

State of New Mexico

# VILLAGE OF MELROSE



FOR YEAR ENDED JUNE 30, 2017

ANNUAL FINANCIAL REPORT

***RICE & ASSOCIATES***

**CERTIFIED PUBLIC ACCOUNTANTS**

STATE OF NEW MEXICO

VILLAGE OF MELROSE

AUDIT REPORT

For The Year Ended June 30, 2017

(with Auditor's Report Thereon)

STATE OF NEW MEXICO  
VILLAGE OF MELROSE  
TABLE OF CONTENTS  
Year Ended June 30, 2017

	<u>Page</u>
Introduction Section	
Official Roster	i
Financial Section	
Independent Auditor's Report	1
<u>Financial Statements</u>	
<u>Statements</u>	
1 Statement of Net Position	4
2 Statement of Activities	6
3 Balance Sheet - Governmental Funds	7
4 Governmental Funds: Reconciliation of the Balance Sheet to the Statement of Net Position	8
5 Governmental Funds: Statement of Revenues, Expenditures and Changes in Fund Balances	9
6 Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	10
7 General Fund: Statement of Revenues and Expenditures - Budget and Actual (Non-GAAP Budgetary Basis)	11
8 Fire Protection Fund: Statement of Revenues and Expenditures - Budget and Actual (Non-GAAP Budgetary Basis)	12
9 EMS Fund: Statement of Revenues and Expenditures - Budget and Actual (Non-GAAP Budgetary Basis)	13

Table of Contents (continued)

	<u>Page</u>
10 Proprietary Funds: Statement of Net Position	14
11 Proprietary Funds: Statement of Revenues, Expenses and Changes in Fund Net Position	15
12 Proprietary Funds: Statement of Cash Flows	16
13 Agency Funds: Statement of Fiduciary Assets and Liabilities	17
Notes to Financial Statements	18
Non-Major Funds:	
Non-Major Special Revenue Funds:	
A-1 Combining Balance Sheet	40
A-2 Combining Statement of Revenues, Expenditures and Changes in Fund Balances	41
Required Supplementary Information	
<u>Schedules</u>	
I Schedule of the Employer's Proportionate Share of the Net Pension Liability of PERA Fund Municipal General Division	42
II Schedule of Employer's Contributions - General Division	43
III Notes to Required Supplementary Information	44
Supplementary Information	
IV Schedule of Changes in Assets - All Agency Funds	45
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	46
Status of Findings and Responses	48
Financial Statement Preparation and Exit Conference	59

STATE OF NEW MEXICO  
VILLAGE OF MELROSE  
Official Roster  
Year Ended June 30, 2017

Village Council

<u>Name</u>	<u>Title</u>
Mr. Tuck N. Monk	Mayor
Mr. Barry Green	Mayor Pro-Tem
Mr. Bobbie Rogers	Member
Mr. H.P. Cargile	Member
Mr. Ronald Moore	Member

Village Administration

Ms. Cathy Christesson	Clerk/Treasurer
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# *Rice and Associates, C.P.A.*

AUDITING  
BOOKKEEPING  
(505) 292-8275

CERTIFIED PUBLIC ACCOUNTANTS  
11805 Menaul NE  
Albuquerque, NM 87112

TAX PLANNING  
TAX PREPARATION  
FAX (505) 294-8904

## INDEPENDENT AUDITOR'S REPORT

Mr. Wayne A. Johnson  
New Mexico State Auditor  
and  
Honorable Mayor and Village Council  
Village of Melrose  
Melrose, New Mexico

### Report on Financial Statements

We have audited 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 for the General, Fire Protection and EMS Funds of the Village of Melrose, as of and for the year ended June 30, 2017, and the related notes to the financial statements which collectively comprise the Village of Melrose's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the Village of Melrose's non-major governmental funds presented as supplementary information, as defined by the Government Accounting Standards Board, in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2017 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 Employees Retirement Association (PERA), the administrator of the cost sharing pension plan for the Village. 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 Village, 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.

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

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

#### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Melrose, as of June 30, 2017, and the respective changes in financial position and where applicable, cash flows thereof, and the respective budgetary comparisons for the General, Fire Protection and EMS Funds for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each non-major governmental funds of the Village of Melrose, as of June 30, 2017, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### Other Matters

##### *Required Supplementary Information*

Management has omitted the MD&A which is required to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements is required by GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require the Schedules I, II and the notes to the Required Supplementary Information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires 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 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*

Our audit was conducted for the purpose of forming opinions on the Village of Melrose financial statements, the combining and the individual fund financial statements, and the budgetary comparisons. The Schedule of Changes in Assets and Liabilities - All Agency Funds required by Section 2.2.2 NMAC is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Changes in Assets and Liabilities - All Agency Funds is the responsibility of management and were derived from and relates 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 basis financial statements or to the basic financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Changes in Assets and Liabilities - All Agency Funds fairly states, in all material respects, in relation to the basic financial statements as a whole.

*Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2017 on our consideration of the Village of Melrose'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 Village of Melrose's internal control over financial reporting and compliance.

*RWD & Associates, LLP*

Albuquerque, New Mexico  
December 11, 2017



**FINANCIAL STATEMENTS**

STATE OF NEW MEXICO  
VILLAGE OF MELROSE  
Statement of Net Position  
June 30, 2017

Statement 1  
Page 1 of 2

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current Assets			
Cash	\$ 1,337,206	\$ 201,750	\$ 1,538,956
Accounts receivable (net of uncollectible accounts)	<u>50,383</u>	<u>26,713</u>	<u>77,096</u>
Total current assets	<u>1,387,589</u>	<u>228,463</u>	<u>1,616,052</u>
Non-current assets			
Restricted assets (cash)	1,726	-	1,726
Customer Meter Deposits	<u>-</u>	<u>8,380</u>	<u>8,380</u>
Total non-current assets	<u>1,726</u>	<u>8,380</u>	<u>10,106</u>
Land	-	-	-
Land improvements	-	-	-
Buildings and improvements	962,846	-	962,846
Vehicles	157,086	11,598	168,684
Heavy equipment	2,330,725	26,025	2,356,750
Equipment	249,760	216,626	466,386
Plant/Infrastructure	<u>5,929,837</u>	<u>3,814,229</u>	<u>9,744,066</u>
Total capital assets	<u>9,630,254</u>	<u>4,068,478</u>	<u>13,698,732</u>
Less accumulated depreciation	(7,184,421)	(2,606,670)	(9,791,091)
Total capital assets (net of accumulated depreciation)	<u>2,445,833</u>	<u>1,461,808</u>	<u>3,907,641</u>
Deferred outflows of resources related to pension	<u>78,630</u>	<u>-</u>	<u>78,630</u>
Total assets	<u><b>\$ 3,913,778</b></u>	<u><b>\$ 1,698,651</b></u>	<u><b>\$ 5,612,429</b></u>

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

STATE OF NEW MEXICO  
VILLAGE OF MELROSE  
Statement of Net Position  
June 30, 2017

Statement 1  
Page 2 of 2

	Governmental Activities	Business Type Activities	Total
<b>LIABILITIES AND NET ASSETS</b>			
Current Liabilities			
Accounts payable	\$ 40,902	\$ 4,483	\$ 45,385
Current portion of loan payable	41,568	-	41,568
Customer meter deposits payable from restricted assets	-	7,510	7,510
Total current liabilities	82,470	11,993	94,463
Non-Current Liabilities			
Compensated absences payable	5,939	4,435	10,374
Loan payable	228,957	-	228,957
Net pension liability	201,306	-	201,306
Total non-current liabilities	436,202	4,435	440,637
Total liabilities	518,672	16,428	535,100
Deferred Inflows			
Change in assumptions	33	-	33
Net difference between expected and actual earnings	1,965	-	1,965
Total deferred inflows	1,998	-	1,998
Net Position			
Net investment in capital assets	2,175,308	1,461,808	3,637,116
Restricted for:			
State mandated cash balance	77,658	-	77,658
Special revenue fund	286,764	-	286,764
Debt service	1,726	-	1,726
Unrestricted	851,652	220,415	1,072,067
Total net position	3,393,108	1,682,223	5,075,331
Total liabilities and net position	\$ 3,913,778	\$ 1,698,651	\$ 5,612,429

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

STATE OF NEW MEXICO  
VILLAGE OF MELROSE  
Statement of Activities  
Year Ended June 30, 2017

Statement 2

Functions/Programs	Program Revenues				Net (Expenses) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Primary government:</b>							
Governmental activities:							
General government	\$ 336,668	\$ 34	\$ 24,317	\$ -	\$ (312,317)	\$ -	\$ (312,317)
Highways and streets	311	-	-	-	(311)	-	(311)
Public safety	105,495	39,088	41,139	250,899	225,631	-	225,631
Health and welfare	-	-	-	-	-	-	-
Culture and recreation	9,082	-	8,684	59,378	58,980	-	58,980
Depreciation - unallocated	396,451	-	-	-	(396,451)	-	(396,451)
Interest	6,834	-	-	-	(6,834)	-	(6,834)
Total governmental activities	854,841	39,122	74,140	310,277	(431,302)	-	(431,302)
Business-type activities:							
Water/Sewer services	167,120	124,703	20,933	-	-	(21,484)	(21,484)
Sewer	85,639	43,915	-	-	-	(41,724)	(41,724)
Solid waste service	92,158	82,905	-	-	-	(9,253)	(9,253)
Total business-type activities	344,917	251,523	20,933	-	-	(72,461)	(72,461)
Total all activities	<u>\$ 1,199,758</u>	<u>\$ 290,645</u>	<u>\$ 95,073</u>	<u>\$ 310,277</u>	(431,302)	(72,461)	(503,763)
General Revenues:							
Property taxes					15,603	-	15,603
Gross receipts taxes					159,385	12,928	172,313
Environmental gross receipts taxes					-	3,621	3,621
Franchise taxes					5,739	-	5,739
Gasoline taxes					19,023	-	19,023
Motor vehicle taxes					16,316	-	16,316
State aid not restricted to special purpose							
General					125,502	-	125,502
Investment earnings					359	182	541
Total general revenues					341,927	16,731	358,658
Change in net position					(89,375)	(55,730)	(145,105)
Net position - beginning of year					7,080,791	3,107,546	10,188,337
Restatement					(3,598,308)	(1,369,593)	(4,967,901)
Net position - beginning of year - restated					3,482,483	1,737,953	5,220,436
Net position - ending					<u>\$ 3,393,108</u>	<u>\$ 1,682,223</u>	<u>\$ 5,075,331</u>

