund Receivables, Payables, and Transfers

Transfers

This schedule is reported on the government-wide basis of accounting due to the transfers of capital assets between governmental funds and business-type funds.

| | Transfers In | | Transfers Out |
|------------------------------|--------------|----|---------------|
| General Fund | \$ 43,150 | \$ | 13,207 |
| Garnett Library Fund | - | | 1,508 |
| LEPF Fund | - | | 14,502 |
| Youth Conservation Corp Fund | - | | 17,906 |
| Williams Library Fund | - | | 10,529 |
| Debt Service Fund | 20,622 | | 4,163 |
| Sewer/AWWT Fund | - | | 100,000 |
| Water Fund | 100,000 | | 1,957 |
| Total | \$ 163,772 | \$ | 163,772 |

STATE OF NEW MEXICO
Town of Estancia
Notes to the Financial Statements
June 30, 2017

NOTE 7. Capital Assets

A summary of capital assets and changes occurring during the year ended June 30, 2017 follows.

| Governmental Activities | June 30, 2016 | Additions | Adjustments | Deletions | June 30, 2017 |
|---|---------------------|---------------------|-------------|---------------|---------------------|
| General Capital Assets | \$ 5,602,397 | \$ 106,882 | \$ - | \$ 15,000 | \$ 5,694,279 |
| Construction in Progress | 669,194 | 118,532 | - | - | 787,726 |
| Total Capital Assets | <u>6,271,591</u> | <u>225,414</u> | <u>-</u> | <u>15,000</u> | <u>6,482,005</u> |
| Less accumulated depreciation: | | | | | |
| General Capital Assets | 1,011,497 | 116,882 | - | 15,000 | 1,113,379 |
| Construction in Progress | - | - | - | - | - |
| Total Accumulated Depreciation | <u>1,011,497</u> | <u>116,882</u> | <u>-</u> | <u>15,000</u> | <u>1,113,379</u> |
| Total capital assets net of depreciation | <u>\$ 5,260,094</u> | <u>\$ 108,532</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 5,368,626</u> |
| | | | | | |
| Business-Like Activities | June 30, 2016 | Additions | Adjustments | Deletions | June 30, 2017 |
| Land | \$ 1,177,316 | \$ - | \$ - | \$ - | \$ 1,177,316 |
| Building & Improvements | 206,200 | - | - | - | 206,200 |
| Equipment | 321,505 | - | - | - | 321,505 |
| Vehicles | 67,968 | - | - | - | 67,968 |
| Utility Plant in service | 3,272,673 | - | - | - | 3,272,673 |
| Total Capital Assets | <u>5,045,662</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>5,045,662</u> |
| Less accumulated depreciation: | | | | | |
| Building & Improvements | 109,292 | 6,655 | - | - | 115,947 |
| Equipment | 249,969 | - | - | - | 249,969 |
| Vehicles | 47,708 | 7,948 | - | - | 55,656 |
| Utility Plant in service | 1,845,873 | 125,143 | - | - | 1,971,016 |
| Total Accumulated Depreciation | <u>2,252,842</u> | <u>139,746</u> | <u>-</u> | <u>-</u> | <u>2,392,588</u> |
| Total capital assets net of depreciation | <u>\$ 2,792,820</u> | <u>\$ (139,746)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,653,074</u> |

Depreciation expense for the year ended June 30, 2017 was estimated and charged to the following functions and funds based on the prior year:

| | |
|---|-------------------|
| General Government | <u>\$ 116,882</u> |
| Total depreciation expense governmental funds | <u>\$ 116,882</u> |

Depreciation expense relating to business-like activities for the year ended June 30, 2017 was estimated to be \$139,746.

STATE OF NEW MEXICO
Town of Estancia
Notes to the Financial Statements
June 30, 2017

NOTE 8. Long-term Debt

During the year ended June 30, 2017, the following changes occurred in the liabilities reported in the government-wide statement of net position:

| | Balance June 30, 2016 | Additions | Retirements | Balance June 30, 2017 | Due Within One Year |
|---|--------------------------|------------------|------------------|--------------------------|------------------------|
| Governmental Activities | | | | | |
| LEP Revenue Bond Series 2014 | \$ 13,073 | \$ - | \$ 13,073 | \$ - | \$ - |
| NMFA Water Tank | 130,116 | - | 7,311 | 122,805 | 6,831 |
| 281 Water Trust Board | 89,894 | - | 4,910 | 84,984 | 5,153 |
| Accrued Compensated Absences | 13,166 | 10,602 | 11,767 | 12,001 | 1,847 |
| Total | \$ 246,249 | \$ 10,602 | \$ 37,061 | \$ 219,790 | \$ 13,831 |
| Business-type Activities | | | | | |
| NMED RIP, Water Storage/ Delivery Tank | \$ 65,018 | \$ - | \$ 4,163 | \$ 60,855 | \$ 4,288 |
| Accrued Compensated Absences | 12,102 | 5,465 | 10,920 | 6,647 | 1,364 |
| Total Long Term Debt | \$ 77,120 | \$ 5,465 | \$ 15,083 | \$ 67,502 | \$ 5,652 |

The annual requirements to amortize the long term debt of NMFA Water Tank as of June 30, 2017, including interest payments are as follows:

| Fiscal Year | Principal | Interest | Total |
|--------------|-------------------|-----------------|-------------------|
| 2018 | \$ 6,831 | \$ 296 | \$ 7,127 |
| 2019 | 6,848 | 279 | 7,127 |
| 2020 | 6,845 | 262 | 7,107 |
| 2021 | 6,883 | 245 | 7,128 |
| 2022 | 6,900 | 228 | 7,128 |
| 2023-2027 | 34,759 | 879 | 35,638 |
| 2028-2032 | 35,196 | 442 | 35,638 |
| 2033-2035 | 18,543 | 53 | 18,596 |
| Total | \$ 122,805 | \$ 2,684 | \$ 125,489 |

Retirements and adjustments shown above for the NMFA Water Tank represents a loan subsidy (principal debt forgiveness) by the Drinking Revolving Loan Fund administered through the NM Finance Authority.

The annual requirements to amortize the long term debt of the Water Trust Board as of June 30, 2016, including interest payments are as follows:

| Fiscal Year | Principal | Interest | Total |
|--------------|------------------|-----------------|------------------|
| 2018 | \$ 5,153 | \$ 296 | \$ 5,449 |
| 2019 | 5,166 | 279 | 5,445 |
| 2020 | 5,178 | 262 | 5,440 |
| 2021 | 5,191 | 245 | 5,436 |
| 2022 | 5,204 | 228 | 5,432 |
| 2023-2027 | 26,218 | 596 | 26,814 |
| 2028-2032 | 26,547 | 442 | 26,989 |
| 2033-2035 | 6,327 | 26 | 6,353 |
| Total | \$ 84,984 | \$ 2,374 | \$ 87,358 |

STATE OF NEW MEXICO
Town of Estancia
Notes to the Financial Statements
June 30, 2017

NOTE 8. Long-term Debt (continued)

The annual requirements to amortize the long term debt of NMED RIP, Storage Water/Delivery Tank as of June 30, 2017, including interest payments are as follows:

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------|------------------|-----------------|--------------|
| 2018 | \$ 4,288 | \$ 1,826 | \$ 6,114 |
| 2019 | 4,417 | 1,697 | 6,114 |
| 2020 | 4,549 | 1,565 | 6,114 |
| 2021 | 4,686 | 1,428 | 6,114 |
| 2022 | 4,826 | 1,287 | 6,113 |
| 2023-2027 | 26,393 | 4,178 | 30,571 |
| 2028-2032 | 11,696 | 529 | 12,225 |
| Total | \$ 60,855 | \$ 12,510 | \$ 73,365 |

Short-term Debt: The Town had no short-term debt activity during the year.

In prior years, the General Fund was typically used to liquidate governmental long-term liabilities other than debt.

NOTE 9. OPERATING LEASE

The Town entered into a lease agreement for a copy machine in November 2011. Payments of \$52 are due monthly and the lease matured in November 2016. The Town entered into a new lease agreement for a copy machine in June 2017. Payments of \$219 are due monthly and the lease matured in June 2022. The operating lease expense for the year ended June 30, 2017 was \$479. The minimum lease payments for 2018 are \$2,623.

NOTE 10. Risk Management

The Town is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries and natural disasters. The Town of Estancia participates in the New Mexico Self-Insurer's Fund risk pool. The Town pays an annual premium to the pool based on claim experience and the status of the pool. The Town is not liable for more than the premium paid.

The Town has not filed any claims for which the settlement amount exceeded the insurance coverage during the past three years. However, should a claim be filed against the Town which exceeds the insurance coverage, the Town would be responsible for a loss in excess of the coverage amounts. As claims are filed, the New Mexico Self-Insurers' Fund assesses and estimates the potential for loss and handles all aspects of the claim. Insurance coverage's have not changed significantly from prior years and coverage's are expected to be continued. At June 30, 2017, no unpaid claims have been filed which exceed the policy limits and to the best of management's knowledge and belief all known and unknown claims will be covered by insurance. No major lawsuits have been filed against the Town of Estancia.

New Mexico Self-Insurers' Fund has not provided information or an entity by entity basis that would allow for a reconciliation of changes in the aggregate liabilities for claims for the current fiscal year and the prior fiscal year.

STATE OF NEW MEXICO
Town of Estancia
Notes to the Financial Statements
June 30, 2017

NOTE 11. Other Required Individual Fund Disclosures

Generally accepted accounting principles require disclosures as part of the Combining Statements - Overview of certain information concerning individual funds including:

A. Deficit fund balance of individual funds.

| | |
|-------------------------------|-------------|
| Intergovernmental Grants Fund | (\$241,645) |
| YCC Fund | (\$ 14,964) |
| Debt Service Fund | (\$ 51,378) |

Fund deficits will be funded by general fund transfers or by grant revenues.

B. No expenditures exceeded appropriations by fund.

NOTE 12. Contingent Liabilities

The Town is party to various claims and lawsuits arising in the normal course of business. Management and the Town's attorney are unaware of any material pending or threatened litigation, claims or assessments against the Town which are not covered by the Town's insurance as described in Note 9.

NOTE 13. Federal and State Grants

In the normal course of operations, the Town receives grant funds from various federal and state agencies. Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as a result of these audits is not believed to be material.

NOTE 14. Construction Commitments

The Town entered into a contract with Bohannon Huston for Engineering Services for \$53,820.33. As of June 30, 2017, \$15,025.70 had been incurred, \$0 has been paid and the balance outstanding was \$53,820.33.

The Town entered into a contract with TRC Construction for Construction Services for \$446,179.67. As of June 30, 2017, \$178,319.98 in expenditures had been incurred, 0 has been paid and the balance outstanding was \$446,179.67.

