

State of New Mexico

VILLAGE OF MELROSE



FOR YEAR ENDED JUNE 30, 2018

ANNUAL FINANCIAL REPORT

RICE & ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

STATE OF NEW MEXICO

VILLAGE OF MELROSE

AUDIT REPORT

For The Year Ended June 30, 2018

(with Auditor's Report Thereon)

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VILLAGE OF MELROSE
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STATE OF NEW MEXICO
VILLAGE OF MELROSE
Official Roster
Year Ended June 30, 2018

Village Council

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

Village Administration

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

AUDITING
BOOKKEEPING
(505) 292-8275

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11805 Menaul NE
Albuquerque, NM 87112

TAX PLANNING
TAX PREPARATION
FAX (505) 294-8904

INDEPENDENT AUDITOR'S REPORT

Mr. Brian Colon
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 Senior Funds of the Village of Melrose, as of and for the year ended June 30, 2018, 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, 2018 as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, 2018, and the respective changes in financial position and where applicable, cash flows thereof, and the respective budgetary comparisons for the General, Fire Protection and Senior 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, 2018, 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.

Emphasis of Matter

Adoption of New Accounting Pronouncement

As discussed in Note 9 to the financial statements, effective July 1, 2017, the Village adopted Governmental Accounting Standards Board Statement (GASB) No 75 *Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions*. Our opinions are not modified with respect to this matter.

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 and also Schedules IV and V 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 Untied 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 April 4, 2019 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.



Albuquerque, New Mexico
April 4, 2019

FINANCIAL STATEMENTS

STATE OF NEW MEXICO
VILLAGE OF MELROSE
Statement of Net Position
June 30, 2018

Statement 1
Page 1 of 2

	Governmental Activities	Business Type Activities	Total
ASSETS			
Current Assets			
Cash	\$ 1,419,941	\$ 236,972	\$ 1,656,913
Accounts receivable (net of uncollectible accounts)	<u>137,188</u>	<u>209,923</u>	<u>347,111</u>
Total current assets	<u>1,557,129</u>	<u>446,895</u>	<u>2,004,024</u>
Non-current assets			
Restricted assets (cash)	1,938	-	1,938
Customer Meter Deposits	<u>-</u>	<u>9,244</u>	<u>9,244</u>
Total non-current assets	<u>1,938</u>	<u>9,244</u>	<u>11,182</u>
Land	-	-	-
Land improvements	-	-	-
Buildings and improvements	1,165,756	-	1,165,756
Vehicles	157,086	11,598	168,684
Heavy equipment	2,330,725	26,025	2,356,750
Equipment	261,746	219,175	480,921
Plant/Infrastructure	<u>6,018,351</u>	<u>4,261,367</u>	<u>10,279,718</u>
Total capital assets	<u>9,933,664</u>	<u>4,518,165</u>	<u>14,451,829</u>
Less accumulated depreciation	(7,524,826)	(2,697,615)	(10,222,441)
Total capital assets (net of accumulated depreciation)	<u>2,408,838</u>	<u>1,820,550</u>	<u>4,229,388</u>
Deferred outflows of resources related to pension	61,605	-	61,605
Deferred outflows of resources related to OPEB	<u>3,520</u>	<u>-</u>	<u>3,520</u>
Total assets	<u>\$ 4,033,030</u>	<u>\$ 2,276,689</u>	<u>\$ 6,309,719</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, 2018

Statement 1
Page 2 of 2

	Governmental Activities	Business Type Activities	Total
LIABILITIES AND NET ASSETS			
Current Liabilities			
Accounts payable	\$ 8,152	\$ 189,358	\$ 197,510
Current portion of loan payable	42,893	-	42,893
Customer meter deposits payable from restricted assets	-	9,244	9,244
Total current liabilities	51,045	198,602	249,647
Non-Current Liabilities			
Compensated absences payable	10,993	11,346	22,339
Loan payable	186,064	-	186,064
Net pension liability	192,372	-	192,372
OPEB liability	161,781	-	161,781
Total non-current liabilities	551,210	11,346	562,556
Total liabilities	602,255	209,948	812,203
Deferred Inflows of resources			
related to pension	11,841	-	11,841
Deferred Inflows of resources related to OPEB liability	36,820	-	36,820
Total deferred inflows	48,661	-	48,661
Net Position			
Net investment in capital assets	2,179,881	1,820,550	4,000,431
Restricted for:			
State mandated cash balance	49,554	-	49,554
Special revenue fund	472,012	-	472,012
Debt service	1,938	-	1,938
Unrestricted	678,729	246,191	924,920
Total net position	3,382,114	2,066,741	5,448,855
Total liabilities and net position	\$ 4,033,030	\$ 2,276,689	\$ 6,309,719