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

STATE OF NEW MEXICO  
VILLAGE OF MELROSE  
Balance Sheet  
Governmental Funds  
June 30, 2017

Statement 3

	General	Fire Protection Fund	EMS Fund	Other Governmental Fund	Total Governmental Funds
<b>ASSETS</b>					
Cash on deposit	\$ 1,049,382	\$ 90,261	\$ 153,130	\$ 46,159	\$ 1,338,932
Accounts receivable	13,427	-	-	36,956	50,383
<b>Total assets</b>	<b><u>\$ 1,062,809</u></b>	<b><u>\$ 90,261</u></b>	<b><u>\$ 153,130</u></b>	<b><u>\$ 83,115</u></b>	<b><u>\$ 1,389,315</u></b>
<b>LIABILITIES</b>					
Accounts payable	\$ 2,886	\$ 1,060	-	\$ 36,956	\$ 40,902
<b>Total liabilities</b>	<b><u>2,886</u></b>	<b><u>1,060</u></b>	<b><u>-</u></b>	<b><u>36,956</u></b>	<b><u>40,902</u></b>
<b>FUND BALANCE</b>					
Restricted for:					
Fire protection	-	87,475	-	-	87,475
Emergency services	-	-	153,130	-	153,130
Corrections	-	-	-	15,649	15,649
Recreation services	-	-	-	3,877	3,877
Public safety	-	-	-	26,633	26,633
Debt service	-	1,726	-	-	1,726
Reserves	77,658	-	-	-	77,658
Committed	-	-	-	-	-
Assigned	-	-	-	-	-
Unassigned	982,265	-	-	-	982,265
<b>Total fund balance</b>	<b><u>1,059,923</u></b>	<b><u>89,201</u></b>	<b><u>153,130</u></b>	<b><u>46,159</u></b>	<b><u>1,348,413</u></b>
<b>Total liabilities and fund balance</b>	<b><u>\$ 1,062,809</u></b>	<b><u>\$ 90,261</u></b>	<b><u>\$ 153,130</u></b>	<b><u>\$ 83,115</u></b>	<b><u>\$ 1,389,315</u></b>

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

STATE OF NEW MEXICO  
VILLAGE OF MELROSE  
Reconciliation of the Balance Sheet - Governmental Funds  
to the Statement of Net Position  
June 30, 2017

Statement 4

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

Total fund balances - governmental funds		\$ 1,348,413
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds		
The cost of capital assets	9,630,254	
Accumulated depreciation	<u>(7,184,421)</u>	
		2,445,833
Long-term and certain other liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term and other liabilities at year-end consist of:		
Compensated absences	(5,939)	
Loans payable	<u>(270,525)</u>	
		(276,464)
Some liabilities, including net pension obligations, are not due and payable in the current period and therefore, are not reported in the funds		
Net pension liability		(201,306)
Deferred outflows and inflows or resources related to pensions are applicable to future periods and therefore, are not reported in the funds		
Deferred outflows/inflows		<u>76,632</u>
Net position of governmental activities		<u><u>\$ 3,393,108</u></u>

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

STATE OF NEW MEXICO  
VILLAGE OF MELROSE  
Governmental Funds  
Statement of Revenues, Expenditures and Changes in Fund Balances  
For the year ended June 30, 2017

Statement 5

	General	Fire Protection Fund	EMS Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Taxes	\$ 15,603	\$ -	\$ -	\$ -	\$ 15,603
Franchise taxes	5,739	-	-	-	5,739
Gas tax	19,023	-	-	-	19,023
MVD	16,316	-	-	-	16,316
Charges for services	34	-	32,608	6,480	39,122
Fines and forfeitures	14,126	-	-	7,603	21,729
Licenses and permits	922	-	-	-	922
Local sources	9,269	-	427	5,633	15,329
State sources	125,502	250,899	7,476	88,062	471,939
Federal sources	-	-	-	-	-
State shared taxes	159,385	-	-	-	159,385
Earnings from investments	151	174	-	34	359
<b>Total revenues</b>	<b>366,070</b>	<b>251,073</b>	<b>40,511</b>	<b>107,812</b>	<b>765,466</b>
<b>EXPENDITURES</b>					
Current:					
General government	323,161	-	-	-	323,161
Highways and streets	311	-	-	-	311
Public safety	237	63,260	26,568	15,430	105,495
Culture and recreation	110	-	-	8,972	9,082
Capital outlay	5,410	565,177	-	74,388	644,975
NMFA principal	-	40,367	-	-	40,367
NMFA interest	-	6,834	-	-	6,834
<b>Total expenditures</b>	<b>329,229</b>	<b>675,638</b>	<b>26,568</b>	<b>98,790</b>	<b>1,130,225</b>
Excess (deficiency) of revenue over expenditures	36,841	(424,565)	13,943	9,022	(364,759)
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Loan proceeds	-	-	-	-	-
<b>Total other financing sources</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>36,841</b>	<b>(424,565)</b>	<b>13,943</b>	<b>9,022</b>	<b>(364,759)</b>
Fund balance beginning of year	1,015,792	513,766	139,187	37,137	1,705,882
Restatement	7,290	-	-	-	7,290
Fund balance beginning of year - restated	1,023,082	513,766	139,187	37,137	1,713,172
<b>Fund balance end of year</b>	<b>\$ 1,059,923</b>	<b>\$ 89,201</b>	<b>\$ 153,130</b>	<b>\$ 46,159</b>	<b>\$ 1,348,413</b>

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

STATE OF NEW MEXICO  
 VILLAGE OF MELROSE

Statement 6

Reconciliation of the Statement of Revenues, Expenditures  
 and Changes in Fund Balances - Governmental Funds  
 to the Statement of Activities  
 For the Year Ended June 30, 2017

Net change in fund balances - total governmental funds \$ (364,759)

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

Capital outlays to purchase or build capital  
 assets are reported in governmental funds as  
 expenditures. However, for governmental  
 activities those costs are shown in the statement  
 of net assets and allocated over their estimated  
 useful lives as annual depreciation expenses in the  
 statement of activities. This is the amount by which  
 capital outlays exceed depreciation expense in the period.

Capital outlays	644,975	
Depreciation expense	<u>(396,451)</u>	
Excess of capital outlay over depreciation expense		248,524

Governmental funds report pension contributions as  
 expenditures. However, in the Statement of Activities,  
 the cost of pension benefits earned net of employee  
 contributions is reported as pension expense.

Pension contributions		(23,254)
Pension expense		11,722

The issuance of long-term debt (e.g. loans) 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.

Loan proceeds	-	
Repayment of long-term debt	<u>40,367</u>	
		40,367

In the Statement of Activities, certain operating  
 expenses are measured by the amount incurred  
 during the year. In the fund financial statements  
 however, expenditures are measured by the amount  
 of financial resources used (essentially the amounts  
 actually paid). The (increase) decrease in the  
 liabilities for the year were:

Compensated absences payable		<u>(1,975)</u>
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Change in net position of governmental activities		<u><u>\$ (89,375)</u></u>
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The accompanying notes are an integral part of these financial statements.



STATE OF NEW MEXICO  
VILLAGE OF MELROSE  
General Fund  
Statement of Revenues and Expenditures -  
Budget and Actual (Non-GAAP Budgetary Basis)  
Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>				
Taxes	\$ 14,627	\$ 15,931	\$ 15,771	\$ (160)
Franchise taxes	6,000	6,820	6,817	(3)
Gas taxes	24,500	24,500	18,995	(5,505)
MVD	14,700	14,739	16,316	1,577
Charges for services	100	200	34	(166)
Fines and forfeitures	12,900	14,112	14,126	14
Licenses and permits	1,085	1,085	922	(163)
Local sources	13,900	16,100	9,269	(6,831)
State sources	561,364	125,502	125,502	-
Federal sources	-	-	-	-
State shared taxes	187,750	187,750	160,318	(27,432)
Earnings from investments	-	-	151	151
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total revenues	<b><u>\$ 836,926</u></b>	<b><u>\$ 406,739</u></b>	<b><u>\$ 368,221</u></b>	<b><u>\$ (38,518)</u></b>
<b>EXPENDITURES</b>				
General government	\$ 155,547	\$ 148,815	\$ 331,589	\$ (182,774)
Highways & Streets	640,276	86,000	311	85,689
Public safety	85,578	71,136	237	70,899
Culture and recreation	50,495	45,600	110	45,490
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total expenditures	<b><u>\$ 931,896</u></b>	<b><u>\$ 351,551</u></b>	<b><u>\$ 332,247</u></b>	<b><u>\$ 19,304</u></b>
<b>BUDGETED CASH BALANCE</b>	<b><u>\$ 94,970</u></b>	<b><u>\$ -</u></b>		

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

STATE OF NEW MEXICO  
 VILLAGE OF MELROSE  
 Special Revenue - Fire Protection Fund  
 Statement of Revenues and Expenditures -  
 Budget and Actual (Non-GAAP Budgetary Basis)  
 Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
REVENUES				
Local sources	\$ 6,500	\$ -	\$ -	\$ -
State sources	254,723	254,723	250,899	(3,824)
Earnings from investments	<u>-</u>	<u>-</u>	<u>174</u>	<u>174</u>
Total revenues	<u><b>\$ 261,223</b></u>	<u><b>\$ 254,723</b></u>	<u><b>\$ 251,073</b></u>	<u><b>\$ (3,650)</b></u>
EXPENDITURES				
Public safety	<u>\$ 406,375</u>	<u>\$ 680,056</u>	<u>\$ 674,769</u>	<u>\$ 5,287</u>
Total expenditures	<u><b>\$ 406,375</b></u>	<u><b>\$ 680,056</b></u>	<u><b>\$ 674,769</b></u>	<u><b>\$ 5,287</b></u>
BUDGETED CASH BALANCE	<u><b>\$ 145,152</b></u>	<u><b>\$ 425,333</b></u>		