STATE OF NEW MEXICO
Town of Estancia
Notes to the Financial Statements
June 30, 2017

NOTE 15. PERA Pension Plans

Plan description. Public Employees Retirement Fund is a cost-sharing, multiple employer defined benefit pension plan. This fund has six divisions of members, including State General, State Police/Adult Correction Officers, Municipal General, Municipal Police/Detention Officers, Municipal Fire, and State Legislative Divisions, and offers 24 different types of coverage within the PERA plan. All assets accumulated may be used to pay benefits, including refunds of member contributions, to any of the plan members or beneficiaries, as defined by the terms of this plan. Certain coverage plans are only applicable to a specific division. Eligibility for membership in the Public Employees Retirement Fund is set forth in the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). Except as provided for in the Volunteer Firefighters Retirement Act (10-11A-1 to 10-11A-7, NMSA 1978), the Judicial Retirement Act (10-12B-1 to 10-12B-19, NMSA 1978), the Magistrate Retirement Act (10-12C-1 to 10-12C-18, NMSA 1978), and the Educational Retirement Act (Chapter 22, Article 11, NMSA 1978), each employee and elected official of every affiliated public employer is required to be a member in the Public Employees Retirement Fund, unless specifically excluded.

Benefits provided. Benefits are generally available at age 65 with five or more years of service or after 25 years of service regardless of age for TIER I members. Provisions also exist for retirement between ages 60 and 65, with varying amounts of service required. Certain police and fire members may retire at any age with 20 or more years of service for Tier I members. Generally, the amount of retirement pension is based on final average salary, which is defined under Tier I as the average of salary for the 36 consecutive months of credited service producing the largest average; credited service; and the pension factor of the applicable coverage plan. Monthly benefits vary depending upon the plan under which the member qualifies, ranging from 2% to 3.5% of the member's final average salary per year of service. The maximum benefit that can be paid to a retiree may not exceed a range of 60% to 90% of the final average salary, depending on the division. Benefits for duty and non-duty death and disability and for post-retirement survivors' annuities are also available.

TIER II. The retirement age and service credit requirements for normal retirement for PERA state and municipal general members hired increased effective July 1, 2013 with the passage of Senate Bill 27 in the 2013 Legislative Session. Under the new requirements (Tier II), general members are eligible to retire at any age if the member has at least eight years of service credit and the sum of the member's age and service credit equals at least 85 or at age 67 with 8 or more years of service credit. General members hired on or before June 30, 2013 (Tier I) remain eligible to retire at any age with 25 or more years of service credit. Under Tier II, police and firefighters in Plans 3, 4 and 5 are eligible to retire at any age with 25 or more years of service credit. State police and adult correctional officers, peace officers and municipal juvenile detention officers will remain in 25-year retirement plans, however, service credit will no longer be enhanced by 20%. All public safety members in Tier II may retire at age 60 with 6 or more years of service credit. Generally, under Tier II pension factors were reduced by .5%, employee Contribution increased 1.5 percent and effective July 1, 2014 employer contributions were raised .05 percent. The computation of final average salary increased as the average of salary for 60 consecutive months.

Contributions. See PERA's compressive annual financial report for Contribution provided description

STATE OF NEW MEXICO
Town of Estancia
Notes to the Financial Statements
June 30, 2017

NOTE 15. PERA Pension Plans (continued)

| PERA Contribution Rates and Pension Factors as of July 1, 2016 | | | | | | |
|---|----------------------------------|-------------------------------------|----------------------------------|------------------------------------|--------|---|
| Coverage Plan | Employee Contribution Percentage | | Employer Contribution Percentage | Pension Factor per Year of Service | | Pension Maximum as a Percentage of the Final Average Salary |
| | Annual Salary less than \$20,000 | Annual Salary greater than \$20,000 | | TIER 1 | TIER 2 | |
| State Plan 3 | 7.42 % | 8.92 % | 16.99 % | 3.0 % | 2.5 % | 90 % |
| Municipal Plan 1 (plan open to new employers) | 7.0 % | 8.5 % | 7.4 % | 2.0 % | 2.0 % | 90 % |
| Municipal Plan 2 (plan open to new employers) | 9.15 % | 10.65 % | 9.55 % | 2.5 % | 2.0 % | 90 % |
| Municipal Plan 3 (plan closed to new employers 6/95) | 13.15 % | 14.65 % | 9.55 % | 3.0 % | 2.5 % | 90 % |
| Municipal Plan 4 (plan closed to new employers 6/00) | 15.65 % | 17.15 % | 12.05 % | 3.0 % | 2.5 % | 90 % |
| Municipal Police Plan 1 | 7.0% | 8.5% | 10.40% | 2.0% | 2.0% | 90% |
| Municipal Police Plan 2 | 7.0% | 8.5% | 15.40% | 2.5% | 2.0% | 90% |
| Municipal Police Plan 3 | 7.0% | 8.5% | 18.90% | 2.5% | 2.0% | 90% |
| Municipal Police Plan 4 | 12.35% | 13.85% | 18.90% | 3.0% | 2.5% | 90% |
| Municipal Police Plan 5 | 16.3% | 17.8% | 18.90% | 3.5% | 3.0% | 90% |
| Municipal Fire Plan 1 | 8.0% | 9.5% | 11.40% | 2.0% | 2.0% | 90% |
| Municipal Fire Plan 2 | 8.0% | 9.5% | 17.90% | 2.5% | 2.0% | 90% |
| Municipal Fire Plan 3 | 8.0% | 9.5% | 21.65% | 2.5% | 2.0% | 90% |
| Municipal Fire Plan 4 | 12.8% | 14.3% | 21.65% | 3.0% | 2.5% | 90% |
| Municipal Fire Plan 5 | 16.2% | 17.7% | 21.65% | 3.5% | 3.0% | 90% |
| Municipal Detention Officer Plan 1 | 16.65% | 18.15% | 17.05% | 3.0% | 3.0% | 90% |
| State Police and Adult Correctional Officer Plan 1 | 7.60% | 9.10% | 25.50% | 3.0% | 3.0% | 90% |
| State Plan 3 - Peace Officer | 7.42% | 8.92% | 16.99% | 3.0% | 3.0% | 90% |
| Juvenile Correctional Officer Plan 2 | 4.78% | 6.28% | 26.12% | 3.0% | 3.0% | 90% |

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2017, the Town of Estancia reported a liability of \$1,122,232 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015. The total pension liability was rolled-forward from the valuation date to the plan year ending June 30, 2016 using generally accepted actuarial principles. Therefore, the employer’s portion was established as of the measurement date of June 30, 2016. There were no significant events or changes in benefit provision that required an adjustment to the roll-forward liabilities as of June 30, 2016. The Town of Estancia’s proportion of the net pension liability was based on a projection of the Town of Estancia’s long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2016, the Town of Estancia’s proportion was 0.0001%, which was a decrease of 0.0000% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the Town of Estancia – General Fund recognized pension expense of \$84,239. For the year ended June 30, 2017, the Town of Estancia – Police Fund recognized pension expense of \$92,385. At June 30, 2017, the Town of Estancia reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

STATE OF NEW MEXICO
Town of Estancia
Notes to the Financial Statements
June 30, 2017

NOTE 15. PERA Pension Plans (continued)

| | Deferred Outflows of Resources – General Fund | Deferred Outflows of Resources – Police Fund | Deferred Inflows of Resources – General Fund | Deferred Inflows of Resources – Police Fund |
|---|--|---|--|---|
| Differences between expected and actual experience | \$ 30,893 | \$ 36,966 | \$ 6,034 | \$ - |
| Changes of assumptions | 36,256 | 33,378 | 103 | 9,088 |
| Net difference between projected and actual earnings on pension plan investments | 113,765 | 79,701 | - | - |
| Changes in proportion and differences between the Town contributions and proportionate share of contributions | 65,263 | 73,265 | - | 10,240 |
| Town contributions subsequent to the measurement date | 3 , 2 | 2 ,3 | - | - |
| Total | \$ 277,2 | \$ 24 , | \$ 3,167 | \$ 19,328 |

\$3 , 2 reported as deferred outflows of resources for the general fund and \$2 ,3 reported as deferred outflows of resources for the police fund related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended June 30 in Summation: | General Fund | Police Fund |
|----------------------------------|--------------|-------------|
| 2017 | \$ 62,447 | 52,773 |
| 2018 | 62,447 | 52,773 |
| 2019 | 85,211 | 75,942 |
| 2020 | 29,935 | 22,524 |
| Thereafter | \$ - | - |

Actuarial assumptions. The total pension liability in the June 30, 2016 actuarial valuation was determined using the following significant actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------------|--|
| PERA | |
| Actuarial valuation date | June 30, 2015 |
| Actuarial cost method | Entry Age Normal |
| Amortization method | Level Percentage of Pay, Open |
| Amortization period | Solved for based on statutory rates |
| Asset valuation method | Fair Value |
| Actuarial Assumptions: | |
| Investment rate of return | 7.48% annual rate, net of investment expense |
| Projected benefit payment | 100 years |
| Payroll Growth | 2.75% for first 10 years, then 3.25% annual rate |
| Projected salary increases | 2.75% to 14.00% annual rate |
| Includes inflation at | 2.25% annual rate first 10 years |
| | 2.75% all other years |
| Mortality Assumption | RP-2000 Mortality Tables (Combined table for healthy post-retirement, Employee table for active members, and Disabled table for disabled retirees before retirement age) with projection to 2018 using Scale AA. |
| Experience Study Dates | July 1, 2008 to June 30, 2013 (demographic) and July 1, 2010 through June 20, 2015 (economic) |

STATE OF NEW MEXICO
Town of Estancia
Notes to the Financial Statements
June 30, 2017

NOTE 15. PERA Pension Plans (continued)

The total pension liability, net pension liability, and certain sensitivity information are based on an actuarial valuation performed as of June 30, 2015. The total pension liability was rolled-forward from the valuation date to the plan year ended June 30, 2016. These assumptions were adopted by the Board use in the June 30, 2015 actuarial valuation.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| ALL FUNDS - Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|------------------------------|-------------------|---|
| Global Equity | 43.50% | 7.39% |
| Risk Reduction & Mitigation | 21.5 | 1.79 |
| Credit Oriented Fixed Income | 15.0 | 5.77 |
| Real Assets | <u>20.00</u> | 7.35 |
| Total | 100.00% | |

Discount rate: A single discount rate of 7.48% was used to measure the total pension liability as of June 30, 2016. This single discount rate was based on a long-term expected rate of return on pension plan investments of 7.48%, compounded annually, net of expense. Based on the stated assumptions and the projection of cash flows, the plan's fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability.

The projections of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels.