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, 2018

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
Primary government:							
Governmental activities:							
General government	\$ 178,713	\$ 200	\$ 2,938	\$ -	\$ (175,575)	\$ -	\$ (175,575)
Highways and streets	95,642	-	-	95,973	331	-	331
Public safety	156,899	26,192	302,515	-	171,808	-	171,808
Culture and recreation	42,025	-	872	202,910	161,757	-	161,757
Depreciation - unallocated	340,405	-	-	-	(340,405)	-	(340,405)
Interest	5,667	-	-	-	(5,667)	-	(5,667)
Total governmental activities	<u>819,351</u>	<u>26,392</u>	<u>306,325</u>	<u>298,883</u>	<u>(187,751)</u>	<u>-</u>	<u>(187,751)</u>
Business-type activities:							
Water	141,125	112,631	-	447,138	-	418,644	418,644
Sewer	88,717	43,757	-	-	-	(44,960)	(44,960)
Solid waste service	98,029	91,232	-	-	-	(6,797)	(6,797)
Total business-type activities	<u>327,871</u>	<u>247,620</u>	<u>-</u>	<u>447,138</u>	<u>-</u>	<u>366,887</u>	<u>366,887</u>
Total all activities	<u>\$ 1,147,222</u>	<u>\$ 274,012</u>	<u>\$ 306,325</u>	<u>\$ 746,021</u>	<u>(187,751)</u>	<u>366,887</u>	<u>179,136</u>
General Revenues:							
Property taxes					15,434	-	15,434
Gross receipts taxes					170,090	13,511	183,601
Environmental gross receipts taxes					-	3,831	3,831
Franchise taxes					8,506	-	8,506
Gasoline taxes					18,787	-	18,787
Motor vehicle taxes					23,894	-	23,894
State aid not restricted to special purpose							
General					131,704	-	131,704
Investment earnings					515	188	703
Total general revenues					<u>368,930</u>	<u>17,530</u>	<u>386,460</u>
Change in net position					<u>181,179</u>	<u>384,417</u>	<u>565,596</u>
Net position - beginning of year					3,393,108	1,682,324	5,075,432
Restatement					<u>(192,173)</u>	<u>-</u>	<u>(192,173)</u>
Net position - beginning of year - restated					<u>3,200,935</u>	<u>1,682,324</u>	<u>4,883,259</u>
Net position - ending					<u>\$ 3,382,114</u>	<u>\$ 2,066,741</u>	<u>\$ 5,448,855</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, 2018

Statement 3

	General	Fire Protection Fund	Seniors Fund	Other Governmental Fund	Total Governmental Funds
ASSETS					
Cash on deposit	\$ 946,015	\$ 254,579	\$ -	\$ 221,285	\$ 1,421,879
Accounts receivable	16,033	-	121,155	-	137,188
Due from other funds	121,155	-	-	-	121,155
Total assets	<u>\$ 1,083,203</u>	<u>\$ 254,579</u>	<u>\$ 121,155</u>	<u>\$ 221,285</u>	<u>\$ 1,680,222</u>
LIABILITIES					
Accounts payable	\$ 6,238	\$ 1,914	\$ -	\$ -	\$ 8,152
Due to other funds	-	-	121,155	-	121,155
Total liabilities	<u>6,238</u>	<u>1,914</u>	<u>121,155</u>	<u>-</u>	<u>129,307</u>
FUND BALANCE					
Restricted for:					
Fire protection	-	250,727	-	-	250,727
Emergency services	-	-	-	159,752	159,752
Corrections	-	-	-	12,729	12,729
Recreation services	-	-	-	3,499	3,499
Public safety	-	-	-	45,305	45,305
Debt service	-	1,938	-	-	1,938
Reserves	49,554	-	-	-	49,554
Committed	-	-	-	-	-
Assigned	-	-	-	-	-
Unassigned	1,027,411	-	-	-	1,027,411
Total fund balance	<u>1,076,965</u>	<u>252,665</u>	<u>-</u>	<u>221,285</u>	<u>1,550,915</u>
Total liabilities and fund balance	<u>\$ 1,083,203</u>	<u>\$ 254,579</u>	<u>\$ 121,155</u>	<u>\$ 221,285</u>	<u>\$ 1,680,222</u>