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

STATE OF NEW MEXICO  
VILLAGE OF MELROSE  
Special Revenue - EMS Fund  
Statement of Revenues and Expenditures -  
Budget and Actual (Non-GAAP Budgetary Basis)  
Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Charges for services	\$ 37,385	\$ 37,385	\$ 32,608	\$ (4,777)
Local sources	900	900	427	(473)
State sources	<u>7,434</u>	<u>7,434</u>	<u>7,476</u>	<u>42</u>
Total revenues	<u><b>\$ 45,719</b></u>	<u><b>\$ 45,719</b></u>	<u><b>\$ 40,511</b></u>	<u><b>\$ (5,208)</b></u>
EXPENDITURES				
Public safety	<u>\$ 32,500</u>	<u>\$ 32,500</u>	<u>\$ 27,852</u>	<u>\$ 4,648</u>
Total expenditures	<u><b>\$ 32,500</b></u>	<u><b>\$ 32,500</b></u>	<u><b>\$ 27,852</b></u>	<u><b>\$ 4,648</b></u>

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

STATE OF NEW MEXICO  
VILLAGE OF MELROSE  
Proprietary Funds  
Statement of Net Position  
June 30, 2017

Statement 10

	Water Fund	Sewer Fund	Solid Waste Fund	Total
<b>ASSETS</b>				
Current Assets				
Cash on deposit	\$ 116,884	\$ 60,374	\$ 24,492	\$ 201,750
Accounts receivable (net)	<u>15,242</u>	<u>3,826</u>	<u>7,645</u>	<u>26,713</u>
Total Current Assets	<u>132,126</u>	<u>64,200</u>	<u>32,137</u>	<u>228,463</u>
Non-Current Assets				
Customer meter deposits	<u>8,380</u>	<u>-</u>	<u>-</u>	<u>8,380</u>
Total Non-Current Assets	<u>8,380</u>	<u>-</u>	<u>-</u>	<u>8,380</u>
Capital Assets				
Land	-	-	-	-
Land improvements	-	-	-	-
Buildings and Improvements	-	-	-	-
Equipment	21,218	65,430	129,978	216,626
Heavy equipment	8,675	9,175	8,175	26,025
Vehicles	4,000	2,598	5,000	11,598
Plant/infrastructure	1,951,710	1,862,519	-	3,814,229
Accumulated depreciation	<u>(1,107,259)</u>	<u>(1,365,699)</u>	<u>(133,712)</u>	<u>(2,606,670)</u>
Total Capital Assets	<u>878,344</u>	<u>574,023</u>	<u>9,441</u>	<u>1,461,808</u>
Total Assets	<u><b>\$ 1,018,850</b></u>	<u><b>\$ 638,223</b></u>	<u><b>\$ 41,578</b></u>	<u><b>\$ 1,698,651</b></u>
<b>LIABILITIES</b>				
Current Liabilities				
Accounts payable	\$ 1,717	\$ 550	\$ 2,216	\$ 4,483
Customer meter deposits/utility aid payable from Restricted Assets	<u>7,510</u>	<u>-</u>	<u>-</u>	<u>7,510</u>
Total Current Liabilities	<u>9,227</u>	<u>550</u>	<u>2,216</u>	<u>11,993</u>
Long-Term Liabilities				
Compensated absences payable	<u>2,422</u>	<u>-</u>	<u>2,013</u>	<u>4,435</u>
Total Long-Term Liabilities	<u>2,422</u>	<u>-</u>	<u>2,013</u>	<u>4,435</u>
Total Liabilities	<u>11,649</u>	<u>550</u>	<u>4,229</u>	<u>16,428</u>
<b>NET POSITION</b>				
Net investment in capital assets	878,344	574,023	9,441	1,461,808
Unrestricted	<u>128,857</u>	<u>63,650</u>	<u>27,908</u>	<u>220,415</u>
Total Net Position	<u>1,007,201</u>	<u>637,673</u>	<u>37,349</u>	<u>1,682,223</u>
Total Liabilities and Net Position	<u><b>\$ 1,018,850</b></u>	<u><b>\$ 638,223</b></u>	<u><b>\$ 41,578</b></u>	<u><b>\$ 1,698,651</b></u>

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

STATE OF NEW MEXICO  
VILLAGE OF MELROSE  
Proprietary Funds  
Statement of Revenues,  
Expenses and Changes in Fund Net Position  
For the Year Ended June 30, 2017

Statement 11

	Water Fund	Sewer Fund	Solid Waste Fund	Total
<b>OPERATING REVENUES</b>				
Sales and services	\$ 124,703	\$ 43,915	\$ 82,905	\$ 251,523
Local source	835	-	-	835
State shared taxes	<u>12,928</u>	<u>-</u>	<u>3,621</u>	<u>16,549</u>
Total operating revenue	<u>138,466</u>	<u>43,915</u>	<u>86,526</u>	<u>268,907</u>
<b>OPERATING EXPENSES</b>				
Personal services	46,340	18,060	51,292	115,692
Maintenance and operations	76,295	12,434	17,894	106,623
Major contractual services	-	-	18,301	18,301
Depreciation	<u>44,485</u>	<u>55,145</u>	<u>4,671</u>	<u>104,301</u>
Total operating expenses	<u>167,120</u>	<u>85,639</u>	<u>92,158</u>	<u>344,917</u>
Operating income (loss)	<u>(28,654)</u>	<u>(41,724)</u>	<u>(5,632)</u>	<u>(76,010)</u>
<b>NON-OPERATING REVENUE (EXPENSE)</b>				
Investment income	144	38	-	182
Investment expense	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
State grant	20,098	-	-	20,098
Federal grant	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Non-Operating Revenue (Expense)	<u>20,242</u>	<u>38</u>	<u>-</u>	<u>20,280</u>
Change in Net Position	<u>(8,412)</u>	<u>(41,686)</u>	<u>(5,632)</u>	<u>(55,730)</u>
Total net position, beginning of year	1,649,067	1,370,762	87,717	3,107,546
Restatement	<u>(633,454)</u>	<u>(691,403)</u>	<u>(44,736)</u>	<u>(1,369,593)</u>
Total net position, beginning of year - restated	<u>1,015,613</u>	<u>679,359</u>	<u>42,981</u>	<u>1,737,953</u>
Total net position, end of year	<u><b>\$ 1,007,201</b></u>	<u><b>\$ 637,673</b></u>	<u><b>\$ 37,349</b></u>	<u><b>\$ 1,682,223</b></u>

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

STATE OF NEW MEXICO  
VILLAGE OF MELROSE  
Proprietary Funds  
Statement of Cash Flows  
For the Year Ended June 30, 2017

Statement 12

	Water Fund	Sewer Fund	Solid Waste Fund	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash received from customers	\$ 118,385	\$ 43,500	\$ 85,213	\$ 247,098
Cash received from local sources	13,763	-	-	13,763
Cash payments to employees and to suppliers for goods and services	<u>(121,228)</u>	<u>(30,916)</u>	<u>(86,164)</u>	<u>(238,308)</u>
Net cash provided by operating activities	<u>10,920</u>	<u>12,584</u>	<u>(951)</u>	<u>22,553</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Principal paid	-	-	-	-
Interest paid	-	-	-	-
Acquisition of capital assets	<u>(45,111)</u>	<u>-</u>	<u>-</u>	<u>(45,111)</u>
Net cash provided (used) by capital and related financing activities	<u>(45,111)</u>	<u>-</u>	<u>-</u>	<u>(45,111)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Cash received from state grants	20,098	-	-	20,098
Cash received from federal grants	-	-	-	-
Operating transfers from other funds	-	-	-	-
Operating transfers to other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net cash provided (used) by noncapital financing activities	<u>20,098</u>	<u>-</u>	<u>-</u>	<u>20,098</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Investment income	<u>144</u>	<u>38</u>	<u>-</u>	<u>182</u>
Net cash provided by investing activities	<u>144</u>	<u>38</u>	<u>-</u>	<u>182</u>
Net increase (decrease) in cash	(13,949)	12,622	(951)	(2,278)
Cash, beginning of year	<u>130,833</u>	<u>47,752</u>	<u>25,443</u>	<u>204,028</u>
Cash, end of year	<u><b>\$ 116,884</b></u>	<u><b>\$ 60,374</b></u>	<u><b>\$ 24,492</b></u>	<u><b>\$ 201,750</b></u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>				
Operating income (loss)	\$ (28,654)	\$ (41,724)	\$ (5,632)	\$ (76,010)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	44,485	55,145	4,671	104,301
Changes in assets and liabilities:				
(Increase) decrease in receivables	(6,318)	(415)	(1,313)	(8,046)
Increase (decrease) in accounts payable	(2,023)	(778)	634	(2,167)
Increase (decrease) in compensated absences	2,100	-	-	2,100
Allowance for doubtful accounts	<u>1,330</u>	<u>356</u>	<u>689</u>	<u>2,375</u>
Net cash provided (used) by operating activities	<u><b>\$ 10,920</b></u>	<u><b>\$ 12,584</b></u>	<u><b>\$ (951)</b></u>	<u><b>\$ 22,553</b></u>

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

STATE OF NEW MEXICO  
VILLAGE OF MELROSE  
Statement of Fiduciary Assets and Liabilities - Agency Funds  
June 30, 2017

Statement 13

	<u>Agency Funds</u>
ASSETS	
Cash	\$ -
Total Assets	<u>\$ -</u>
LIABILITIES	
Due to other agencies	\$ -
Total Liabilities	<u>\$ -</u>

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

STATE OF NEW MEXICO  
VILLAGE OF MELROSE  
Notes to Financial Statements  
Year Ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village of Melrose is incorporated under Section 3, Article 2, New Mexico State Statutes Annotated 1978 Compilation operating under a Mayor-Council form of government and provides the following services as authorized: public safety (police and fire), highways and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning and general administrative services.

The financial statements of the Village of Melrose have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Reporting Entity

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Based upon the application of these criteria, the Village had no component units.