Sensitivity of the Town's proportionate share of the net pension liability to changes in the discount rate. The following presents the Town of Estancia's proportionate share of the net pension liability calculated using the discount rate of 7.48 percent, as well as what the Town of Estancia's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.48 percent) or 1-percentage-point higher (8.48 percent) than the current rate:

| PERA Fund Division | 1% Decrease (6.75%) | Current Discount Rate (7.75%) | 1% Increase (8.75%) |
|--|------------------------|-------------------------------------|------------------------|
| Town's proportionate share of the net pension liability – General Fund | \$ 921,824 | \$ 618,295 | \$ 365,534 |
| Town's proportionate share of the net pension liability – Police Fund | \$ 741,417 | \$ 503,937 | \$ 309,707 |

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in separately issued PERA'S financial reports.

Payables to the pension plan. At June 30, 2017, the Town had no outstanding amount of contributions to the pension plan and therefore, had no payables reported at fiscal year 2017.

STATE OF NEW MEXICO
Town of Estancia
Notes to the Financial Statements
June 30, 2017

NOTE 16. Post-Employment Benefits

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

Eligible retirees are: (1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the Retiree Health Care Act on the person's behalf, unless that person retires before the employer's NMRHCA effective date, in which event the time period required for the employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; or (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 RCHA 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 RCHA or viewed on their website at www.nmrhca.stat.nm.us.

The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirement for the contributions can be changed by the New Mexico State Legislature. Employers that chose to become participating employers after January 1, 1998 are required to make contributions to the RHCA fund in the amount determined to be appropriate by the Board.

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plan 3, 4 or 5; municipal fire member coverage plan 3, 4, or 5; municipal detention office member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2015, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2013, the statute required each participating employer to contribute 2.0% of each employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15 (G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The Town's contributions to the RHCA for the years ended June 30, 2017, 2016 and 2015 were \$10,506, \$10,367 and \$9,719, respectively, which equal the required contributions for each year.

STATE OF NEW MEXICO
Town of Estancia
Notes to the Financial Statements
June 30, 2017

NOTE 17. Memorandum of Understanding/Joint Powers Agreements

Road Work Service

Purpose: To provide road work services.

Participants: Town of Estancia and Torrance County

Responsible Party for Operation and Audit: Torrance County

Beginning and Ending Date of Agreement: Started October 8, 2003, and continuous unless terminated by either party

Total Estimated Amount of Project and Actual Amount Contributed: Undetermined

House Inmates

Purpose: To provide support for house inmates.

Participants: Town of Estancia and Torrance County

Responsible Party for Operation and Audit: Torrance County

Beginning and Ending Date of Agreement: Started October 9, 1997 and continuous unless terminated by either party

Total Estimated Amount of Project and Actual Amount Contributed: Undetermined

Universal 911 addressing system

Purpose: To provide support for universal 911 addressing system.

Participants: Town of Estancia and Torrance County

Responsible Party for Operation and Audit: Torrance County

Beginning and Ending Date of Agreement: Started 1998 and continuous unless terminated by either party

Total Estimated Amount of Project and Actual Amount Contributed: Undetermined

911 Communicating System

Purpose: To provide support for 911 communicating system.

Participants: Town of Estancia and Torrance County

Responsible Party for Operation and Audit: Torrance County

Beginning and Ending Date of Agreement: Started 1999 and continuous unless terminated by either party

Total Estimated Amount of Project and Actual Amount Contributed: Undetermined

STATE OF NEW MEXICO
Town of Estancia
Notes to the Financial Statements
June 30, 2017

NOTE 17. Memorandum of Understanding/Joint Powers Agreements (continued)

Wildfire Suppression

Purpose: A joint powers agreement to assist and cooperate with wildland fire suppression and management assistance.

Participants: Town of Estancia, and NM Energy, Minerals and Natural Resource Development (EMNR)

Responsible Party for Operation and Audit: EMNR

Beginning and Ending Date of Agreement: Started 2007 and continuous unless terminated by either party

Total Estimated Amount of Project and Actual Amount Contributed: Undetermined

Solid Waste Authority

Purpose: Agreement between Torrance County Solid Waste Authority

Participants: Town of Estancia, Torrance County, Village of Encino, City of Moriarty, and Village of Willard

Responsible Party for Operation and Audit: Torrance County

Beginning and Ending Date of Agreement: Started December 16, 1993 and is continuous unless terminated by either party

Total Estimated Amount of Project and Actual Amount Contributed: Undetermined

Police Patrol on School Campus

Purpose: To provide police officer patrol on school campus during the school day and during after school activities and sporting events.

Participants: Town of Estancia, and the Estancia Municipal Schools

Responsible Party for Operation and Audit: Town of Estancia

Beginning and Ending Date of Agreement: August 2016 – June 2017

Total Estimated Amount of Project and Actual Amount Contributed: Undetermined

Fire Suppression Assistance

Purpose: To provide automatic aid and assistance to one another in suppressing structural fire and to protect and promote public health, welfare, and safety to their citizens.

Participants: Town of Estancia, and Torrance County

Responsible Party for Operation and Audit: Town of Estancia, and Torrance County

Beginning and Ending Date of Agreement: Remain effective March 2015 unless terminated by either party

Total Estimated Amount of Project and Actual Amount Contributed: Undetermined

STATE OF NEW MEXICO
Town of Estancia
Notes to the Financial Statements
June 30, 2017

NOTE 18. Related Party Transactions

The Town does not have any related party transactions to be disclosed.

NOTE 19. Subsequent Review

The Town of Estancia has evaluated subsequent events through November 9, 2017, which is the date the financial statements were dated. In October 2017, the Correctional Facility in Estancia closed which may have a financial impact on the Town with respects to Gross Receipts tax, Property Taxes and Utility Services. The full impact of the closure is not yet known.

SUPPLEMENTARY INFORMATION

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NONMAJOR GOVERNMENTAL FUNDS

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STATE OF NEW MEXICO
TOWN OF ESTANCIA
June 30, 2017

SPECIAL REVENUE FUNDS

The Special Revenue Funds are used to account for Federal, State and Local funded grants. These grants are awarded to the Town with the purpose of accomplishing specific educational tasks. Grants accounted for in the Special Revenue Funds include:

Local Government Corrections Fund– To account for the operation and maintenance of the Town’s jail. Financing is provided by the assessment of correction fees which may be used only for prisoner care. Authorized by NMSA 1978 35-14-44. No minimum balance required according to legislation.

Emergency Medical Services Fund– To account for the acquisition of emergency medical equipment and the operation of the equipment financed through a grant from the State of New Mexico. Authorized by NMSA 24-10A & NMS 6-11-6. No minimum balance required according to legislation.

Fire Protection Fund– To account for the operations and maintenance of the fire department. Contributions and grants from the state fire allotment and state forestry provide funding. Authorized by the Fire Protection Act, NMSA 1978 59A-53-1. No minimum balance required according to legislation.

Law Enforcement Protection Fund– To account for the grant funds used for maintenance and development of the Town’s police force. Financing is provided by a grant from the State of New Mexico. Such revenue provided for purchase and repairs of equipment as well as classes to upgrade the training of police personnel and may be used only for these purposes. Funding authority is NMSA 29-13-1. No minimum balance required according to legislation.

State Gasoline Tax Fund – To account for special gasoline tax distribution to be used for maintenance and improvement of the streets and highways. Funding is from State gasoline tax. Authorized by NMSA 1978 7-1-6.9 to 7-13-18. No minimum balance required according to legislation.

Intergovernmental Grants Fund – To account for grant funds received from state sources for various Town projects. Authorized by New Mexico State Department of Finance and Administration. No minimum balance required according to legislation.

DWI Program Fund – To account for the grant funds received from state sources for DWI related issues and awareness. Authorized by NM State Department of Finance and Administration. No minimum balance required according to legislation.

Garnett Library Grant Fund– To account for the operations and maintenance of the library. Financing is provided by a grant. The grant provides for payment of all current operating costs and may be used only for that purpose. Authorized by Town ordinance, NMSA 1978 section 18-2-4B. No minimum balance required according to legislation.

YCC Fund - To account for funding to support education and job opportunities to the youth of New Mexico through the conservation and enhancement of the state’s natural resources and community benefits. Authorized by New Mexico Energy, Minerals and Natural Resources Department. No minimum balance required according to legislation.

Keep NM Beautiful Fund - To account for a grant to administer solid waste management and litter control activities, native landscaping and beautification activities, and educational recycling activities. Authority by NM Clean & Beautiful, a program of the NM Tourism Department. No minimum balance required according to legislation.

William Library Fund– To account for the operations and maintenance of the library. Financing is provided by a grant. The grant provides for payment of all current operating costs and may be used only for that purpose. Authorized by Town ordinance, NMSA 1978 section 18-2-4B. No minimum balance required according to legislation.

All funds are on a reimbursement basis, therefore there are no reverting fund requirements.

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STATE OF NEW MEXICO
TOWN OF ESTANCIA
June 30, 2017

CAPITAL PROJECTS FUNDS

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital projects.

The Town has one fund classified as non-major Capital Projects Funds as follows:

Grants Capital Projects Fund – To account for funds collected in prior years to fund the replacement of part of the waste water treatment plant.

DEBT SERVICE FUNDS

Debt Service Fund - To account for financial resources to be used for the acquisition and payment of long term bonds and notes of the Town.

PROPRIETARY FUNDS

Sewer/AWWT Fund– To account for the provision of sewer services to the residents of the Town. All utilities activities necessary to provide such services are accounted for in this fund including, but not limited to, administration, operation, billing and maintenance.

Solid Waste Fund– To account for the provision of solid waste services to the residents of the Town. All utilities activities necessary to provide such services are accounted for in this fund including, but not limited to, administration, operations, billing and maintenance.

Water Fund– To account for the provision of water services to the residents of the Town. All utilities activities necessary to provide such services are accounted for in this fund including, but not limited to, administration, operations, billing and maintenance.

Meter Deposits Fund– To account for the provision of meter deposits from the residents of the Town. All utilities activities necessary to provide such services are accounted for in this fund including, but not limited to, administration, operations, billing and maintenance.