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, 2018

Statement 4

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

Total fund balances - governmental funds		\$ 1,550,915
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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	9,933,664	
Accumulated depreciation	<u>(7,524,826)</u>	
		2,408,838

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	(10,993)	
Loans payable	<u>(228,957)</u>	
		(239,950)

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		(192,372)
OPEB liability		(161,781)

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>16,464</u>
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Net position of governmental activities		<u><u>\$ 3,382,114</u></u>
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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, 2018

Statement 5

	General	Fire Protection Fund	Seniors Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 15,434	\$ -	\$ -	\$ -	\$ 15,434
Franchise taxes	8,506	-	-	-	8,506
Gas tax	18,787	-	-	-	18,787
MVD	23,894	-	-	-	23,894
Charges for services	200	-	-	26,192	26,392
Fines and forfeitures	4,248	-	-	2,080	6,328
Licenses and permits	1,028	-	-	-	1,028
Local sources	1,910	-	-	3,939	5,849
State sources	228,879	263,851	203,782	27,195	723,707
Federal sources	-	-	-	-	-
State shared taxes	170,090	-	-	-	170,090
Earnings from investments	173	300	-	42	515
Total revenues	473,149	264,151	203,782	59,448	1,000,530
EXPENDITURES					
Current:					
General government	152,817	-	-	-	152,817
Highways and streets	95,642	-	-	-	95,642
Public safety	66,372	53,452	-	37,075	156,899
Culture and recreation	40,775	-	872	378	42,025
Capital outlay	100,500	-	202,910	-	303,410
NMFA principal	-	41,568	-	-	41,568
NMFA interest	-	5,667	-	-	5,667
Total expenditures	456,106	100,687	203,782	37,453	798,028
Excess (deficiency) of revenue over expenditures	17,043	163,464	-	21,995	202,502
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Loan proceeds	-	-	-	-	-
Total other financing sources	-	-	-	-	-
Net change in fund balances	17,043	163,464	-	21,995	202,502
Fund balance beginning of year	1,059,922	89,201	-	199,290	1,348,413
Fund balance end of year	<u>\$ 1,076,965</u>	<u>\$ 252,665</u>	<u>\$ -</u>	<u>\$ 221,285</u>	<u>\$ 1,550,915</u>

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

STATE OF NEW MEXICO
VILLAGE OF MELROSE
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, 2018

Statement 6

Net change in fund balances - total governmental funds \$ 202,502

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 depreciation expense exceeds capital outlay in the period.

Depreciation expense	(340,405)	
Capital outlays	<u>303,410</u>	
Excess of depreciation expense over capital outlay		(36,995)

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 and OPEB expense.

Pension contributions		13,102
Pension expense		(31,036)
OPEB contributions		3,524
OPEB expense		(6,432)

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>41,568</u>	
		41,568

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>(5,054)</u>
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Change in net position of governmental activities \$ 181,179

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, 2018

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Taxes	\$ 15,283	\$ 15,952	\$ 15,792	\$ (160)
Franchise taxes	6,000	7,500	8,502	1,002
Gas taxes	19,900	19,900	18,431	(1,469)
MVD	14,700	23,470	22,119	(1,351)
Charges for services	13,250	13,350	200	(13,150)
Fines and forfeitures	12,500	12,500	4,248	(8,252)
Licenses and permits	1,035	1,165	1,028	(137)
Local sources	6,000	6,768	1,910	(4,858)
State sources	221,475	227,677	228,879	1,202
Federal sources	-	-	-	-
State shared taxes	178,800	179,300	169,261	(10,039)
Earnings from investments	200	200	173	(27)
Total revenues	<u>\$ 489,143</u>	<u>\$ 507,782</u>	<u>\$ 470,543</u>	<u>\$ (37,239)</u>
EXPENDITURES				
General government	\$ 228,689	\$ 210,512	\$ 149,465	\$ 61,047
Highways & Streets	244,079	249,922	95,642	154,280
Public safety	57,999	37,647	66,372	(28,725)
Culture and recreation	63,886	66,256	40,775	25,481
Capital outlay	-	-	100,500	(100,500)
Total expenditures	<u>\$ 594,653</u>	<u>\$ 564,337</u>	<u>\$ 452,754</u>	<u>\$ 111,583</u>
BUDGETED CASH BALANCE	<u>\$ 105,510</u>	<u>\$ 56,555</u>		