Notes to Financial Statements (continued)

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities and changes in net assets) report information on all of the nonfiduciary activities of the Village. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which is normally 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 activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with 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 operation 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 and proprietary funds. 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 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 billed. 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 30 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 judgements, are recorded only when payment is due.

Notes to Financial Statements (continued)

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 susceptible to accrual criteria have been met.

The government reports the following major governmental funds:

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.

The *Fire Protection Fund* (Special Revenue Fund) is to account for the operations and maintenance of the Fire Department. It is financed by a specific allotment from the State Fire Marshall's Office. The authority is NMSA 59A-53-1.

The *Emergency Medical Services Fund* (Special Revenue Fund) to account for grant funds received from state sources for development of an EMS system within the City (Authority DOH 7 NMAC 27.4)

The Village reports the following Proprietary Fund types:

Enterprise Fund - Water Fund - To account for the provision of water services to the residents of Melrose, New Mexico. All activities necessary to provide these services are accounted for in this fund.

Enterprise Fund - Sewer Fund - To account for the provision of sewer services to the residents of Melrose, New Mexico. All activities necessary to provide these services are accounted for in this fund.

Enterprise Fund - Solid Waste Fund - To account for the revenue and expenditures for the maintenance of the solid waste operations. All activities necessary to provide these services are accounted for in this fund.

The Village also reports additional Governmental funds as non-major.

Special Revenue Funds - These funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Notes to Financial Statements (continued)

Agency funds are custodial in nature (assets equal liabilities) and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the Village holds for other in an agency capacity.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Program revenues included in the Statement of Activities derive directly from the program itself or from parties outside the Village's taxpayers or citizenry, as a whole; program revenues reduce the cost of the function to be financed from the Village's general revenues. Program revenues include: 1) charges for services to taxpayers or applicants who purchase, use or directly benefit from the goods or services provided by the given function 2) program-specific operating grants and contributions and 3) program specific capital grants and contributions including special assessments.

Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund is charged to customers for sales and services. The enterprise fund also recognized as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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.

D. Budgets and Budgetary Accounting

The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to June 1, the Village Clerk-Treasurer submits to the Village Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them based on previous year's history. Public hearings are conducted at the Village Hall to obtain taxpayer comments. Prior to July 1, the budget is legally enacted through passage of an ordinance.

## Notes to Financial Statements (continued)

2. The Village Clerk-Treasurer is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any funds must be approved by the Village Council and New Mexico State Department of Finance, Division of Local Governments. The original budget that was adopted in July, 1998 was amended during the fiscal year in a legally permissible manner.
3. Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, and Capital Project Funds.
4. Encumbrances are not reported in the budgets or financial statements.
5. The level of classification detail in which expenditures of expenses may not legally exceed appropriations for each budget is in fund total. Appropriations lapse at year end.
6. Budgets for the General and Special Revenue Funds are adopted on a basis not consistent with generally accepted accounting principals. Throughout the year the accounting records are maintained on the Non-GAAP basis of cash receipts and disbursements. Accordingly, certain revenues and the related assets are recognized when paid rather than when the obligation is incurred. The financial statements are presented on the modified accrual basis of accounting. Budgetary comparisons presented for General and Special Revenue Funds in this report are on the Non-GAAP budgetary basis and actual (cash basis). The budget of the Enterprise Fund is adopted on a Non-GAAP cash basis.

### E. Cash and Investments

Cash includes amounts in demand deposits as well as short-term investments with a maturity of six months from the date acquired by the government. State statutes authorize the government to invest in obligations of the U.S. Treasury, interest bearing accounts with local financial institutions and the State Treasurer Pool.

New Mexico Statutes require that financial institutions with public monies on deposit pledge collateral, to the owners of such monies, in an amount not less than 50% of the public monies held on deposit. Collateral pledged is held in safekeeping by other financial institutions, with safekeeping receipts held by the Village. The pledged securities remain in the name of the financial institution.

### F. Inventories

Inventories are valued at cost, which approximates market, using the first-in/first-out (FIFO) method.

The cost of inventories are recorded as expenditures when purchased rather than when consumed.

Notes to Financial Statements (continued)

G. Deferred Inflows of Resources

In addition to liabilities, the balance sheet reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Revenue must be susceptible to accrual (measurable and available to finance expenditures of the current fiscal period) to be recognized. If assets are recognized in connection with a transaction, but those assets are not yet available to finance expenditures of the current fiscal period, then the assets must be offset by a corresponding deferred inflow of resources. The Village has two types of items, which arise due to the implementation of GASB 68 and the related net pension liability. Accordingly, the items, net difference between expected and actual earnings and change in assumptions, are reported on the Statement of Net Position. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

H. Deferred Outflows of Resources

In addition to assets, the balance sheet reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a use of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenditure) until that time. The Village has two types of items that qualify for reporting in this category. Accordingly, the items, change in proportion and employer contributions subsequent to measurement date, are reported in the Statement of Net Position. These amounts are deferred and recognized as outflows of resources the next period.

I. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns 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. This is an increase from the \$1,000 threshold reported in prior years. This is a change in accounting estimate. All previously reported Capital Assets that do not meet the updated amount will be depreciated currently and in future periods until they are fully depreciated. Donated Capital Assets are recorded at their estimated fair value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Pursuant to the implementation of GASB Statement No. 34, the historical cost of infrastructure assets, (retroactive to 1979) are included as part of the governmental capital assets reported in the government wide statements. The cost 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. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Notes to Financial Statements (continued)

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

<u>Assets</u>	<u>Years</u>
Land improvements	20-50
Buildings	20-50
Building improvements	20-50
Infrastructure	30
Vehicles	3-15
Equipment	3-15

The Village does not capitalize computer software or software developed for internal use (if applicable) unless it exceeds the \$5,000 threshold.

J. Compensated Absences

Full-time non-probationary positions are entitled to paid vacation. They accrue vacation leave by the amount of tenure the employee has with the municipality: 1 through 59 months - 6.6 hours a month, 60 months through 71 months - 8 hours a month, 72 months through 107 months - 9.33 hours a month, 108 months through 131 months - 10 hours a month, 132 months through 155 months - 10.66 hours a month, 156 months through 179 months - 11.33 hours a month, 180 months through 203 months - 12 hours a month, 204 months through 227 months - 12.66 hours a month, 228 months through 264 months - 14 hours a month, 264 months through 287 months - 14.66 hours a month, 288 months through 311 months - 15.33 hours a month, 312 months through 335 months - 16 hours a month and 336 months or more 16.66 hours a month. Employees are allowed to carry over from one calendar year to the next up to 240 hours. The maximum payout for vacation time is 240 hours.

Each permanent employee of the Village accrues sick leave as working days with full pay on the basis of one (1) day per month of employment. Sick leave may be granted only from duty because of personal illness, legal quarantine, or medical, dental or optical appointments. In case of an extended sickness in excess of the accumulated sick leave, annual leave may be applied to sick leave. The employees may be eligible to sell sick leave in excess of ten (10) days at the rate of seventy-five percent (75%) of regular pay, only upon approval of the board. The maximum accrual of vacation and sick leave time is 240 hours each.

K. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. 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.

L. Taxes

Franchise Taxes - By authority of Chapter 3, Article 42, NMSA 1978 and various ordinances, the Village imposes a franchise tax on certain public utilities operating within the municipality.

Notes to Financial Statements (continued)

Motor Vehicle Registration Fees - Under the provisions of Chapter 66, Article 6, NMSA 1978, the State of New Mexico collects various fees for the registration and regulation of motor vehicles in the state. Of the amount collected, certain specified amounts are distributed to various governmental agencies with the State, including; the Motor Vehicle Division, State Road fund, municipalities, and counties. After certain priority payments, as detailed in 66-6-23 NMSA 2978 have been made, a portion of the remaining fees held in the motor vehicle suspense fund are distributed as required in 66-6-23 B (4) and 66-6-23 B (5). These distributions are commonly referred to as the 10% and 15% motor vehicle tax distributions.

Gasoline Tax - The State of New Mexico, by authority of Chapter 7, Article 13 NMSA 1978, imposed an excise tax on \$0.17 on each gallon of gasoline received in New Mexico. Of the total gasoline taxes received, a portion is distributed to the various municipalities within the State pursuant to Chapter 7, Article 1-6.9 NMSA 1978 and Chapter 7, Article 1-6.27 NMSA 1978.

Municipal Gross Receipts Tax - Under authority of Chapter 7, Articles 19 and 19D, NMSA 1978, the Village adopted gross receipts taxing through ordinance. Said ordinances provide for the imposition of gross receipts taxes on all non-exempt persons engaging in business in the municipality. The tax is collected by the State of New Mexico and remitted to the Village after deducting certain administrative costs.

State Gross Receipts Tax - Under authority of Chapter 7, Article 1, NMSA 1978, the State of New Mexico imposes a gross receipts tax on all businesses within the State. Of the total collected, 1.225% of the taxable gross receipts are distributed to the municipality reporting the taxable receipts.

M. Restricted Assets

Certain long-term assets in the proprietary funds are classified as restricted assets on the balance sheet because their use is limited to payments for debt service or other purpose such as "deposits held in trust for others".

N. Net Position

The governmental activities and business-type activities financial statements utilize a net position presentation. Net Position are categorized as follows:

Net investment in capital assets - This category reflects the portion of net assets that are associates with capital assets less outstanding capital asset related debt.

Restricted net position - This category reflects the portion of net assets that have third party limitation on their use.

Unrestricted net position - This category reflects net assets of the Village not restricted for any project or other purposes.

O. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Village is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Notes to Financial Statements (continued)

Nonspendable - The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.

Restricted - Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation (Village ordinances).

Enabling legislation authorizes the Village to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the Village can be compelled by an external party - such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purpose specified by the legislation.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of the Village Council. Those committed amounts cannot be used for any other purpose unless the Village Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by the Village Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints are not considered to be legally enforceable.

Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the Village for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Village Council or a Village official delegated that authority by the Village Council or ordinance.

Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts have been restricted, committed, or assigned.



## Notes to Financial Statements (continued)

The Village applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

### P. 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.

### Q. Risk Management

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Village carries commercial insurance for these risks of loss, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in the current fiscal year.