STATE OF NEW MEXICO
TOWN OF ESTANCIA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
June 30, 2017

Schedule A-1

| | Local Government Corrections Fund | Emergency Medical Services Fund | Fire Fund |
|--|--------------------------------------|------------------------------------|------------------|
| <i>Assets</i> | | | |
| Cash and cash equivalents | \$ - | \$ - | \$ - |
| Due from Pooled Cash | 7,547 | 50 | 21,851 |
| Investments | - | - | - |
| Taxes receivable | - | - | - |
| Other receivables | - | - | - |
| <i>Total assets</i> | <u>\$ 7,547</u> | <u>\$ 50</u> | <u>\$ 21,851</u> |
| <i>Liabilities</i> | | | |
| Due to Pooled Cash | \$ - | \$ - | \$ - |
| Accounts payable | - | 24 | 646 |
| Accrued salaries and benefits | - | - | - |
| Accrued compensated absences | - | - | - |
| Unearned revenue | - | - | - |
| <i>Total liabilities</i> | <u>-</u> | <u>24</u> | <u>646</u> |
| <i>Fund Balances</i> | | | |
| Fund Balance | | | |
| Restricted for: | | | |
| General Fund | - | - | - |
| Special Revenue Funds | 7,547 | - | 21,205 |
| Capital Projects Funds | - | - | - |
| Debt Service Funds | - | - | - |
| Committed for: | | | |
| General Fund | - | - | - |
| Special Revenue Funds | - | - | - |
| Capital Projects Funds | - | - | - |
| Assigned for: | | | |
| General Fund | - | - | - |
| Special Revenue Funds | - | - | - |
| Capital Projects Funds | - | - | - |
| Unassigned for: | | | |
| Deficit Balances | - | 26 | - |
| <i>Total fund balances</i> | <u>7,547</u> | <u>26</u> | <u>21,205</u> |
| <i>Total liabilities and fund balances</i> | <u>\$ 7,547</u> | <u>\$ 50</u> | <u>\$ 21,851</u> |

STATE OF NEW MEXICO
TOWN OF ESTANCIA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
June 30, 2017

Schedule A-1

| Law Enforcement Protection Fund | State Gasoline Tax Fund | Intergovernmental Grants Fund |
|------------------------------------|-------------------------|----------------------------------|
| \$ - | \$ - | \$ - |
| 1,553 | 37,567 | - |
| - | - | - |
| - | - | - |
| - | - | - |
| <u>\$ 1,553</u> | <u>\$ 37,567</u> | <u>\$ -</u> |
| \$ - | \$ - | \$ 48,299 |
| 257 | - | 193,346 |
| - | - | - |
| - | - | - |
| <u>-</u> | <u>-</u> | <u>-</u> |
| 257 | - | 241,645 |
| - | - | - |
| 1,296 | 37,567 | - |
| - | - | - |
| - | - | - |
| - | - | - |
| - | - | - |
| - | - | - |
| - | - | - |
| <u>-</u> | <u>-</u> | <u>(241,645)</u> |
| <u>1,296</u> | <u>37,567</u> | <u>(241,645)</u> |
| <u>\$ 1,553</u> | <u>\$ 37,567</u> | <u>\$ -</u> |

STATE OF NEW MEXICO
TOWN OF ESTANCIA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
June 30, 2017

Schedule A-1

| | DWI Program Fund | Garnett Library Fund | YCC Fund |
|--|------------------|-------------------------|----------|
| <i>Assets</i> | | | |
| Cash and cash equivalents | \$ - | \$ - | \$ - |
| Due from Pooled Cash | 3,950 | - | - |
| Investments | - | - | - |
| Taxes receivable | - | - | - |
| Other receivables | - | - | - |
| <i>Total assets</i> | \$ 3,950 | \$ - | \$ - |
| <i>Liabilities</i> | | | |
| Due to Pooled Cash | \$ - | \$ - | 9,907 |
| Accounts payable | - | - | - |
| Accrued salaries and benefits | - | - | 5,057 |
| Accrued compensated absences | - | - | - |
| Unearned revenue | - | - | - |
| <i>Total liabilities</i> | - | - | 14,964 |
| <i>Fund Balances</i> | | | |
| Fund Balance | | | |
| Restricted for: | | | |
| General Fund | - | - | - |
| Special Revenue Funds | 3,950 | - | - |
| Capital Projects Funds | - | - | - |
| Debt Service Funds | - | - | - |
| Committed for: | | | |
| General Fund | - | - | - |
| Special Revenue Funds | - | - | - |
| Capital Projects Funds | - | - | - |
| Assigned for: | | | |
| General Fund | - | - | - |
| Special Revenue Funds | - | - | - |
| Capital Projects Funds | - | - | - |
| Unassigned for: | | | |
| Deficit Balances | - | - | (14,964) |
| <i>Total fund balances</i> | 3,950 | - | (14,964) |
| <i>Total liabilities and fund balances</i> | \$ 3,950 | \$ - | \$ - |

STATE OF NEW MEXICO
TOWN OF ESTANCIA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
June 30, 2017

Schedule A-1

| <u>Trolley Fund</u> | <u>Keep NM Beautiful Fund</u> | <u>Williams Library Fund</u> | <u>Debt Service Fund</u> | <u>Total Nonmajor Governmental Funds</u> |
|---------------------|-------------------------------|------------------------------|--------------------------|--|
| \$ - | \$ - | \$ - | \$ - | \$ - |
| - | 164 | - | - | 72,682 |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| <u>\$ -</u> | <u>\$ 164</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 72,682</u> |
| \$ - | \$ - | \$ - | \$ 51,378 | \$ 109,584 |
| - | - | - | - | 194,273 |
| - | - | - | - | 5,057 |
| - | - | - | - | - |
| - | - | - | - | - |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>51,378</u> | <u>308,914</u> |
| - | - | - | - | - |
| - | 164 | - | - | 71,729 |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>(51,378)</u> | <u>(307,961)</u> |
| <u>-</u> | <u>164</u> | <u>-</u> | <u>(51,378)</u> | <u>(236,232)</u> |
| <u>\$ -</u> | <u>\$ 164</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 72,682</u> |

STATE OF NEW MEXICO
TOWN OF ESTANCIA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2017

| | Local Government Corrections Fund | Emergency Medical Services Fund | Fire Protection Fund |
|--|---|---------------------------------------|-------------------------|
| <i>Revenues:</i> | | | |
| Taxes | \$ - | \$ - | \$ - |
| State Grants | - | 5,883 | 79,650 |
| Federal Grants | - | - | - |
| Charges for Services | - | - | - |
| Licenses and Fees | 1,024 | - | - |
| Investment Income (Loss) | - | - | - |
| Miscellaneous | - | - | - |
| <i>Total revenues</i> | <u>1,024</u> | <u>5,883</u> | <u>79,650</u> |
| <i>Expenditures:</i> | | | |
| Current: | | | |
| General Government | - | - | - |
| Public Safety | 288 | 5,425 | 61,225 |
| Public Works | - | - | - |
| Culture and Recreation | - | - | - |
| Health and Welfare | - | - | - |
| Capital Outlay | - | - | - |
| Debt Service: | | | |
| Principal | - | - | - |
| Interest | - | - | - |
| <i>Total expenditures</i> | <u>288</u> | <u>5,425</u> | <u>61,225</u> |
| <i>Excess (deficiency) of revenues over expenditures</i> | <u>736</u> | <u>458</u> | <u>18,425</u> |
| <i>Other financing sources (uses)</i> | | | |
| Transfers In | - | - | - |
| Transfers Out | - | - | - |
| <i>Total other financing sources (uses)</i> | <u>-</u> | <u>-</u> | <u>-</u> |
| <i>Net change in fund balances</i> | 736 | 458 | 18,425 |
| <i>Fund balances - beginning of year</i> | <u>6,811</u> | <u>(432)</u> | <u>2,780</u> |
| <i>Fund balances - end of year</i> | <u>\$ 7,547</u> | <u>\$ 26</u> | <u>\$ 21,205</u> |

| <u>Law Enforcement Protection Fund</u> | <u>State Gasoline Tax Fund</u> | <u>Intergovernmental Grants Fund</u> |
|--|------------------------------------|--|
| \$ - | \$ 27,144 | \$ - |
| 22,400 | 50,000 | 24,053 |
| - | - | - |
| - | - | - |
| - | - | - |
| - | - | - |
| <u>22,400</u> | <u>77,144</u> | <u>24,053</u> |
| - | - | - |
| 8,991 | - | - |
| - | 47,766 | 48,646 |
| - | - | - |
| - | - | - |
| - | - | 208,206 |
| - | - | - |
| - | - | - |
| <u>8,991</u> | <u>47,766</u> | <u>256,852</u> |
| <u>13,409</u> | <u>29,378</u> | <u>(232,799)</u> |
| - | - | - |
| <u>(14,502)</u> | <u>-</u> | <u>-</u> |
| <u>(14,502)</u> | <u>-</u> | <u>-</u> |
| (1,093) | 29,378 | (232,799) |
| <u>2,389</u> | <u>8,189</u> | <u>(8,846)</u> |
| <u>\$ 1,296</u> | <u>\$ 37,567</u> | <u>\$ (241,645)</u> |

STATE OF NEW MEXICO
TOWN OF ESTANCIA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2017

| | DWI Program Fund | Garnett Library Fund | YCC Fund |
|--|---------------------|-------------------------|--------------------|
| <i>Revenues:</i> | | | |
| Taxes | \$ - | \$ - | \$ - |
| State Grants | 297 | - | - |
| Federal Grants | - | - | - |
| Charges for Services | - | - | - |
| Licenses and Fees | - | - | - |
| Investment Income (Loss) | - | - | - |
| Miscellaneous | - | - | - |
| <i>Total revenues</i> | <u>297</u> | <u>-</u> | <u>-</u> |
| <i>Expenditures:</i> | | | |
| Current: | | | |
| General Government | - | - | - |
| Public Safety | - | - | - |
| Public Works | - | - | - |
| Culture and Recreation | - | - | 25,163 |
| Health and Welfare | - | - | - |
| Capital Outlay | - | - | - |
| Debt Service: | | | |
| Principal | - | - | - |
| Interest | - | - | - |
| <i>Total expenditures</i> | <u>-</u> | <u>-</u> | <u>25,163</u> |
| <i>Excess (deficiency) of revenues over expenditures</i> | <u>297</u> | <u>-</u> | <u>(25,163)</u> |
| <i>Other financing sources (uses)</i> | | | |
| Transfers In | - | - | - |
| Transfers Out | - | (1,508) | (17,906) |
| <i>Total other financing sources (uses)</i> | <u>-</u> | <u>(1,508)</u> | <u>(17,906)</u> |
| <i>Net change in fund balances</i> | 297 | (1,508) | (43,069) |
| <i>Fund balances - beginning of year</i> | <u>3,653</u> | <u>1,508</u> | <u>28,105</u> |
| <i>Fund balances - end of year</i> | <u>\$ 3,950</u> | <u>\$ -</u> | <u>\$ (14,964)</u> |

| Trolley Fund | Keep NM Beautiful Fund | Williams Library Fund | Debt Service Fund | Total Nonmajor Governmental Funds |
|--------------|------------------------|-----------------------|-------------------|-----------------------------------|
| \$ - | \$ - | \$ - | \$ - | \$ 27,144 |
| - | - | - | - | 182,283 |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | - | - | 1,024 |
| - | - | 1,551 | - | 1,551 |
| - | - | - | 27 | 27 |
| - | - | 1,551 | 27 | 212,029 |
| - | - | - | - | - |
| - | - | - | - | 75,929 |
| - | - | - | - | 96,412 |
| - | - | - | - | 25,163 |
| - | - | - | - | - |
| - | - | - | - | 208,206 |
| - | - | - | 26,574 | 26,574 |
| - | - | - | 2,386 | 2,386 |
| - | - | - | 28,960 | 434,670 |
| - | - | 1,551 | (28,933) | (222,641) |
| - | - | (10,529) | 20,622 | 10,093 |
| - | - | - | (4,163) | (38,079) |
| - | - | (10,529) | 16,459 | (27,986) |
| - | - | (8,978) | (12,474) | (250,627) |
| - | 164 | 8,978 | (38,904) | 14,395 |
| \$ - | \$ 164 | \$ - | \$ (51,378) | \$ (236,232) |