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, 2018

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
State sources	\$ 254,723	\$ 255,759	\$ 263,851	\$ 8,092
Earnings from investments	<u> -</u>	<u> -</u>	<u> 300</u>	<u> 300</u>
Total revenues	<u>\$ 254,723</u>	<u>\$ 255,759</u>	<u>\$ 264,151</u>	<u>\$ 8,392</u>
EXPENDITURES				
Public safety	\$ 165,514	\$ 171,630	\$ 99,833	\$ 71,797
Total expenditures	<u>\$ 165,514</u>	<u>\$ 171,630</u>	<u>\$ 99,833</u>	<u>\$ 71,797</u>

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

STATE OF NEW MEXICO
 VILLAGE OF MELROSE
 Special Revenue - Seniors Fund
 Statement of Revenues and Expenditures -
 Budget and Actual (Non-GAAP Budgetary Basis)
 Year Ended June 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES				
State sources	\$ 225,944	\$ 240,951	\$ 118,800	\$ (122,151)
Total revenues	<u>\$ 225,944</u>	<u>\$ 240,951</u>	<u>\$ 118,800</u>	<u>\$ (122,151)</u>
EXPENDITURES				
Culture and recreation	\$ 225,944	\$ 240,951	\$ 239,955	\$ 996
Total expenditures	<u>\$ 225,944</u>	<u>\$ 240,951</u>	<u>\$ 239,955</u>	<u>\$ 996</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, 2018

Statement 10

	Water Fund	Sewer Fund	Solid Waste Fund	Total
ASSETS				
Current Assets				
Cash on deposit	\$ 165,920	\$ 42,891	\$ 28,161	\$ 236,972
Accounts receivable (net)	<u>199,705</u>	<u>4,094</u>	<u>6,124</u>	<u>209,923</u>
Total Current Assets	<u>365,625</u>	<u>46,985</u>	<u>34,285</u>	<u>446,895</u>
Non-Current Assets				
Customer meter deposits	<u>9,244</u>	<u>-</u>	<u>-</u>	<u>9,244</u>
Total Non-Current Assets	<u>9,244</u>	<u>-</u>	<u>-</u>	<u>9,244</u>
Capital Assets				
Land	-	-	-	-
Land improvements	-	-	-	-
Buildings and Improvements	-	-	-	-
Equipment	23,017	66,180	129,978	219,175
Heavy equipment	8,675	9,175	8,175	26,025
Vehicles	4,000	2,598	5,000	11,598
Plant/infrastructure	2,398,848	1,862,519	-	4,261,367
Accumulated depreciation	<u>(1,173,366)</u>	<u>(1,388,669)</u>	<u>(135,580)</u>	<u>(2,697,615)</u>
Total Capital Assets	<u>1,261,174</u>	<u>551,803</u>	<u>7,573</u>	<u>1,820,550</u>
Total Assets	<u>\$ 1,636,043</u>	<u>\$ 598,788</u>	<u>\$ 41,858</u>	<u>\$ 2,276,689</u>
LIABILITIES				
Current Liabilities				
Accounts payable	\$ 187,212	\$ -	\$ 2,146	\$ 189,358
Customer meter deposits/utility aid payable from Restricted Assets	<u>9,244</u>	<u>-</u>	<u>-</u>	<u>9,244</u>
Total Current Liabilities	<u>196,456</u>	<u>-</u>	<u>2,146</u>	<u>198,602</u>
Long-Term Liabilities				
Compensated absences payable	<u>-</u>	<u>6,016</u>	<u>5,330</u>	<u>11,346</u>
Total Long-Term Liabilities	<u>-</u>	<u>6,016</u>	<u>5,330</u>	<u>11,346</u>
Total Liabilities	<u>196,456</u>	<u>6,016</u>	<u>7,476</u>	<u>209,948</u>
NET POSITION				
Net investment in capital assets	1,261,174	551,803	7,573	1,820,550
Unrestricted	<u>178,413</u>	<u>40,969</u>	<u>26,809</u>	<u>246,191</u>
Total Net Position	<u>1,439,587</u>	<u>592,772</u>	<u>34,382</u>	<u>2,066,741</u>
Total Liabilities and Net Position	<u>\$ 1,636,043</u>	<u>\$ 598,788</u>	<u>\$ 41,858</u>	<u>\$ 2,276,689</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, 2018