### R. Surety Coverage

The officials and certain employees of the Village are covered by a surety bond as required by Section 12-6-7 NMSA 1978 Compilation and the New Mexico State Auditor Rule NMAC 2.2.

### S. 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 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.

## 2. DEPOSITORY COLLATERAL

According to the Federal Deposit Insurance Authority, public unit deposits are funds owned by the Village's 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.

Notes to Financial Statements (continued)

The following is the Cash on Deposit at each financial institution.

American Heritage Bank		Checking	\$ 1,382,083
American Heritage Bank	Sewer	Savings	3,148
American Heritage Bank	Fire	Savings	24,974
American Heritage Bank	Water	Savings	90,471
American Heritage Bank	Cemetary	Savings	1,001
American Heritage Bank	Cemetary	Certificate of Deposit	9,327
American Heritage Bank	Water Meter	Certificate of Deposit	4,000
American Heritage Bank	Sewer	Certificate of Deposit	9,562
American Heritage Bank	General	Certificate of Deposit	<u>43,199</u>
			<b><u>\$ 1,567,765</u></b>

NM Finance Authority	Fire		\$ 1,536
NM Finance Authority	Fire		<u>190</u>
			<b><u>\$ 1,726</u></b>

Total amount on deposit	\$ 1,569,491
Deposit in transit	5
Outstanding checks	<u>(20,434)</u>
Total per financial statements	<b><u>\$ 1,549,062</u></b>

The following schedule details the public money held by American Heritage Bank and the pledged collateral provided for the Village follows:

	<u>American Heritage Bank</u>
Cash on deposit at June 30	\$ 1,567,765
Less <u>FDIC</u>	<u>(435,681)</u>
Uninsured funds	1,132,084
Funds needing collateralization at 50% (required by State Law)	566,042
Pledged collateral at June 30	<u>(2,162,031)</u>
Excess of Pledged Collateral	<b><u>\$ 1,595,989</u></b>

*Custodial Credit Risk - Deposits* - Custodial Credit Risk is the risk that in the event of bank failure, the Village's deposits may not be returned to it. The Village does not have a deposit policy for custodial credit risk. As of June 30, \$1,132,084 of the Village's bank balance \$1,567,765 was exposed to custodial credit risk as follows:

Notes to Financial Statements (continued)

A.	Uninsured and Uncollateralized	\$ -
B.	Uninsured and collateralized with securities held by the pledging banks trust department, but not in the Village's name	<u>1,132,084</u>
	Total	<u><b>\$ 1,132,084</b></u>

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 cooperative for at least one half of the amount on deposit with the institution.

The types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by any agency, district or political subdivision of the State of New Mexico. The collateral pledged is shown as follows:

<u>Bank of New York Mellon</u>	<u>Maturity Date</u>	<u>Fair Market Value</u>
FHMS #3137AA4W0	1-25-21	\$1,102,656
FHMS #3137B36J2	2-25-23	<u>1,059,375</u>
		<u><b>\$2,162,031</b></u>

The amount held at the New Mexico Finance Authority totaling \$1,726 is collateralized within the NMFA guidelines. This information is not available by individual Agency but the financial statements for the NMFA are available by writing to New Mexico Finance Authority, 207 Shelby Street, Santa Fe, New Mexico 87501.

3. ACCOUNTS RECEIVABLES

Receivables as of June 30, including the applicable allowances for uncollectible accounts, are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Receivables from customers	\$ -	\$ 27,882
Less allowance for uncollectible accounts	<u>-</u>	<u>(2,377)</u>
Subtotal	-	25,505
Franchise taxes	606	-
Gross receipts taxes receivable	10,964	959
Property taxes receivable	358	-
Gas tax	1,499	-
Environmental gross receipts tax	-	249
Legislative appropriation	<u>36,956</u>	<u>-</u>
Total	<u><b>\$ 50,383</b></u>	<u><b>\$ 26,713</b></u>

Notes to Financial Statements (continued)

4. PROPERTY TAX

Property taxes attach as an enforceable lien on property as of January 1. Property tax rates for the year are set no later than September 1 each year by the Secretary of Finance and Administration. The rates of tax are then used by County Assessors to develop the property tax schedule by October 1. Taxes are payable in equal semi-annual installments by November 10 and April 10 of the subsequent year. Taxes are collected on behalf of the Village by the County Treasurer, and are remitted to the Village in the month following collection. Because the Treasurer for the county in which the Village is located is statutorily required to collect taxes as an intermediary agency for all forms of government, distribution of taxes are made through the applicable County to the Village.

The Village is permitted to levy taxes for general operating purposes based on taxable value for both residential and nonresidential property, taxable value being defined as one-third of the fully assessed value. In addition, the Village is allowed to levy taxes for payments of bond principal and interest in amounts approved by voters of the Village.

The Village accounts for its share of property taxes in the General Fund. Only those collections received are recorded as revenues. The Village has no means of determining the amount of delinquent taxes, and no delinquent taxes are recorded on the Villages financial records.

5. LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities

Governmental Funds

During the year ended June 30, the following changes occurred in the liabilities reported in the Governmental Funds:

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017	Due Within One Year
Compensated absences	\$ 3,964	\$ 1,975	\$ -	\$ 5,939	\$ -
NMFA loan payable	310,900	-	40,375	270,525	41,568
	<u>\$ 314,864</u>	<u>\$ 1,975</u>	<u>\$ 40,375</u>	<u>\$ 276,464</u>	<u>\$ 41,568</u>

The compensated absences payable will be liquidated by the General Fund. The loan will be liquidated by the Fire Protection Fund.

The Village entered into a loan agreement with the New Mexico Finance Authority evidencing a special limited obligation of the Village to pay a principal amount of \$340,025 and interest for the purpose of defraying the cost of purchasing a fire truck. The yearly payments are to be redirected from the Village's Fire Protection Funds allotted each year. The interest rate is 1.47% to 3.61%. The maturity date is May 1, 2020.

Notes to Financial Statements (continued)

<u>Due Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 37,110	\$ 3,992	\$ 41,102
2019	38,342	2,760	41,102
2020	39,672	1,432	41,104
	<b><u>\$ 115,124</u></b>	<b><u>\$ 8,184</u></b>	<b><u>\$ 123,308</u></b>

The Village entered into a loan agreement with the New Mexico Finance authority evidencing a special limited obligation of the Village to pay a principal amount of \$172,550 and interest for the purpose of defraying the cost of purchasing a fire truck. The yearly payments are to be redirected from the Village's Fire Protection Funds allotted each year. The interest rate is 0.420% to 2.120%. The maturity date is May 1, 2023.

The debt service requirement to maturity, including interest is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 4,458	\$ 1,675	\$ 6,133
2019	4,551	1,618	6,169
2020	4,659	1,546	6,205
2021	45,883	1,460	47,343
2022	47,182	488	47,670
2023	48,668	-	48,668
	<b><u>\$ 155,401</u></b>	<b><u>\$ 6,787</u></b>	<b><u>\$ 162,188</u></b>

Enterprise Fund

During the year ended June 30, the following changes occurred in certain long-term liabilities reported in the Enterprise Fund:

	<u>Balance June 30, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2017</u>	<u>Due Within One Year</u>
Compensated absences payable	<u>\$ 1,778</u>	<u>\$ 2,657</u>	<u>\$ -</u>	<u>\$ 4,435</u>	<u>\$ -</u>

B. Operating Lease

The District did not have any capital or operating leases during the fiscal year.

C. Short-Term Liabilities

The District did not have any short-term liabilities during the fiscal year.

Notes to Financial Statements (continued)

6. CAPITAL ASSETS

The amount of property, plant and equipment in the Business-Type Activities consists of the following:

	Balance June 30, 2016	Additions	Adjustments	Deletions	Balance June 30, 2017
Vehicles	\$ -	\$ -	\$ 11,598	\$ -	\$ 11,598
Equipment	254,250	-	(37,623)	-	216,627
Heavy equipment	-	-	26,025	-	26,025
Buildings	-	-	-	-	-
Infrastructure	<u>3,769,117</u>	<u>45,111</u>	<u>-</u>	<u>-</u>	<u>3,814,228</u>
Total capital assets being depreciated	4,023,367	45,111	-	-	4,068,478
Less accumulated depreciation	<u>(1,131,575)</u>	<u>(104,304)</u>	<u>(1,370,793)</u>	<u>-</u>	<u>(2,606,672)</u>
Net capital assets	<u>\$ 2,891,792</u>	<u>\$ (59,193)</u>	<u>\$ (1,370,793)</u>	<u>\$ -</u>	<u>\$ 1,461,806</u>

The amount of the property, plant and equipment in the Governmental-Type Activities consists of the following:

	Balance June 30, 2016	Additions	Adjustments	Deletions	Balance June 30, 2017
Vehicles	\$ -	\$ 46,116	\$ 110,970	\$ -	\$ 157,086
Equipment	2,092,596	28,272	(1,871,108)	-	249,760
Heavy equipment	-	570,587	1,760,138	-	2,330,725
Buildings & improvements	962,846	-	-	-	962,846
Infrastructure	<u>5,929,837</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,929,837</u>
Total capital assets being depreciated	8,985,279	644,975	-	-	9,630,254
Less accumulated depreciation	<u>(3,182,372)</u>	<u>(396,451)</u>	<u>(3,605,598)</u>	<u>-</u>	<u>(7,184,421)</u>
Net capital assets	<u>\$ 5,802,907</u>	<u>\$ 248,524</u>	<u>\$ (3,605,598)</u>	<u>\$ -</u>	<u>\$ 2,445,833</u>

7. RECONCILIATION OF BUDGETARY BASIS TO GAAP BASIS STATEMENTS

	General Fund	Fire Protection Fund	EMS Fund	Governmental Funds	Proprietary Funds
<u>Revenues</u>					
Accrual basis	\$ 366,070	\$ 251,073	\$ 40,511	\$ 107,812	\$ -
Budget basis	<u>368,221</u>	<u>251,073</u>	<u>40,511</u>	<u>70,856</u>	<u>-</u>
Increase (decrease) in receivables/ allowance for doubtful accounts	<u>\$ (2,151)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 36,956</u>	<u>\$ -</u>
<u>Expenditures</u>					
Accrual basis	\$ 329,229	\$ 675,638	\$ 26,568	\$ 98,790	\$ -
Budget basis	<u>332,247</u>	<u>674,769</u>	<u>27,852</u>	<u>62,786</u>	<u>-</u>
Increase (decrease) in compensated absences/payables	<u>\$ (3,018)</u>	<u>\$ 869</u>	<u>\$ (1,284)</u>	<u>\$ 36,004</u>	<u>\$ -</u>

8. RETIREMENT PLAN

**Summary of Significant Accounting Policies**

**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' 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.

**General Information about the Pension Plan**

**Plan description.** The Public Employees Retirement Fund (PERA 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 Officer, 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 PERA 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), and the provisions of Sections 29-4-1 through 29-4-11, NMSA 1978 governing the State Police Pension Fund, each employee and elected official of every affiliated public employer is required to be a member in the PERA Fund.