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REQUIRED SUPPLEMENTARY INFORMATION
PENSION LIABILITY

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STATE OF NEW MEXICO
TOWN OF ESTANCIA
 Required Supplementary Information
 June 30, 2017

**SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE
 NET PENSION LIABILITY OF PERA FUND DIVISION – GENERAL**

Public Employees Retirement Association (PERA) Plan

Last 10 Fiscal Years*

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|-------------|-------------|-------------|
| Town's proportion of the net pension liability (asset) | 0.0387% | 0.0337% | 0.0292% |
| Town's proportionate share of the net pension liability (asset) | \$618,295 | \$343,601 | \$ 227,791 |
| Town's covered-employee payroll | \$ 316,891 | \$500,444 | \$ 332,763 |
| Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 195.11% | 68.66% | 68.45% |
| Plan fiduciary net position as a percentage of the total pension liability | 69.18% | 76.99% | 81.29% |

**Governmental Accounting Standards Board Statement 68 requires ten years of historical information be presented; however, until a full 10-year trend is compiled, the statement only requires presentation of information for those years that information is available. Complete information for the Town is not available prior to fiscal year 2015, the year the statement's requirements became effective.*

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STATE OF NEW MEXICO
TOWN OF ESTANCIA
Required Supplementary Information
June 30, 2017

**SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY OF PERA FUND DIVISION – POLICE**

Public Employees Retirement Association (PERA) Plan

Last 10 Fiscal Years*

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|-------------|-------------|-------------|
| Town's proportion of the net pension liability (asset) | 0.0683% | 0.0467% | 0.0517% |
| Town's proportionate share of the net pension liability (asset) | \$503,937 | \$ 228,887 | \$ 168,536 |
| Town's covered-employee payroll | \$128,086 | \$ 163,626 | \$ 194,837 |
| Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 393.43% | 139.88% | 86.50% |
| Plan fiduciary net position as a percentage of the total pension liability | 69.18% | 76.99% | 81.29% |

**Governmental Accounting Standards Board Statement 68* requires ten years of historical information be presented; however, until a full 10-year trend is compiled, the statement only requires presentation of information for those years that information is available. Complete information for the Town is not available prior to fiscal year 2015, the year the statement's requirements became effective.

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STATE OF NEW MEXICO
TOWN OF ESTANCIA
 Required Supplementary Information
 June 30, 2017

SCHEDULE OF THE TOWN'S CONTRIBUTIONS

Public Employees Retirement Association (PERA) Plan

PERA Fund Division - General

Last 10 Fiscal Years*

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|-------------|-------------|-------------|
| Contractually required contribution | \$ 59,095 | \$ 53,254 | \$ 13,372 |
| Contributions in relation to the contractually required contribution | \$ 59,095 | \$ 53,254 | \$ 13,372 |
| Contribution deficiency (excess) | - | - | - |

**Governmental Accounting Standards Board Statement 68 requires ten years of historical information be presented; however, until a full 10-year trend is compiled, the statement only requires presentation of information for those years that information is available. Complete information for Town is not available prior to fiscal year 2015, the year the statement's requirements became effective.*

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STATE OF NEW MEXICO
TOWN OF ESTANCIA
 Required Supplementary Information
 June 30, 2017

SCHEDULE OF THE TOWN'S CONTRIBUTIONS

Public Employees Retirement Association (PERA) Plan

PERA Fund Division - Police

Last 10 Fiscal Years*

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|-------------|-------------|-------------|
| Contractually required contribution | \$ 24,208 | \$ 44,085 | \$ 29,663 |
| Contributions in relation to the contractually required contribution | \$ 24,208 | \$ 44,085 | \$ 29,663 |
| Contribution deficiency (excess) | - | - | - |

**Governmental Accounting Standards Board Statement 68 requires ten years of historical information be presented; however, until a full 10-year trend is compiled, the statement only requires presentation of information for those years that information is available. Complete information for Town is not available prior to fiscal year 2015, the year the statement's requirements became effective.*

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STATE OF NEW MEXICO
TOWN OF ESTANCIA
Required Supplementary Information
June 30, 2017

Notes to Required Supplementary Information
For the Year Ended June 30, 2017

Changes of benefit terms. The PERA and COLA and retirement eligibility benefits changes in recent years are described in Note 1 of PERA's CFAR. <https://www.saonm.org>.

Assumptions. The Public Employ Retirement Association of New Mexico Annual Actuarial Valuations as of June 2016 report is available at <http://www.nmpera.org/>.

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SUPPORTING SCHEDULES

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STATE OF NEW MEXICO
TOWN OF ESTANCIA
SCHEDULE OF COLLATERAL PLEDGED BY DEPOSITORY
FOR PUBLIC FUNDS
JUNE 30, 2017

Schedule I

| Name of Depository | Description of Pledged Collateral | Market Value June 30, 2017 | Name and Location of Safekeeper |
|-----------------------|--|-------------------------------|---------------------------------------|
| Wells Fargo Bank | GNMA FNMS 2.5% 3140F9A62, 8/1/2031 | 663,395 | BNY Mellon New York, NY |
| Wells Fargo Bank | FMAC FGPC 3.5% 3132GRZP9, 3/1/2042 | 46,331 | BNY Mellon New York, NY |
| US Bank | FHLMC Gold Pool 31283KN46, 10/1/2017 | 27 | Federal Reserve Bank Dallas, TX |
| US Bank | FNMA Pool AE9299 31419LKM4, 11/1/2025 | 15,420 | Federal Reserve Bank Dallas, TX |
| | | <u>\$ 725,173</u> | |

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STATE OF NEW MEXICO
TOWN OF ESTANCIA
SCHEDULE OF CASH AND TEMPORARY INVESTMENT ACCOUNTS
JUNE 30, 2017

Schedule II

| Bank Account Type/Name | State Employees | | | | | Total |
|---|---------------------|-------------------|-------------------|-------------------|------------------|---------------------|
| | Wells Fargo | Federal CU | My Bank | US Bank | State Treasurer | |
| Meter Deposits- Checking w/Interest Public Funds | 33,037 | - | - | - | - | \$ 33,037 |
| Investment Acct, Choice IV Public Funds- Checking | 1,448,356 | - | - | - | - | 1,448,356 |
| Payroll- Choice IV- Public Funds, Checking | 9,534 | - | - | - | - | 9,534 |
| Willis Bequest-Bus Mkt Rate Pub Funds (Savings) | 233,926 | - | - | - | - | 233,926 |
| Savings Reserve Account-SECU | - | 5,906 | - | - | - | 5,906 |
| Certificate of Deposit- Wells Fargo | 45,030 | - | - | - | - | 45,030 |
| Certificate of Deposit- SECU | - | 241,557 | - | - | - | 241,557 |
| Certificate of Deposit: My Bank | - | - | 240,599 | - | - | 240,599 |
| Certificate of Deposit- US Bank | - | - | - | 240,000 | - | 240,000 |
| MVD Account | 200 | - | - | - | - | 200 |
| State Treasurer's Office | - | - | - | - | 88,040 | 88,040 |
| Total On Deposit | <u>1,770,084</u> | <u>247,463</u> | <u>240,599</u> | <u>240,000</u> | <u>88,040</u> | <u>2,586,186</u> |
| Reconciling Items | - | - | - | - | - | - |
| Reconciled Balance | <u>\$ 1,770,084</u> | <u>\$ 247,463</u> | <u>\$ 240,599</u> | <u>\$ 240,000</u> | <u>\$ 88,040</u> | <u>\$ 2,586,186</u> |
| Petty Cash | | | | | | \$ 250 |
| NMFA Cash | | | | | | 2,519 |
| Total cash and investments at June 30, 2017 | | | | | | <u>\$ 2,588,955</u> |

This amount is reflected in the financial statements as follows:

| | |
|---------------------------------------|---------------------|
| Cash and cash equivalents-Exhibit A-1 | 1,709,556 |
| Investments-Exhibit A-1 | 855,226 |
| | <u>\$ 2,564,782</u> |

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COMPLIANCE SECTION

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

INDEPENDENT AUDITOR'S REPORT

Timothy Keller
New Mexico State Auditor
The Office of Management and Budget and
The Governing Board
Town of Estancia
Estancia, NM

We were engaged to audit, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information and the budgetary comparisons of the General fund and major Special Revenue funds, of the Town of Estancia as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town of Estancia's basic financial statements, and the combining and individual and related budgetary comparisons of the Town of Estancia, presented as supplemental information, and have issued our report thereon dated November 9, 2017. Our report disclaims an opinion on such financial statements because of the Town of Estancia was unable to provide sufficient evidential matter in support of certain transactions and account balances, as presented in the Town's financial statements as of and for the year ended June 30, 2017, particularly with respect to the cash balances, capital assets and depreciation and current year activities.

Internal Control Over Financial Reporting

In connection with our engagement to audit of the financial statements, we considered the Town of Estancia's internal control over financial reporting to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Estancia's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Estancia's internal control.

Our consideration of the 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 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 certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and 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 function, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements

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will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. The material weaknesses are described as 2005-001, 2015-005, 2016-001, 2016-003, 2016-006, 2016-007, 2016-011, 2016-012, 2016-016, and 2016-023.

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 deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies and are items described as 2014-001, 2014-003, 2015-001, 2015002, 2015-004, 2016-020, and 2016-021.

Compliance and Other Matters

As part of obtaining reasonable assurance in connection with our engagement to audit the financial statements of the Town of Estancia, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and responses as items 2005-001, 2015-005, 2016-001, 2016-003, 2016-006, 2016-007, 2016-011, 2016-012, 2016-016, 2016-023 2014-001, 2014-003, 2015-001, 2015002, 2015-004, 2016-020, and 2016-021.