Statement 11

	Water Fund	Sewer Fund	Solid Waste Fund	Total
OPERATING REVENUES				
Sales and services	\$ 112,631	\$ 43,757	\$ 91,232	\$ 247,620
State shared taxes	<u>13,511</u>	<u>-</u>	<u>3,831</u>	<u>17,342</u>
Total operating revenue	<u>126,142</u>	<u>43,757</u>	<u>95,063</u>	<u>264,962</u>
OPERATING EXPENSES				
Personal services	14,797	51,324	58,568	124,689
Maintenance and operations	60,221	14,422	17,166	91,809
Major contractual services	-	-	20,427	20,427
Depreciation	<u>66,107</u>	<u>22,971</u>	<u>1,868</u>	<u>90,946</u>
Total operating expenses	<u>141,125</u>	<u>88,717</u>	<u>98,029</u>	<u>327,871</u>
Operating income (loss)	<u>(14,983)</u>	<u>(44,960)</u>	<u>(2,966)</u>	<u>(62,909)</u>
NON-OPERATING REVENUE (EXPENSE)				
Investment income	130	58	-	188
Investment expense	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
State grant	-	-	-	-
Federal grant	<u>447,138</u>	<u>-</u>	<u>-</u>	<u>447,138</u>
Total Non-Operating Revenue (Expense)	<u>447,268</u>	<u>58</u>	<u>-</u>	<u>447,326</u>
Change in Net Position	432,285	(44,902)	(2,966)	384,417
Total net position, beginning of year	<u>1,007,302</u>	<u>637,674</u>	<u>37,348</u>	<u>1,682,324</u>
Total net position, end of year	<u>\$ 1,439,587</u>	<u>\$ 592,772</u>	<u>\$ 34,382</u>	<u>\$ 2,066,741</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, 2018

Statement 12

	Water Fund	Sewer Fund	Solid Waste Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$ 113,069	\$ 43,489	\$ 92,772	\$ 249,330
Cash received from local sources	13,511	-	-	13,511
Cash received from State sources	-	-	3,812	3,812
Cash payments to employees and to suppliers for goods and services	<u>(75,975)</u>	<u>(60,280)</u>	<u>(92,915)</u>	<u>(229,170)</u>
Net cash provided by operating activities	<u>50,605</u>	<u>(16,791)</u>	<u>3,669</u>	<u>37,483</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Principal paid	-	-	-	-
Interest paid	-	-	-	-
Acquisition of capital assets	<u>(264,037)</u>	<u>(750)</u>	<u>-</u>	<u>(264,787)</u>
Net cash provided (used) by capital and related financing activities	<u>(264,037)</u>	<u>(750)</u>	<u>-</u>	<u>(264,787)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Cash received from state grants	-	-	-	-
Cash received from federal grants	262,238	-	-	262,238
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>262,238</u>	<u>-</u>	<u>-</u>	<u>262,238</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Investment income	<u>130</u>	<u>58</u>	<u>-</u>	<u>188</u>
Net cash provided by investing activities	<u>130</u>	<u>58</u>	<u>-</u>	<u>188</u>
Net increase (decrease) in cash	48,936	(17,483)	3,669	35,122
Cash, beginning of year	<u>116,984</u>	<u>60,374</u>	<u>24,492</u>	<u>201,850</u>
Cash, end of year	<u>\$ 165,920</u>	<u>\$ 42,891</u>	<u>\$ 28,161</u>	<u>\$ 236,972</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ (14,983)	\$ (44,960)	\$ (2,966)	\$ (62,909)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	66,107	22,971	1,868	90,946
Changes in assets and liabilities:				
(Increase) decrease in receivables	437	(268)	1,521	1,690
Increase (decrease) in accounts payable	595	(550)	(70)	(25)
Increase (decrease) in compensated absences	(2,422)	6,016	3,316	6,910
Change in Meter Deposit Payable	<u>871</u>	<u>-</u>	<u>-</u>	<u>871</u>
Net cash provided (used) by operating activities	<u>\$ 50,605</u>	<u>\$ (16,791)</u>	<u>\$ 3,669</u>	<u>\$ 37,483</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, 2018

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, 2018

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 *Seniors Fund* is 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. The authority is the three Capital Appropriation Project Grants.

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 purposed 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.