PERA issues a publicly available financial report and a comprehensive annual financial report that can be obtained at <http://saonm.org/> using the Audit Report Search function for agency 366.

**Benefits provided.** For a description of the benefits provided and recent changes to the benefits see Note 1 in the PERA audited financial statements for the fiscal year ended June 30, 2016 available at:

[http://www.pera.state.nm.us/pdf/AuditFinancialStatements/366\\_Public\\_Employees\\_Retirement\\_Association\\_2016.pdf](http://www.pera.state.nm.us/pdf/AuditFinancialStatements/366_Public_Employees_Retirement_Association_2016.pdf).

**Contributions.** The contribution requirements of defined benefit plan members and the Village of Melrose are established in state statute under Chapter 10, Article 11, NMSA 1978. The contribution requirements may be amended by acts of the legislature. For the employer and employee contribution rates in effect for FY16 for the various PERA coverage options, for both Tier I and Tier II, see the tables available in the note disclosures of the PERA FY16 annual audit report at:

[http://osanm.org/media/audits/366\\_Public\\_Employees\\_Retirement\\_Association\\_2016.pdf](http://osanm.org/media/audits/366_Public_Employees_Retirement_Association_2016.pdf).

The PERA coverage options that apply to the Village of Melrose are: Municipal General Division. Statutorily required contributions to the pension plan from the Village of Melrose were \$11,714 for the year ended June 30, 2017.

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:***

The PERA pension liability amounts, net pension liability amounts, and sensitivity information were based on an annual actuarial valuation performed as of June 30, 2015. The PERA pension liability amounts for each division were 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 June 30, 2016.

The assets of the PERA fund are held in one trust, but there are six distinct membership groups (municipal general members, municipal police members, municipal fire members, state general members, state police members and legislative members) for whom separate contribution rates are determined each year pursuant to chapter 10, Article 11 NMSA 1978. Therefore, the calculations of the net pension liability, pension expense and deferred Inflows and Outflows were performed separately for each of the membership groups: municipal general members; municipal police members; municipal fire members; state general members; state police members and legislative members. The Village of Melrose's proportion of the net pension liability for each membership group that the employer participates in is based on the employer contributing entity's percentage of that membership group's total employer contributions for the fiscal year ended June 30, 2016. Only employer contributions for the pay period end dates that fell within the period of July 1, 2015 to June 30, 2016 were included in the total contributions for a specific employer. Regular and any adjustment contributions that applied to FY 2016 are included in the total contribution amounts. In the event that an employer is behind in reporting to PERA its required contributions, an estimate (receivable) was used to project the un-remitted employer contributions. This allowed for fair and consistent measurement of the contributions with the total population. This methodology was used to maintain consistent measurement each year in determining the percentages to be allocated among all the participating employers.

For PERA Fund Municipal General Division, at June 30, 2017, the Village of Melrose reported a liability of \$201,306 for its proportionate share of the net pension liability. At June 30, 2016, the Village of Melrose's proportion was 0.0126%, which was unchanged from its proportion measured as of June 30, 2015, due to the insignificance of the difference.

For the year ended June 30, 2017, the Village of Melrose recognized PERA Fund Municipal General Division pension expense of \$23,254. At June 30, 2017, the Village of Melrose reported PERA Fund Municipal General Division deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:



Notes to Financial Statements (continued)

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions	\$ 11,804	\$ 33
Experience versus actual	10,058	1,965
Net difference between projected and actual earnings on pension plan investments	37,040	-
Change in proportion	8,014	-
Village of Melrose's contributions subsequent to the measurement date	<u>11,714</u>	<u>-</u>
Total	<u>\$ 78,630</u>	<u>\$ 1,998</u>

\$11,714 reported as deferred outflows of resources related to pensions resulting from Village of Melrose's contributions subsequent to the measurement date June 30, 2016 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:

2018	\$ 16,002
2019	16,002
2020	23,542
2021	9,372
2022	-

**Actuarial assumptions.** As described above, the PERA Fund member group pension liabilities and net pension liabilities are based on actuarial valuations performed as of June 30, 2015 for each of the membership groups. Then each PERA Fund member group pension liability was rolled forward from the valuation date to the Plan year ending June 30, 2016 using generally accepted actuarial principles. There were no significant events or changes in benefit provisions that required an adjustment to the roll-forward liabilities as of June 30, 2016. These actuarial methods and assumptions were adopted by the Board for use in the June 30, 2016 actuarial valuation.

Actuarial valuation date	June 30, 2014
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
- Payroll growth	3.50% annual rate
- Projected salary increases	3.50% to 14.25% annual rate
- Includes inflation at	3.00% annual rate
- Projected benefit payment	100 years
- Mortality assumption	RP-2000 Mortality Tables (Combined table for healthy post-retirements, Employee table for active members, and Disabled table for disabled retirees before retirement age) with projections to 2018 using Scale AA.
- Experience study dates	July 1, 2008 to June 30, 2013

Notes to Financial Statements (continued)

The long-term expected rate of return on pension plan investments was determined using a statistical analysis 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 asset allocation and most recent best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>ALL FUNDS - Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	21.10%	5.00%
International Equity	24.80%	5.20
Private Equity	7.00%	8.20
Core and Global Fixed Income	26.10%	1.85
Fixed Income Plus Sectors	5.00%	4.80
Real Estate	5.00%	5.30
Real Assets	7.00%	5.70
Absolute Return	<u>4.00%</u>	4.15
Total	<u>100.00%</u>	

**Discount rate:** The discount rate used to measure the total pension liability was 7.48 percent. The projection of cash flows used to determine the discount rate assumed that future contributions will be made in accordance with statutory rates. On this basis, the pension plan's fiduciary net position together with the expected future contributions are sufficient to provide all projected future benefit payments of current plan members as determined in accordance with GASBS 67. Therefore, the 7.48% assumed long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the Village of Melrose's proportionate share of the net pension liability to changes in the discount rate.** The following tables show the sensitivity of the net pension liability to changes in the discount rate. In particular, the tables present the Village of Melrose's net pension liability in each PERA Fund Division that Village of Melrose participates in, under the current single rate assumption, as if it were calculated using a discount rate one percentage point lower (6.48%) or one percentage point higher (8.48%) than the single discount rate.

<b>PERA Fund Municipal General Division</b>	<b>1% Decrease (6.48%)</b>	<b>Current Discount Rate (7.48%)</b>	<b>1% Increase (8.48%)</b>
Village of Melrose's proportionate share of the net pension liability	<u>\$ 300,129</u>	<u>\$ 201,306</u>	<u>\$ 119,337</u>

**Pension plan fiduciary net position.** Detailed information about the pension plan's fiduciary net position is available in the separately issued FY15 Restated PERA financial report. The report is available at <http://www.pera.state.nm.us/publications.html>.

Notes to Financial Statements (continued)

9. POST-EMPLOYMENT BENEFITS - STATE RETIREE HEALTH CARE PLAN

*Plan Description.* Village 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 provided health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

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

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the post-employment healthcare plan. The report and further information can be obtained by writing to Retiree Health Care Authority, 4308 Carlisle Boulevard, Suite 104, Albuquerque, New Mexico 87107.

*Funding Policy.* The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorized the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses for the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at [www.nmrhca.state.nm.us](http://www.nmrhca.state.nm.us).

The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that choose 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 plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1;

Notes to Financial Statements (continued)

and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2013, 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 participating 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 Village contributions to the RHCA for the years ended June 30, 2017, 2016 and 2015 were \$3,062, \$2,695 and \$2,783, respectively, which equal the required contributions for each year.

10. DEPOSITS HELD FOR OTHERS, ENTERPRISE FUND

Deposits in the Water and Wastewater Utility Enterprise Fund consist of the following:

Hydrant Meter deposits \$ 8,380

Water meter deposits are charged to new customers and consist of the following:

Residential properties \$ 50  
Commercial properties \$ 100

11. FUND BALANCES CLASSIFIED

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented here.

<u>Fund Balances</u>	<u>General Fund</u>	<u>Fire Protection Fund</u>	<u>EMS Fund</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
<u>Nonspendable</u>					
Inventory	\$ -	\$ -	\$ -	\$ -	\$ -
Total nonspendable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Restricted for:</u>					
Fire protection	\$ -	\$ 87,475	\$ -	\$ -	\$ 87,475
Public safety	-	-	-	26,633	26,633
Emergency services	-	-	153,130	-	153,130
Recreation services	-	-	-	3,877	3,877
Corrections	-	-	-	15,649	15,649
State mandated cash reserves	77,658	-	-	-	77,658
Capital outlay	-	-	-	-	-
Debt service	-	1,726	-	-	1,726
Total restricted	<u>77,658</u>	<u>89,201</u>	<u>153,130</u>	<u>46,159</u>	<u>366,148</u>
<u>Committed to:</u>					
Other purposes	-	-	-	-	-
Total committed	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Unassigned:</u>	<u>982,265</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>982,265</u>
Total Fund Balances	<u>\$ 1,059,923</u>	<u>\$ 89,201</u>	<u>\$ 153,130</u>	<u>\$ 46,159</u>	<u>\$ 1,348,413</u>

Notes to Financial Statements (continued)

12. LEGISLATIVE APPROPRIATIONS

<u>Appropriation</u>	<u>Term</u>	<u>Remaining Amount</u>	<u>Balance</u>
Laws of 2014, Chapter 65 Section 10, Subsection 10A Paragraph 31	November 20, 2015 to June 30, 2018	\$ 34,000	\$ 2,894

<u>Appropriation</u>	<u>Term</u>	<u>Remaining Amount</u>	<u>Balance</u>
Laws of 2014, Chapter 65 Section 10, Subsection 10A Paragraph 29	November 20, 2015 to June 30, 2018	\$ 900	\$ 118

<u>Appropriation</u>	<u>Term</u>	<u>Remaining Amount</u>	<u>Balance</u>
Laws of 2014, Chapter 65 Section 10, Subsection 10A Paragraph 30	November 21, 2015 to June 30, 2018	\$ 120,000	\$ 83,827

13. RESTATEMENT OF FUND BALANCE

The General Fund had a restatement of \$7,290 to adjust cash at July 1, 2016.