Town of Estancia's Response to Findings

The Town of Estancia's responses to the findings identified in our engagement are described in the accompanying schedule of findings and responses. The Town of Estancia's responses were not subjected to auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 result of that testing, and not to provide an opinion on the effectiveness of the Town of Estancia'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 Town of Estancia's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Precision Accounting, LLC

Precision Accounting LLC

Albuquerque, New Mexico

November 9, 2017

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STATE OF NEW MEXICO
Town of Estancia
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2017

Section I – PRIOR YEAR FINDINGS:

2005-001 [05-01] Capital Assets – Repeated and Revised
2007-005 [07-05] Trial Balances – Cleared
2014-001 Cash Disbursements – Repeated and Revised
2014-003 Mileage and Per Diem – Repeated and Revised
2015-001 Lack of control for Contracts – Repeated and Revised
2015-002 Noncompliance with Procurement Requirements-Repeated and Revised
2015-003 Lack of Controls over cash- Cleared
2015-004 Noncompliance with revenue collection policy – Repeated and Revised
2015-005 Lack of Controls over Payroll- Repeated and Revised
2016-001 Lack of Town Policies and Procedures – Repeated and Revised
2016-002 Lack of Internal Controls and Improper Access Controls – Cleared
2016-003 Mismanagement of Pooled Cash – Repeated and Revised
2016-004 Bank Reconciliations – Cleared
2016-005 Wasteful Spending of Taxpayer Dollars – Cleared
2016-006 Timeliness of Due to/Due From reversals- Repeated and Revised
2016-007 Interfund Transfers that do not Balance – Repeated and Revised
2016-008 State Law Compliance Governmental Gross Receipts Tax – Cleared
2016-009 State Law Compliance Anti-Donation Clause – Cleared
2016-010 Improper Use of Procurement Cards – Cleared
2016-011 Comingling of Joint Utility Funds and the General Fund – Repeated and Revised
2016-012 Noncompliance with Town Ordinances – Repeated and Revised
2016-013 Account Miscoding – Cleared
2016-004 State Fuel Cards – Cleared
2016-015 Unrecorded Transactions – Cleared
2016-016 – Unsubstantiated Transactions – Repeated and Revised
2016-017 Record Retention – Cleared
2016-008 Budgetary Compliance – Cleared
2016-019 I-9s Compliance and Internal Control – Cleared
2016-020 Noncompliance with Oversight Agency – Repeated and Revised
2016-021 Noncompliance with IRS Regulation – Repeated and Revised
2016-022 Noncompliance with State Audit Rule – Cleared
2016-023 PERA and RHC Noncompliance – Repeated and Revised
2016-024 Payroll Withholding Noncompliance – Cleared
2016-025 Lack of Controls over Payroll and Leave Accrual Noncompliance – Cleared

Note: For traceability purposes, the audit finding reference numbers reported in prior year audit reports are presented in brackets, and where applicable, have been renumbered to comply with reporting standards.

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STATE OF NEW MEXICO
Town of Estancia
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2017

2005-001 [05-01] Capital Asset Depreciation Schedule – Material Weakness, Compliance and other Matter (repeated and revised)

Condition: The Town does not have an accurate capital asset listing and related depreciation schedule for the Town's assets. The Town did make progress with this finding as they hired a company to perform a capital asset inventory listing. Unfortunately, the company's report to the Town was inaccurate.

Criteria: A capital asset listing and the related depreciation schedule is required by Generally Accepted Accounting Principles, GASB 34.177a and NMAC 2.20.1.15. In addition, control over the Town's capital assets is exercised through the maintenance of a detail capital asset schedule.

Cause: The Town had not previously maintained an inventory of capital assets and related depreciation. During the fiscal year the Town had an outside company perform a capital asset inventory listing but upon further review of the listing it did not accurately provide all the Town's assets.

Effect: The financial statements of the Town do not reflect accurate capital asset costs, the related accumulated depreciation or depreciation expense for the year.

Recommendation: We recommend that the Town obtain assistance in compiling an accurate capital asset listing and that the depreciation schedules are updated.

Client Response: The Town of Estancia did hire a company to conduct a capital assets inventory in the hopes of having an accurate accounting of all the Town's assets and of clearing this finding. As stated above, the inventory was inaccurate. We will rectify this situation. The Town Clerk and Deputy Clerk, along with the assistance of the Town Department heads, will finalize the capital asset report which will include a depreciation schedule. The Clerk has already reached out to a representative from NM DFA for assistance with the depreciation schedule. The Clerk and Deputy Clerk plan to have this completed by March 1, 2018.

STATE OF NEW MEXICO
Town of Estancia
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2017

2014-001 Lack of Internal Controls over Cash Receipts – Significant Deficiency, Compliance and other Matter (repeated and revised)

Condition: During our test work, over cash receipts we noted forty-six (46) exceptions out of a sample size of two hundred thirty-four (234). These exceptions were due to lack of supporting documentation. It appears that the entity is not properly recording a receipt for all monies received in a pre-numbered receipt book. This resulted in an error rate of 20%. When projected to the total population of one thousand one hundred and five (1,105) receipts there are 217 potential errors. The Town is making progress to implement policies and procedures to ensure all laws are complied with.

Criteria: NMSA 1978 Section 6-5-2 states “2. Document the receipt of money using a pre-numbered cash receipt slip, validated cash register receipt, or a cash receipt log. Record the date, amount, and person issuing the receipt. Record the payer, when applicable.”

Cause: The Town was unaware of NMSA 1978 Section 6-5-2 regarding controls over cash receipts.

Effect: It appears that the Town is non-compliant with NMSA 1978 Section 6-5-2. Without adequate supporting documentation, it is difficult to determine whether the amount of monies received and deposited were intact which can lead to unaccounted and untimely deposits.

Recommendation: The Town should implement NMSA 1978 Section 6-5-2 and properly train all staff and personnel on those policies and procedures. The Town is encouraged to have all personnel in charge of preparing and reviewing receipts perform a review of all supporting documents to ensure accuracy and appropriate documentation for deposits.

Client Response: Once the Town was made aware of NMSA 1978 Section 6-5-2, the Clerk and Deputy Clerk immediately instructed the Administrative Assistant to issue a receipt for all incoming monies received that are not part of a utility batch. The Clerk will create a receipt for all ACH monies that are received into a Town account. This correction has already been implemented.

STATE OF NEW MEXICO
Town of Estancia
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2017

2014-003 Mileage and Per Diem - Control Deficiency, Compliance and other Matter (repeated and revised)

Condition: During our test work of travel and per diem, we noted eight (8) exceptions out of a sample size of twenty-four (24) transactions. Six (6) exceptions were due to the expenditures exceeding the per diem allowance set by DFA 95-1. Two (2) exceptions were due to the expenditure not being authorized by management prior to the travel commencing. This resulted in a 34% error rate. Although the eight (8) exceptions within travel and per diem resulted in this finding we did note that management is working diligently on resolving the travel and per diem issues.

Criteria: Department of Finance Authority Rule 95-1 states: “B. Per diem rate computation: Except as provided in Subsections C through I of this Section, per diem rates for travel by public officers and employees shall be computed as follows: (1) Partial day per diem rate: Public officers or employees who occasionally and irregularly travel shall be reimbursed for travel which does not require overnight lodging, but extends beyond a normal work day as follows: (a) for less than 2 hours of travel beyond normal work day, none; (b) for 2 hours, but less than 6 hours beyond the normal work day, \$12.00; (c) for 6 six hours, but less than 12 hours beyond the normal work day, \$20.00; (d) for 12 hours or more beyond the normal work day, \$30.00; (2) Overnight travel: Regardless of the number of hours traveled, travel for public officers and employees where overnight lodging is required shall be reimbursed as follows: (a) in state areas \$85.00 (b) in state special areas \$135.00 (c) out of state areas \$115.00”

Cause: The cause may be related to an oversight of review and approval process of travel and per diem reimbursements by management.

Effect: Without having proper authorization for travel reimbursements, this appears to be in violation of the state statute. Also, overriding procedures on the proper authorization for the travel reimbursements could cause over budget issues and unacceptable reimbursements to be processed.

Recommendation: The Town is encouraged to have all personnel in charge of reviewing and approving travel reimbursements, perform a review of all supporting documents, including authorizations for such travels, to be reimbursed. All staff and employees should be trained on initiation and reimbursement processes for travel from appropriate policies and procedures and state statute.

Client Response: The Clerk and Deputy Clerk have been made aware of the all NMAC rules pertaining to per diem. The Deputy Clerk approves all travel and will advise employees of reimbursement rules. The Clerk and Deputy will conduct a training to make all employees aware of per diem. Training will be conducted by April 15, 2018. Corrections will be implemented immediately.

STATE OF NEW MEXICO
Town of Estancia
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2017

2015-001 No Contract on file for service contractor - Significant Deficiency, Compliance and other Matter (repeated and revised)

Condition: The Town did not have a contract on file for one (1) independent service contractor. The Town made progress with this finding as the Town did not rehire these services in July 2017.

Criteria: AC 1978 section 1.4.1 “State Purchasing Regulations” indicate that proper procurement procedures should be in place, including executive of procurement contracts, in order to ensure that appropriate purchases are obtained for the business operations. Sound business practices also apply as this presents risk mitigation and assessments.

Cause: Management did not maintain renewal service contracts or obtain updated contracts as necessary on an annual basis.

Effect: Failure to obtain written and signed contracts with independent service contractors could place the Town at risk and liabilities for service payments or accidents that would be mitigated under contract agreement and conditions. In addition, it does not allow the Town to monitor costs with service contractors if services are not completed within time frame of projects, which can lead to over budgeted projects or insufficient funding for such projects or services.

Recommendation: The Town is encouraged to maintain agreements and related documentation of all professional, independent contractors.

Client Response: This finding has already been corrected as the contractor in question is no longer being paid by the Town for services. The Clerk and Deputy Clerk will insure that, going forward, any independent service contractor doing work for the town will have a contract on file before any work begins.

STATE OF NEW MEXICO
Town of Estancia
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2017

2015-002 Noncompliance with Procurement Requirements – Significant Deficiency.
Compliance and other Matter (repeated and revised)

Condition: The Town currently has no Certified Procurement Officer assigned and has not completed the procurement officer training course. Please note that the Town had made progress on this finding as the previous Town Clerk did obtain the CPO designation but when she left in March 2017, the town was left with no individual who had the CPO designation. Additionally, last year this finding included inappropriate procurement processes conducted by Town, we found no evidence to support inappropriate procurement procedures.

Criteria: NMAC section 1.4.1, NMSA 1978 sections 13-1-1 to 13-1-199 and NMSA 1978 section 13-1-95.2 states that all governmental agencies must have an assignment of a Certified Procurement Officer and obtain updated procurement regulation training.

Cause: During the fiscal year the Town experienced turnover with the Town Clerk position. The new Town Clerk, hired in May 2017, did not have an opportunity to obtain the CPO designation prior to fiscal year end.

Effect: The Town is in violation of the state statute regarding procurement requirements to have a Certified Procurement Officer.