Notes to Financial Statements (continued)

T. Post Employment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the New Mexico Retiree Health Care Authority (NMRHCA) and additions to and deductions from NMRHCA's fiduciary net position have been determined on the same basis as they are reported by NMRHCA. For this purpose, NMRHCA recognizes benefit payments 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. The following is the Cash on Deposit at each financial institution.

American Heritage Bank		Checking	\$ 1,540,042
American Heritage Bank	CDBG	Checking	31,330
American Heritage Bank	Sewer	Savings	3,168
American Heritage Bank	Fire	Savings	25,063
American Heritage Bank	Water	Savings	48,494
American Heritage Bank	Cemetary	Savings	1,002
American Heritage Bank	Cemetary	Certificate of Deposit	9,365
American Heritage Bank	Water Meter	Certificate of Deposit	4,000
American Heritage Bank	Sewer	Certificate of Deposit	9,600
American Heritage Bank	General	Certificate of Deposit	43,371
			<u>\$ 1,715,435</u>
NM Finance Authority	Fire		\$ 1,579
NM Finance Authority	Fire		359
			<u>\$ 1,938</u>
Total amount on deposit			\$ 1,717,373
Deposit in transit			1,916
Outstanding checks			(51,194)
Total per financial statements			<u>\$ 1,668,095</u>

Notes to Financial Statements (continued)

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	\$ 1,715,435
Less <u>FDIC</u>	<u>(394,063)</u>
Uninsured funds	1,321,372
Funds needing collateralization at 50% (required by State Law)	660,686
Pledged collateral at June 30	<u>(1,500,000)</u>
Excess of Pledged Collateral	<u>\$ 839,314</u>

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, \$1,321,372 of the Village's bank balance \$1,715,435 was exposed to custodial credit risk as follows:

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>1,321,372</u>
Total	<u>\$ 1,321,372</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>
Baltimore MD #05922KYQ6	7-01-34	\$ 500,000
North Harris Cty TX #65956NGX8	12-15-34	500,000
South Carolina Public Svc. #837151RQ4	12-01-37	<u>500,000</u>
		<u>\$1,500.000</u>

The amount held at the New Mexico Finance Authority totaling \$1,938 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.

Notes to Financial Statements (continued)

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	\$ -	\$ 26,181
Less allowance for uncollectible accounts	<u>-</u>	<u>(2,377)</u>
Subtotal	-	23,804
Franchise taxes	610	-
Gross receipts taxes receivable	11,793	951
Property taxes receivable	-	-
Gas tax	1,854	-
MVD	1,776	-
Environmental gross receipts tax	-	268
Legislative appropriation	121,155	-
CDBG	<u>-</u>	<u>184,900</u>
 Total	 <u>\$ 137,188</u>	 <u>\$ 209,923</u>

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.

Notes to Financial Statements (continued)

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, 2017	Additions	Deletions	Balance June 30, 2018	Due Within One Year
Compensated absences	\$ 5,939	\$ 5,054	\$ -	\$ 10,993	\$ -
NMFA loan payable	270,525	-	41,568	228,957	42,893
	<u>\$ 276,464</u>	<u>\$ 5,054</u>	<u>\$ 41,568</u>	<u>\$ 239,950</u>	<u>\$ 42,893</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.

Due Year Ending June 30	Principal	Interest	Total
2019	\$ 38,342	\$ 2,760	\$ 41,102
2020	39,672	1,432	41,104
	<u>\$ 78,014</u>	<u>\$ 4,192</u>	<u>\$ 82,206</u>

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:

Year	Principal	Interest	Total
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
	<u>\$ 150,943</u>	<u>\$ 5,112</u>	<u>\$ 156,055</u>

Notes to Financial Statements (continued)

Enterprise Fund

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

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018	Due Within One Year
Compensated absences payable	<u>\$ 4,435</u>	<u>\$ 6,911</u>	<u>\$ -</u>	<u>\$ 11,346</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.