14. NET POSITION RESTATEMENT

The Village had a prior period adjustment of \$3,605,598 in accumulated depreciation and \$7,290 to adjust the General Fund Cash at July 1, 2016.

**NON-MAJOR FUNDS**

### NON-MAJOR SPECIAL REVENUE FUNDS

**ALL FUNDS** - All funds were created by management directive.

**SENIORS** - To account for the resources from a grant to purchase and equip a vehicle for the Melrose Senior Center, to purchase and install meals equipment and to plan, design, renovate and equip the Melrose Senior Center. (Authority is three Capital Appropriation Project Grants)

**LAW ENFORCEMENT PROTECTION FUND** - To account for grants received from state sources for the purpose of buying equipment for the Village Police department. (Authority is NMSA 29-13-3)

**RECREATION FUND** - To account for the operation and maintenance of recreation facilities in the Village. Financing is provided by a specific annual cigarette tax levy. Authority: NMSA 7-12-1 and 7-12-15.

**CORRECTIONS FUND** - To account for the fines collected on local violations by the Village Court to be used for the costs associated with housing Village prisoners. (Authority is NMSA 35-14-11)

**CEMETERY FUND** - To account for resources received for the operations of the cemetery. Cemetery plots are also sold. (Authority is Village Council)

STATE OF NEW MEXICO  
VILLAGE OF MELROSE  
Non-Major Special Revenue Funds  
Combining Balance Sheet  
June 30, 2017

Statement A-1

	Seniors Fund	Law Enforcement Protection Fund	Recreation Fund	Cemetery Fund	Corrections Fund	Total
<b>ASSETS</b>						
Cash on deposit	\$ -	\$ 8,026	\$ 3,877	\$ 18,607	\$ 15,649	\$ 46,159
Accounts receivable	<u>36,956</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,956</u>
<b>Total assets</b>	<b><u>\$ 36,956</u></b>	<b><u>\$ 8,026</u></b>	<b><u>\$ 3,877</u></b>	<b><u>\$ 18,607</u></b>	<b><u>\$ 15,649</u></b>	<b><u>\$ 83,115</u></b>
<b>LIABILITIES</b>						
Accounts payable	<u>\$ 36,956</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 36,956</u>
<b>Total Liabilities</b>	<u>36,956</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,956</u>
<b>FUND BALANCE</b>						
Restricted	<u>-</u>	<u>8,026</u>	<u>3,877</u>	<u>18,607</u>	<u>15,649</u>	<u>46,159</u>
<b>Total fund balance</b>	<u>-</u>	<u>8,026</u>	<u>3,877</u>	<u>18,607</u>	<u>15,649</u>	<u>46,159</u>
<b>Total fund balance and liabilities</b>	<b><u>\$ 36,956</u></b>	<b><u>\$ 8,026</u></b>	<b><u>\$ 3,877</u></b>	<b><u>\$ 18,607</u></b>	<b><u>\$ 15,649</u></b>	<b><u>\$ 83,115</u></b>

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



STATE OF NEW MEXICO  
VILLAGE OF MELROSE  
Non-Major Special Revenue Funds  
Combining Statement of Revenues, Expenditures  
and Changes in Fund Balances  
Year Ended June 30, 2017

Statement A-2

	Seniors Fund	Law Enforcement Protection Fund	Recreation Fund	Cemetery Fund	Corrections Fund	Totals
<b>REVENUES</b>						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Gas taxes	-	-	-	-	-	-
Charges for services	-	-	-	6,480	-	6,480
Licenses and permits	-	-	-	-	-	-
Fines and forfeitures	-	-	-	-	7,603	7,603
Local sources	-	5,633	-	-	-	5,633
State sources	68,062	20,000	-	-	-	88,062
Federal sources	-	-	-	-	-	-
Earnings from investments	-	-	-	34	-	34
<b>Total revenues</b>	<b>68,062</b>	<b>25,633</b>	<b>-</b>	<b>6,514</b>	<b>7,603</b>	<b>107,812</b>
<b>EXPENDITURES</b>						
<b>Current:</b>						
General government	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-
Public safety	-	11,482	-	3,948	-	15,430
Culture and recreation	8,684	-	288	-	-	8,972
Capital outlay	59,378	15,010	-	-	-	74,388
<b>Total expenditures</b>	<b>68,062</b>	<b>26,492</b>	<b>288</b>	<b>3,948</b>	<b>-</b>	<b>98,790</b>
Excess (deficiency) of revenues over expenditures	-	(859)	(288)	2,566	7,603	9,022
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
Loan proceeds	-	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net change in fund balance	-	(859)	(288)	2,566	7,603	9,022
Fund balance, beginning of year	-	8,885	4,165	16,041	8,046	37,137
Fund balance, end of year	<b>\$ -</b>	<b>\$ 8,026</b>	<b>\$ 3,877</b>	<b>\$ 18,607</b>	<b>\$ 15,649</b>	<b>\$ 46,159</b>

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

**REQUIRED SUPPLEMENTARY INFORMATION**

STATE OF NEW MEXICO  
 VILLAGE OF MELROSE  
 SCHEDULE OF THE EMPLOYER'S PROPORTIONATE SHARE OF THE  
 NET PENSION LIABILITY OF PERA FUND MUNICIPAL GENERAL DIVISION  
 Public Employees Retirement Association (PERA) Plan  
 Last 10 Fiscal Years\*

	2015	2016	2017
Village of Melrose's proportion of net pension liability (asset)	0.01120%	0.01260%	0.01260%
Village of Melrose's proportionate share of the net pension liability (asset)	\$ 87,381	\$ 128,468	\$ 201,306
Village of Melrose's covered-employee payroll	\$ 135,739	\$ 139,135	\$ 158,308
Village of Melrose's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	64.37%	92.33%	127.16%
Plan fiduciary net position as a percentage of the total pension liability	81.29%	76.99%	69.18%

\*The amounts presented were determined as of June 30. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Village of Melrose will present information for those years for which information is available.

See Independent Auditor's Report  
 See notes to required supplementary information

STATE OF NEW MEXICO  
 VILLAGE OF MELROSE  
 SCHEDULE OF EMPLOYER'S CONTRIBUTIONS  
 Public Employees Retirement Association (PERA) Plan  
 PERA Municipal General Division  
 Last 10 Fiscal Years\*

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Contractually required contribution	\$ 10,045	\$ 10,296	\$ 11,714
Contributions in relation to the contractually required contribution	<u>(10,045)</u>	<u>(10,296)</u>	<u>(11,714)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Village of Melrose's covered-employee payroll	\$ 135,739	\$ 139,135	\$ 158,308
Contributions as a percentage of covered-employee payroll	7.4%	7.4%	7.4%

\*The amounts presented were determined as of June 30. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Village of Melrose will present information for those years for which information is available.

See Independent Auditor's Report  
 See notes to required supplementary information

STATE OF NEW MEXICO  
VILLAGE OF MELROSE  
Notes to Required Supplementary Information  
June 30, 2017

**Changes of benefit terms.** The PERA Fund COLA and retirement eligibility benefits changes in recent years are described in Note 1 of the PERA FY16 audit available at:

[http://www.pera.state.nm.us/pdf/AuditFinancialStatements/366\\_Public\\_Employees\\_Retirement\\_Association\\_2016.pdf](http://www.pera.state.nm.us/pdf/AuditFinancialStatements/366_Public_Employees_Retirement_Association_2016.pdf)

**Changes of assumptions.**

The Public Employees Retirement Association (PERA) of New Mexico Annual Actuarial Valuation as of June 30, 2016 report is available at:

[http://www.pera.state.nm.us/pdf/Investments/RetirementFundValuationReports/6-30-2016%20PERA%20Valuation%20Report\\_FINAL.pdf](http://www.pera.state.nm.us/pdf/Investments/RetirementFundValuationReports/6-30-2016%20PERA%20Valuation%20Report_FINAL.pdf)

See Independent Auditor's Report  
See notes to required supplementary information

**SUPPLEMENTARY INFORMATION**

STATE OF NEW MEXICO  
 VILLAGE OF MELROSE  
 Schedule of Changes in Assets  
 and Liabilities - All Agency Funds  
 Year Ended June 30, 2017

	Balances June 30, 2016	Additions	Deletions	Balances June 30, 2017
<b>ASSETS</b>				
Cash	\$ -	\$ 3,312	\$ 3,312	\$ -
Total assets	<u>\$ -</u>	<u>\$ 3,312</u>	<u>\$ 3,312</u>	<u>\$ -</u>
<b>LIABILITIES</b>				
Due to other agencies	\$ -	\$ 3,312	\$ 3,312	\$ -
Total liabilities	<u>\$ -</u>	<u>\$ 3,312</u>	<u>\$ 3,312</u>	<u>\$ -</u>

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

*Rice and Associates, C.P.A.*

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BOOKKEEPING  
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CERTIFIED PUBLIC ACCOUNTANTS  
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Albuquerque, NM 87112

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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**

Mr. Wayne A. Johnson  
New Mexico State Auditor  
and  
Honorable Mayor and Village Council  
Village of Melrose  
Melrose, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, the budgetary comparisons of the General and Fire Protection Funds of the Village of Melrose, as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise the Village of Melrose's basic financial statements, presented as supplemental information, and have issued our report thereon dated December 11, 2017.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements 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 listed as Capital Assets Listing/Depreciation Schedule (2017-003), DFA Report Incorrect



(2017-007) and Village's Accounting Software Not Adequate to Create Financial Statements (2017-010) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses listed as Water Meter Deposits (2017-005) to be a significant deficiency.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Melrose's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance 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 Chief Procurement Officer (2017-001), Purchase Orders Required (2017-002), Transactions Made by Third Parties Not Recorded on the Books of Record (2017-004), Annual Leave Tracking (2017-006), No Depreciation Policy (2017-008) and Amounts Collected on Behalf of the State (2017-009).