Recommendation: The Town is encouraged to have both the Clerk and Deputy Clerk obtain the CPO designation in alternating years to ensure that the Town meets the Procurement requirements.

Client Response: The Clerk will contact the NMML to register for CPO training at the next available opportunity and the Deputy Clerk will be trained with the Clerk or shortly thereafter. This training will be completed by April 2018.

STATE OF NEW MEXICO
Town of Estancia
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2017

2015-004 Noncompliance with revenue collection policy - Significant Deficiency.
Compliance and other Matter (repeated and revised)

Condition: During our test work over utility billing we noted thirty (30) exceptions out of a sample size of forty (40). Three (3) exceptions were due to customer accounts being charged commercial rates when they should have been charged the residential rates. Seven (7) exceptions were due to the billing rate not being updated to reflect the 3% increase for the new fiscal year. Twenty (20) exceptions were due to incorrect billing rates being charged to customer accounts based on their usage; it appears that this is due to the UB MAX software prorating the billing rate rather than charging the rate based on the Town's ordinance. The total amount billed incorrectly was \$119.51. We noted that the Town did make progress on this finding from the prior year as they have procedures in place for adjustments and supporting documentation.

Criteria: The Municipality of Estancia Ordinance for Amending Fees, Assessments and Charges Related to Water Usage No. 9-8-2 and Fees, Assessments and Charges Related to Sewer Usage No. 9-8-4. These ordinances state the rates for the water and sewer usage effective as of August 1, 2013 and states:

“In order to allow the utility to keep up with inflation without the need for annual rate studies, the Board of Trustees finds that it is necessary to institute an automatic rate adjustment. Effective for bills sent on or after August 1, 2014, and on bills sent on or after August 1 of each year thereafter, each of the foregoing rates shall automatically increase by 3% from the previous year, unless the Board of Trustees has, by the first meeting in June of the previous year, suspended or adjusted the amount of the automatic increase for the upcoming year.”

Cause: It appears that the water and sewer utility usage rate increase of three percent (3%) may not have been updated correctly in the UB MAX utility billing system to correspond with the Municipality of Estancia Ordinances. The Town was unaware that the software was not charging the rates based on their ordinance.

Effect: The Municipality of Estancia Ordinance for Amending Fees, Assessments and Charges Related to Water Usage No. 9-8-2 and Fees, Assessments and Charges Related to Sewer Usage No. 9-8-4. The Town could potentially have inaccurate customer billings and potential financial loss, by not changing the utility billing rates to correspond with the Municipality of Estancia Ordinances.

Recommendation: The Town's management should ensure that the utility billing rates in UB MAX coincides with what is applicable per the ordinances..

Client Response: The Clerk, Deputy Clerk, and Administrative Assistant will work together to insure that UB MAX is not pro-rating customer bills, which is not in compliance with the Town's utility billing ordinance. The Clerk, Deputy Clerk, and Administrative Assistant will review each customer account to insure that each customer is being billed correctly. This will be accomplished by January 1, 2018.

STATE OF NEW MEXICO
Town of Estancia
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2017

2015-005 Lack of Controls over Payroll Ledger - Material Weakness, Compliance and other Matter (repeated and revised)

Condition: Until March 2017, the Town utilized a separate QuickBooks accounting record for payroll transactions. The Town made progress with this finding beginning in March 2017 when they contracted with Paychex to process their payroll. The entry from Paychex is entered into the Town of Estancia's QuickBooks file.

Criteria: NMSA 1978 section 6-5-2 "Internal Controls" states that proper internal controls should be designed and employed to prevent accounting errors and violations of state and federal law and rules related to financial matters, including payroll. GAAP requirements and accounting principles must be followed for recording and maintaining proper accounting records.

Cause: Management had two sets of QuickBooks, one for payroll and one for all other accounting records. Management did not ensure proper accounting practices, when conducting payroll transfers between, the payroll QuickBooks accounting file and the general ledger QuickBooks accounting file.

Effect: Separate files between payroll and the General Ledger can cause confusion and can lead to inaccurate recordkeeping in the Town's accounting records.

Recommendation: The Town should consolidate the payroll QuickBooks accounting file and the General Ledger QuickBooks file. Precision Accounting, LLC noted that this was done effective March 2017.

Client Response: This finding was rectified as of March 2017 when the Town moved their payroll accounting from QuickBooks to Paychex. The Town will continue to work with Paychex to insure accurate payroll accounting.

STATE OF NEW MEXICO
Town of Estancia
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2017

2016-001 – Lack of Town Policies and Procedures, Material Weakness, Compliance and other Matter (repeated and revised from 2016 Special Investigation and revised)

Condition: The Town does not have written policies and procedures for computer use, cash handling, bank reconciliations, procurement, utility billing and payroll. Although the Town is working on this, there has been no significant progress.

Criteria: Town management is responsible for establishing and maintaining internal controls that include controls for the generally accepted accounting principles (GAAP) basis financial statements issued by the Town. The “Green Book” sets the standards for effective internal control systems for federal agencies and may also be appropriate for adoption by state, local, and quasi-governmental entities as a framework for an internal control system.

Cause: It is unclear why the Town is missing pertinent policies and procedures; however, the Town has experienced frequent personnel changes at the Town Clerk position which may have impeded the Town from dedicating resources to creating policies and procedures, since the Town’s focus was completing day-to-day duties to keep the Town operating.

Effect: The internal control structure is inadequate and not documented which leaves management and staff unsure about what procedures and processes to follow to properly safeguard assets. Internal control weaknesses can allow errors to go undetected and also provide the opportunity for individuals to commit fraudulent activity without detection. Failure to implement effective internal control increases the Town’s exposure to theft and misappropriation of funds.

Recommendation: The Town needs to develop a policy manual regarding computer use, cash handling, bank reconciliations, procurement and utility billing.

Client Response: The Clerk and Deputy Clerk will review policies from other municipalities and develop written policies that will be adopted for the Town. The Clerk and Deputy Clerk have begun this process and it will be completed by February 2018.

STATE OF NEW MEXICO
Town of Estancia
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2017

2016-003 – Mismanagement of Pooled Cash, Material Weakness, Compliance and other Matter (repeated and revised from 2016 Special Investigation)

Condition: The Town’s pooled cash system has not been reconciled to cash by fund, creating many year over year variances between audited cash and cash reported to the New Mexico Department of Finance and Administration (DFA). The largest variances appear in the general fund and the joint utility fund. Although the Town is working on this, there has been no significant progress.

Criteria: §6-6-3 (A), (B), (C) NMSA 1978 - Every local public body shall keep all the books, records and accounts in their respective offices, make all reports and conform to the rules and regulations adopted by the local government division. §3-12-3(A) 3 NMSA 1978 - The governing body of a municipality having a mayor-council form of government shall manage and control the finances and all property, real and personal, belonging to the municipality. §10-5-2 (B) NMSA 1978 - The secretary of finance and administration may summarily suspend any official of any local public body in all cases where an audit reveals fiscal management of an office resulting in violation of law or willful violation of the fiscal regulations. Town Ordinance 9-1-4 - The Town Clerk must keep records of all utility bills and receipts provided to customers, and they must collect and deposit all proceeds collected from the utility bills into the appropriate utility fund account.

Cause: It is unclear why the Town does not properly reconcile pooled cash to cash by fund or why the governing body continuously certified unreconciled cash as accurate.

Effect: The Town’s Board of Trustees approved and certified inaccurate information. The Board may have violated section 6-6-3 NMSA 1978 by continually certifying cash by fund on the fourth quarter report and the final budget that does not materially tie to the audited financial statements. The governing body’s certification of incorrect reports may have influenced DFA’s Local Government Division’s decisions to approve expenditures in excess of actual available cash, projected revenues and required reserves. The Town may or may not have the cash and revenues needed to provide the basic government mandated services required for the safety and health of its residents.

Recommendation: The Town should develop and implement policies and procedures regarding cash management, account reconciliations and required backup documentation for the governing body. Additionally, the Town may want to consider creating separate bank accounts to facilitate accurate fund accounting. Audited cash should be reconciled to cash certified to DFA at the completion of each annual financial statement audit.

Client Response: The Clerk and Deputy Clerk will work with the numbers provided by the auditors and with DFA to insure that the beginning FY18 fund numbers are accurate. The Clerk has begun the practice of presenting the Board of Trustees with a complete copy of the Town’s P&L statements and DFA spreadsheets. The Clerk will insure transparency during this process and will work to insure that the Town’s fund balances are accurate. The Clerk has reached out to a representative from DFA to begin this process. The Clerk plans to correct any incorrect fund balances before second quarter reporting is due (January 2018).

STATE OF NEW MEXICO
Town of Estancia
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2017

2016-006 – Timeliness of Due to/Due From Reversals, Material Weakness, Compliance and other Matter (repeated and revised from 2016 Special Investigation)

Condition: The Town was unable to provide any documentation for what amounts were actually owed to the joint utility fund or what the repayment terms might be. Although the Town is working on this, there has been no significant progress.

Criteria: Generally Accepted Accounting Principles

Cause: It is unclear why the interfund balances have not been reconciled however; it is most likely the result of staffing shortages, turnover, and lack of training.

Effect: The Town's financial statements for several years may be inaccurate or misleading. The Town's lack of internal controls and monitoring increase the risk for fraud, waste and abuse of Town resources.

Recommendation: We recommend the Town properly train its accounting personnel on accounting practice requirements pertaining to due to/due from reversals.

Client Response: The Clerk and Deputy Clerk will work with a representative from DFA to get a better understating of Due to/Due from reversals. At this time, the budget contains no due to/due from reversals and the Clerk and Deputy Clerk plan to work diligently not to have any. The Clerk and Deputy Clerk will attend DFA budget training this week (November 2017).

STATE OF NEW MEXICO
Town of Estancia
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2017

2016-007 – Interfund Transfers That Do Not Balance, Material Weakness, Compliance and other Matter (repeated and revised from 2016 Special Investigation)

Condition: The Town’s governing body approved cash transfers between funds where the total amount of the transfers between funds did not net to \$0. Although the Town is working on this, there has been no significant progress.

Criteria: Governmental Accounting Standards Board Statement 34 paragraph 112 - Interfund transfers should be reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers. Good accounting practices require that the amounts transferred between funds should balance.

Cause: It is unclear why the Town’s governing body approved transfers that did not net to \$0.

Effect: The financial statements are inaccurate and misleading. The Town’s governing body may have violated section 10-5-2 NMSA 1978 by approving interfund cash transfers that did not balance. These transfers changed the Town’s overall cash balance on DFA’s fourth quarter reports.

Recommendation: We recommend the Town’s governing body review all reports they certify more closely, ask questions about any unusual items noted, and request additional documentation for questionable amounts.