6. CAPITAL ASSETS

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

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018
Vehicles	\$ 11,598	\$ -	\$ -	\$ 11,598
Equipment	216,626	2,549	-	219,175
Heavy equipment	26,025	-	-	26,025
Buildings	-	-	-	-
Infrastructure	<u>3,814,228</u>	<u>447,139</u>	<u>-</u>	<u>4,261,367</u>
Total capital assets being depreciated	4,068,477	449,688	-	4,518,165
Less accumulated depreciation	<u>(2,606,669)</u>	<u>(90,946)</u>	<u>-</u>	<u>(2,697,615)</u>
Net capital assets	<u>\$ 1,461,808</u>	<u>\$ 358,742</u>	<u>\$ -</u>	<u>\$ 1,820,550</u>

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

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018
Vehicles	\$ 157,086	\$ -	\$ -	\$ 157,086
Equipment	249,760	11,986	-	261,746
Heavy equipment	2,330,725	-	-	2,330,725
Buildings	962,846	202,910	-	1,165,756
Infrastructure	<u>5,929,837</u>	<u>88,514</u>	<u>-</u>	<u>6,018,351</u>
Total capital assets being depreciated	9,630,254	303,410	-	9,933,664
Less accumulated depreciation	<u>(7,184,421)</u>	<u>(340,405)</u>	<u>-</u>	<u>(7,524,826)</u>
Net capital assets	<u>\$ 2,445,833</u>	<u>\$ (36,995)</u>	<u>\$ -</u>	<u>\$ 2,408,838</u>

Notes to Financial Statements (continued)

7. RECONCILIATION OF BUDGETARY BASIS TO GAAP BASIS STATEMENTS

<u>Revenues</u>	<u>General Fund</u>	<u>Fire Protection Fund</u>	<u>Seniors Fund</u>
Accrual basis	\$ 473,149	\$ 264,151	\$ 203,782
Budget basis	<u>470,543</u>	<u>264,151</u>	<u>118,800</u>
Increase (decrease) in receivables/ allowance for doubtful accounts	<u>\$ 2,606</u>	<u>\$ -</u>	<u>\$ 84,982</u>
 <u>Expenditures</u>			
Accrual basis	\$ 456,106	\$ 100,687	\$ 203,782
Budget basis	<u>452,754</u>	<u>99,833</u>	<u>239,955</u>
Increase (decrease) in compensated absences/payables	<u>\$ 3,352</u>	<u>\$ 854</u>	<u>\$ (36,173)</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'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.

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, unless specifically excluded.

Notes to Financial Statements (continued)

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

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

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

Notes to Financial Statements (continued)

PERA Contribution Rates and Pension Factors as of July 1, 2017						
	Employee Contribution Percentage		Employer Contribution Percentage	Pension Factor per year of Service		Pension Maximum as a Percentage of the Final Average Salary
	Annual Salary less than \$20,000	Annual Salary greater than \$20,000		TIER 1	TIER 2	
Coverage Plan						
STATE PLAN						
State Plan 3	7.42%	8.92%	16.99%	3.0%	2.5%	90%
MUNICIPAL PLANS 1 - 4						
Municipal Plan 1 (plan open to new employers)	7.0%	8.5%	7.4%	2.0%	2.0%	90%
Municipal Plan 2 (plan open to new employers)	9.15%	10.65%	9.55%	2.5%	2.0%	90%
Municipal Plan 3 (plan closed to new employers 6/95)	13.15%	14.65%	9.55%	3.0%	2.5%	90%
Municipal Plan 4 (plan closed to new employers 6/00)	15.65%	17.15%	12.05%	3.0%	2.5%	90%
MUNICIPAL POLICE PLANS 1 - 5						
Municipal Police Plan 1	7.0%	8.5%	10.40%	2.0%	2.0%	90%
Municipal Police Plan 2	7.0%	8.5%	15.40%	2.5%	2.0%	90%
Municipal Police Plan 3	7.0%	8.5%	18.90%	2.5%	2.0%	90%
Municipal Police Plan 4	12.35%	13.85%	18.90%	3.0%	2.5%	90%
Municipal Police Plan 5	16.3%	17.8%	18.90%	3.5%	3.0%	90%
MUNICIPAL FIRE PLANS 1 - 5						
Municipal Fire Plan 1	8.0%	9.5%	11.40%	2.0%	2.0%	90%
Municipal Fire Plan 2	8.0%	9.5%	17.9%	2.5%	2.0%	90%
Municipal Fire Plan 3	8.0%	9.5%	21.65%	2.5%	2.0%	90%
Municipal Fire Plan 4	12.8%	14.3%	21.65%	3.0%	2.5%	90%
Municipal Fire Plan 5	16.2%	17.7%	21.65%	3.5%	3.0%	90%
MUNICIPAL DETENTION OFFICER PLAN 1						
Municipal Detention Officer Plan 1	16.65%	18.15%	17.05%	3.0%	3.0%	90%
STATE POLICE AND ADULT CORRECTIONAL OFFICER PLANS, ETC.						
State Police and Adult Correctional Officer Plan 1	7.6%	9.1%	25.50%	3.0%	3.0%	90%
State Plan 3 - Peace Officer	7.42%	8.92%	16.99%	3.0%	3.0%	90%
Juvenile Correctional Officer Plan 2	4.78%	6.28%	26.12%	3.0%	3.0%	90%