### Responses to Findings

The Village of Melrose's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Village of Melrose's responses were not subjected to the audit procedures applied in the audit of the financial statements and, according, 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village of Melrose's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Albuquerque, New Mexico  
December 11, 2017

**STATUS OF FINDINGS AND RESPONSES**

**Prior Year Audit Findings:**

1. Payroll (2016-001)- Resolved

**Current Year Audit Findings:**

1. Chief Procurement Officer - (2017-001)
2. Purchase Orders Required - (2017-002)
3. Capital Asset Listing/Depreciation Schedule (2017-003)
4. Transactions Made by third Parties Not Recorded on Books of Record (2017-004)
5. Water Meter Deposits - (2017-005)
6. Annual Leave Tracking (2017-006)
7. DFA Report Incorrect (2017-007)
8. No Depreciation Policy (2017-008)
9. Amounts Collected on Behalf of the State (2017-009)
10. Village's Accounting Software Not Adequate to Create Financial Statements (2017-010)

Chief Procurement Officer - Compliance Matter  
(2017-001)

CONDITION As of June 30, 2017, the Village did not have a Chief Procurement Officer.

CRITERIA According to NM State Statute 13-1-95.2 only certified chief procurement officers may approve procurement pursuant to the Procurement Code.

CAUSE Management did not ensure that someone attended the certification program by July 1, 2015 and become certified.

EFFECT Management did not comply with NM State Statute 13-1-95.2.

RECOMMENDATION Management should ensure that someone attend the next certification program and become certified.

RESPONSE Management is currently trying to find a class for their employee to obtain the training and certification.

Purchase Orders Required - Compliance Matter  
(2017-002)

CONDITION	The Village is not using Purchase Orders for all purchases made.
CRITERIA	DFA regulations require a purchase order to initiate a purchase. This document is used to ensure the Village not only has budget or budget authority but cash to purchase the item. This document is also used to provide guidance as to which fund and account can and will be used.
CAUSE	Management was not aware of this requirement.
EFFECT	DFA regulations are not being followed.
RECOMMENDATION	Purchase orders should be used as soon as possible.
RESPONSE	The Village Clerk will start preparing purchase orders for anything over \$500 starting immediately.

Capital Asset Listing/Depreciation Schedule -  
Material Weakness  
(2017-003)

CONDITION	The Village could not provide a Capital Asset Listing and Depreciation Schedule that had current year additions and current year depreciation for the fiscal year ending June 30, 2017.
CRITERIA	A complete clear capital asset listing segregated by fund by major class needs to be prepared annually. A depreciation schedule should be maintained. The depreciation schedule should be separated by each major class of asset to comply with GASB 34.177a. Also, a depreciation schedule is required to comply with 2.20.1.12 NMAC.
CAUSE	Management of the Village is relying on the auditors to prepare this schedule.
EFFECT	Management is not complying with Generally Accepted Accounting Principles.
RECOMMENDATION	Management should update their capital asset list including depreciation based on the policy approved by the Board.
RESPONSE	The Village Clerk has obtained a current capital asset listing including current depreciation and will update for the 2017-2018 fiscal year by June 30, 2018.

Transactions Made by Third Parties  
Not Recorded on Books of Record - Other Matter  
(2017-004)

CONDITION                      Funds held at New Mexico Finance Authority were never recorded on the Village's books of record. These included cash balances and interest earned.

CRITERIA                        All transactions whether actually made by management or outside parties needs to be posted/recorded to the entity's books of record.

CAUSE                            Management did not ensure these transactions were booked.

EFFECT                          Cash balances and interest income were understated on the Village's books of record. Adjustments had to be made to adjust certain trial balances so these amounts were included.

RECOMMENDATION               Management should ensure all amounts/ transactions are posted/recorded to the entity's books of record.

RESPONSE                        The Village Clerk will add all amounts related to NMFA to the books of record by June 30, 2018.

Water Meter Deposits - Significant Deficiency

(2017-005)

CONDITION	The Village is not reconciling their monthly water meter deposits to a restricted bank account each month. There were two deposits totaling \$78 that were paid out of the wrong fund. Also, \$1,670 worth of deposits made during the 2016-2017 fiscal year were not included in the water meter deposit list.
CRITERIA	The monthly meter deposit list should be reconciled and agreed to a separate bank account each month. All refunds should be paid for from this fund and restricted bank account. All new meter deposits received should be added to the meter deposit list immediately.
CAUSE	Management was not aware of the restricted bank account requirement. Management was also not aware of the requirement to reconcile these accounts to the bank account.
EFFECT	Meter deposits received could erroneously be used for expenditures.
RECOMMENDATION	Management should designate an employee to perform this duty each month, identify differences and resolve those differences.
RESPONSE	The Village Clerk will start preparing a list and reconcile it each month.

Annual Leave Tracking - Other Matter

(2017-006)

CONDITION	The Village is not keeping any documentation on how annual leave is being accrued, taken and a balance at the end of each payroll period.
CRITERIA	Proper internal controls over annual/sick leave include a tracking of all leave earned, leave taken and the balances of that leave at the end of each payroll period.
CAUSE	Management was not ensuring this procedure was properly documented.
EFFECT	Overpayments could be made or employees might not receive the correct amount of leave earned.
RECOMMENDATION	The Village should immediately create a proper method of documenting leave.
RESPONSE	The Village Clerk has already started tracking annual/sick leave for all employees.



DFA Report Incorrect - Material Weakness

(2017-007)

CONDITION	<p>The DFA Report is not being prepared correctly. Examples are:</p> <ol style="list-style-type: none"><li>1. Transfers shown are transfers between bank accounts not between funds.</li><li>2. An investment for \$90,471 is shown as an investment in the Water Fund and also as an investment (\$90,504) in the water savings.</li><li>3. The water savings is being recorded as a fund, however, is a bank account of the Water Fund.</li><li>4, A fund 299 is being shown, however all Special Revenue Funds are being shown in the 200 series above.</li><li>5. The \$24,956 shown in the 299 Fund is also shown as investments in the Fire Protection Fund (\$24,974).</li></ol>
CRITERIA	<p>The DFA report must agree to and be supported by the underlying books of record.</p>
CAUSE	<p>Management has never been trained on how this report should be prepared. Also, DFA analysts for the Village have not reviewed these reports adequately.</p>
EFFECT	<p>The amounts reported on the DFA report are overstated in some funds.</p>
RECOMMENDATION	<p>Management should obtain proper training and knowledge on how to prepare this report.</p>
RESPONSE	<p>The Village Clerk will prepare the DFA report with corrected figures beginning July 1, 2018.</p>

No Depreciation Policy - Other Matter

(2017-008)

CONDITION	The Village has not approved a depreciation policy so depreciation can be charged to capital assets according to Board approval.
CRITERIA	The Village needs a depreciation policy so capital assets can be depreciated according to Board policy. This is due to the implementation of GASB 34.
CAUSE	The Village has not approved a policy for management to follow.
EFFECT	Depreciation may be charged incorrectly because no set policy is in place.
RECOMMENDATION	The Village should approve a policy as soon as possible. Management should then implement that policy as soon as possible.
RESPONSE	A policy was passed in the October Council meeting.

Amounts Due to JEC and AOC - Other Matter

(2017-009)

CONDITION	The Village is including Court Automation Fees and Judicial Education Fees as revenues and expenditures in their Corrections Fund. These are collections made on behalf of the State and should be kept separate in an Agency Fund in the books of record and the DFA report.
CRITERIA	All amounts collected on behalf of another entity should be collected, disbursed and reported in an Agency Fund.
CAUSE	Management was unaware of this requirement.
EFFECT	These amounts are incorrectly included as revenue and expenditures for budget purposes for the Corrections Fund. Also, any cash left in the bank at June 30, could be mistakenly budgeted for in the Corrections Fund.
RECOMMENDATION	Management should separate these receipts and disbursements in an Agency Fund as soon as possible, not only on the DFA report but on the books of record.
RESPONSE	The Village Clerk will record these resources and payments in an Agency Fund in the DFA report and books of record starting July 1, 2018.

Villages Accounting Software Not Adequate  
to Create Financial Statements -  
Material Weakness  
(2017-010)

CONDITION	Financial statements at the fund level could not be obtained. Instead individual account ledgers were obtained to support amounts reported on the DFA report.
CRITERIA	Agencies need to be able to provide financial statements to support the preparation of the DFA report; to provide to the Board and the residents of the Village.
CAUSE	Management has not looked into alternate options for accounting software.
EFFECT	While the books of the Village appears to balance, the books were in no condition to create presentable financial statements. Capital assets and long-term debt were not included in the books of record.
RECOMMENDATION	The Village should take the time to review alternative accounting software programs to ensure financial statements can be presented and used.
RESPONSE	Management will look into obtaining another accounting software program as soon as possible.

#### FINANCIAL STATEMENT PREPARATION

The combining and individual fund financial statements and notes to the financial statements for the year ended, June 30, 2017 were prepared by Rice & Associates, CPA, based on managements chart of accounts and trial balances including any adjusting, correcting or closing entries approved by management. These services are allowable under SAS 115.

#### EXIT CONFERENCE

An exit conference was held at the Village on December 11, 2017 to discuss the current audit report. In attendance were Mr. Tuck N. Monk, Mayor, Ms. Cathy Christesson, City Clerk/Finance Officer and Ms. Pamela A. Rice, CPA, Contract Auditor.