Client Response: The Clerk has worked with a representative from DFA to insure that transfers always net to \$0. The Clerk and Deputy Clerk will attend budget training this week and they will request more training on this issue to insure that this error is not repeated in the future.

STATE OF NEW MEXICO
Town of Estancia
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2017

2016-011 – Comingling of Joint Utility Funds and the General Fund, Material Weakness, Compliance and other Matter (repeated and revised from 2016 Special Investigation)

Condition: The Town has not consistently allocated expenditures properly between the joint utility fund and the general fund. The Town has at least three loans that are being paid with the wrong revenue source from the wrong fund. The Town has at least two employees, the maintenance foreman and the billing clerk, whose time is not being properly allocated between the funds or not allocated at all. Both employees' salaries are charged to the joint utility fund; however, their day-to-day tasks include general fund activities and street fund tasks. It was noted that in July 2017 the Village has corrected the payroll allocations with the exception of an allocation for the Joint Utility fund.

Criteria: Governmental Accounting Standards Board Statement 34 paragraph 67 - The joint utility fund is an enterprise fund and by definition establishes a separate accounting and financial reporting mechanism for municipal services for which a fee is charged in exchange for goods or services. Fees for enterprise fund services charged to customers should include the cost of providing the service, amounts to cover associated debt service, and other amounts to set aside for expansion, replacement or long-term upgrades.

Cause: The Town uses an accounting system designed for small businesses that was not designed for fund accounting. This accounting system does not provide a set of self-balancing accounts that will recognize the separate legal and budgetary identity of each fund. Additionally, because the Town uses a pooled cash system, internal controls are difficult to implement to prevent inadvertent cross fund transactions. Due to the chronic mismanagement of cash, the Town does not have a clear picture of general fund revenues and expenditures or utility fund revenues and expenditures.

Effect: The joint utility fund expenditures appear overstated, governmental fund expenditures appear understated, and the financial statements in general are misleading and inaccurate. Loan terms and conditions appear to have been violated which exposes the Town to potential legal ramifications.

Recommendation: The Town should implement a time reporting policy that requires employees to allocate time spent working on projects between funds on a daily basis. The Town should review all outstanding loan documentation and verify the repayment requirements, review all prior loan payments and identify any corrections that should be made between funds.

Client Response: The Town is preparing to move their accounting system from QuickBooks to Caselle. Once Caselle is implemented, the Clerk and Deputy Clerk will review this again to see how to pay the Public Works Supervisor out of both sewer and water. The Clerk, along with the assistance of Paul Ludi from DFA, have reviewed the outstanding loan documentation and verified repayment requirements. We have made a change to our payroll reporting so that the salary for the Deputy Clerk comes out of Finance, and the salary for the Administrative Assistant comes out of Utilities. The Town plans to move to Caselle early in 2018.

STATE OF NEW MEXICO
Town of Estancia
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2017

2016-012 – Noncompliance with Town Ordinances, Material Weakness, Compliance and other Matter (repeated and revised from 2016 Special Investigation)

Condition: The Town has not consistently applied provisions of their own ordinances to customers in the following way:

- We noted sewer and garbage rates were increased annually, however the Town ordinance only specifies that water will receive a 3 percent increase.

Subsequent to year end the Town has amended Ordinance 9-8-4 to include all utilities in the 3% rate increase.

Criteria: The Municipality of Estancia Ordinance for Amending Fees, Assessments and Charges Related to Water Usage No. 9-8-2 and Fees, Assessments and Charges Related to Sewer Usage No. 9-8-4. These ordinances state the rates for the water and sewer usage effective as of August 1, 2013 and states:

“In order to allow the utility to keep up with inflation without the need for annual rate studies, the Board of Trustees finds that it is necessary to institute an automatic rate adjustment. Effective for bills sent on or after August 1, 2014, and on bills sent on or after August 1 of each year thereafter, each of the foregoing rates shall automatically increase by 3% from the previous year, unless the Board of Trustees has, by the first meeting in June of the previous year, suspended or adjusted the amount of the automatic increase for the upcoming year.”

Cause: It was unclear why employees were not implementing Town Ordinances as intended by the governing body.

Effect: As of June 30, 2017 the Town does not appear to be complying with ordinances as enacted by the Town’s governing body.

Recommendation: The Town’s management should ensure that the utility billing rates in UB MAX coincides with what is applicable per the ordinances.

Client Response: The Clerk, Deputy Clerk, and Administrative Assistant will work together to insure that UB MAX is not pro-rating customer bills, which is not in compliance with the Town’s utility billing ordinance. The Clerk, Deputy Clerk, and Administrative Assistant will review each customer account to insure that each customer is being billed correctly. This will be accomplished by January 1, 2018.

STATE OF NEW MEXICO
Town of Estancia
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2017

2016-016 – Unsubstantiated Transactions, Material Weakness, Compliance and other Matter (revised and repeated from 2016 Special Investigation)

Condition: The Town has recorded transactions in the general ledger that are not supported by external documents noted in the following ways:

- The Town cannot reconcile amounts in the meter deposit account to individual customers.
- The Town cannot reconcile general ledger meter deposit amounts to the utility billing system because the customer's name is not recorded in the general ledger.

The Town has made progress regarding this finding from the prior year's audit report and is still continuing to work on this issue.

Criteria: 2.2.2.10.D NMAC - The financial statements and notes to the financial statements shall be prepared in accordance with accounting principles generally accepted in the United States of America. Clarified Statements on Auditing Standards (AU-C) Section 200 paragraph .05 - Financial statements are management's responsibility. Good accounting practices recommend retaining documentation, reconciliations, and any other explanatory items necessary to support financial transactions.

Cause: Adequate controls are not in place to prevent or detect misstatements of accounting information.

Effect: The Town does not have the necessary supporting documentation to know whether or not these financial transactions were proper and in agreement with amounts recorded in the general ledger.

Recommendation: We recommend the Town develop policies and procedures for meter deposit reconciliations.

Client Response: The Clerk, Deputy Clerk, and the Administrative Assistant will review and document every utility customer account. We will create a log showing account number, customer name, customer address, deposit amount, and year of account creation or conversion. We will ensure that the Meter Deposit Fund equals the total deposit amount. This will be accomplished by February 2018.

STATE OF NEW MEXICO
Town of Estancia
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2017

**2016-020 –Non-compliance with Oversight Agency Requirements-Significant
Deficiency, Compliance and other Matter repeated and revised**

Condition: During the course of our test work over 941s we noted that the Town received notices from the Internal Revenue Service regarding 941 payroll tax reporting and unfiled reports. As of June 30, 2017 it appears that management has cleared up this issue.

Criteria NMSA 1978 section 6-5-2 “Internal Controls” states that proper internal controls should be designed and employed to prevent accounting errors and violations of state and federal law and rules related to financial matters, including payroll. GAAP requirements and accounting principles must be followed for recording and maintaining proper accounting records.

Cause: The unfiled or late reports could be the cause of key staff member change.

Effect: The Town appears to be in non-compliance with the rules and regulations relating to 941s.

Recommendation: The Town should ensure timely deposits of payroll taxes and reporting is submitted to the IRS and the other agencies to avoid future penalties.

Client Response: As stated above, as of June 30, 2017, management has cleared up this issue.

STATE OF NEW MEXICO
Town of Estancia
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2017

**2016-021 –Noncompliance with IRS regulations regarding Contractors-Significant
Deficiency, Compliance and other Matter repeated and revised**

Condition: During our audit test work we noted one (1) independent contractor working for the Town who appear to qualify as an employee per the IRS definition. Subsequent to year end, this contractor is no longer employed by the Village.

Criteria: Per IRS regulations an employee is classified a: Business has the right to control how the worker performs the required task. Instructions could include:

1. When and where to do the work
2. What tools and equipment to use
3. What workers to hire or assist with the work
4. Where to purchase supplies, materials, or services
5. What sequence or order to follow or who should do specific tasks
6. Training provided by the business to the worker

Cause: Unknown

Effect: The Town appears to be non-compliant with IRS regulations regarding employee vs. contractor which could make them liable for payroll taxes for the given employees.

Recommendation: The Town should reevaluate and reclassify contractors by following the IRS regulations in order to avoid penalties.

Client Response: This finding has already been corrected as the contractor in question is no longer being paid by the Town for services. The Clerk and Deputy Clerk will insure that, going forward, any independent service contractor doing work for the town will have a contract on file before any work begins. The Town will insure compliance with IRS regulations.

STATE OF NEW MEXICO
Town of Estancia
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2017

2016-023 PERA Noncompliance – Significant Deficiency, Compliance and other Matter repeated and revised

Condition: During our test work of payroll employees, we noted the following issue:

1. The Town converted to using PAYCHEX for payroll processing, however after the transfer to PAYCHEX was made, town employees who are paid under \$20,000 per year are having PERA rates withheld and remitted at the higher wage rates.

Criteria: NMAC section 2.80 must be followed regarding PERA rules on eligibility, membership, administration, etc. Also, NMSA 1978 section 6-5-2 “Internal Controls” states that proper internal controls should be designed and employed to prevent accounting errors and violations of state and federal law and rules related to financial matters, including payroll. GAAP requirements and accounting principles must be followed for recording and maintaining proper accounting records.

Cause: The following appears to be the causes for the errors within the payroll processing cycle:

1. The Town overlooked the PERA rates during the conversion of payroll processing

Effect: The following effects can occur:

1. By not verifying employee set up or payroll changes, the employee could have miscalculated retirement withholdings effecting their yearly income and withholdings.

Recommendation: The following are the recommendations for the Town regarding the issues presented above:

1. The Town is encouraged to have payroll staff perform training on the requirements administered by the Public Employees Retirement Association (PERA).

Client Response: The Deputy Clerk has contacted PERA and this issue has been rectified. The two employees who are paid under \$20,000.00 per year are now having PERA withheld at the correct rate, as of November 2017 ending payroll.

STATE OF NEW MEXICO
Town of Estancia
OTHER DISCLOSURES
Year Ended June 30, 2017

A. AUDITOR PREPARED FINANCIAL STATEMENTS

It would be preferred and desirable for the Town to prepare its own GAAP-basis financial statements; however, it was determined that the Town does not have the skills or qualifications to perform this task. Although the financial statements are the responsibility of the Town, the preparation of those statements was included in the contract as services to be provided by the auditor. As such the outside auditor prepared the GAAP-basis financial statements and footnotes for inclusion in the annual audit report.

B. EXIT CONFERENCE

The contents of this report were discussed on November 9, 2017. The following individuals were in attendance.

Town of Estancia

Mr. Morrow Hall, Mayor Pro Tem

Michelle Jones, Town Clerk

Michelle Dunlap, Deputy Clerk

Precision Accounting LLC

Melissa R. Santistevan, CPA, CFE, CICA,
CGMA

Alexandra Yebra, Staff Accountant

Zachary Hayes, Staff Accountant