Notes to Financial Statements (continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: Municipal General Division at June 30, 2018, the Village of Melrose reported a liability of \$192,372 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. The total pension liability was rolled-forward from the valuation date to the plan year ending June 30, 2017 using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date of June 30, 2017. There were no significant events or changes in benefit provision that required an adjustment to the roll-forward liabilities as of June 30, 2017. The Village of Melrose's proportion of the net pension liability was based on a projection of the Village of Melrose's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2017, the Village of Melrose's proportion was 0.0140%, which was increased 0.0014% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the Village of Melrose recognized pension expense of \$31,036. At June 30, 2018 the Village of Melrose reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions	\$ 8,871	\$ 1,988
Experience versus actual difference between projected and actual earnings on pension plan investments	7,559	9,853
Change in proportion	15,783	-
Village of Melrose's contributions subsequent to the measurement date	16,318	-
	<u>13,074</u>	<u>-</u>
Total	<u>\$ 61,605</u>	<u>\$ 11,841</u>

\$13,074 reported as deferred outflows of resources related to pensions resulting from Village of Melrose's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. 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:

2019	\$ 13,214
2020	21,900
2021	6,188
2022	(4,612)
2023	-

Notes to Financial Statements (continued)

Actuarial assumptions. The total pension liability in the June 30, 2017 actuarial valuation was determined using the following significant actuarial assumptions, applied to all periods included in the measurement:

PERA

Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay
Amortization period	Solved for based on statutory rates
Asset valuation method	4 Year Smoothed Market Value
Actuarial assumptions:	
- Investment rate of return	7.51% annual rate, net of investment expense
- Projected benefit payment	100 years
- Payroll growth	2.75% for the first 9 years, then 3.25% annual rate
- Projected salary increases	2.75% to 14.00% annual rate
- Includes inflation at	2.25% annual rate first 9 years
	2.75% all other years
- Mortality assumption	RP-2000 Mortality Tables

The total pension liability, net pension liability, and certain sensitivity information are based on an actuarial valuation performed as of June 30, 2016. The total pension liability was rolled-forward from the valuation date to the plan year ended June 30, 2017. These assumptions were adopted by the Board use in the June 30, 2016 actuarial valuation.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	43.50%	7.39%
Risk Reduction & Mitigation	21.50%	1.79%
Credit Oriented Fixed Income	15.00%	5.77%
Real Assets to include		
Real Estate Equity	<u>20.00%</u>	7.35%
Total	<u>100.00%</u>	

Notes to Financial Statements (continued)

Discount rate: A single discount rate of 7.51% was used to measure the total pension liability as of June 30, 2017. This single discount rate was based on a long-term expected rate of return on pension plan investments of 7.51%, compounded annually, net of expense. Based on the stated assumptions and the projection of cash flows, the plan's fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability.

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

Sensitivity of the Village of Melrose's proportionate share of the net pension liability to changes in the discount rate. The following presents the Village of Melrose's proportionate share of net pension liability calculated using the discount rate of 7.51%, as well as what the Village of Melrose's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.51%) or 1-percentage-point higher (8.51%) than the current rate:

PERA Fund Municipal General Division	1% Decrease (6.51%)	Current Discount Rate (7.51%)	1% Increase (8.51%)
	<hr/>	<hr/>	<hr/>
Village of Melrose's proportionate share of the net pension liability	\$ 301,510	\$ 192,372	\$ 101,608

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued FY17 Restated PERA financial report. The report is available at <http://www.pera.state.nm.us/publications.html>.

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

General Information about the OPEB

Plan Description - Employees of the Village are provided with OPEB through the Retiree Health Care Fund (the Fund) - a cost-sharing multiple-employer defined benefit OPEB plan administered by the New Mexico Retiree Health Care Authority (NMRHCA). NMRHCA was formed February 13, 1990, under the New Mexico Retiree Health Care Act (the Act) of New Mexico Statutes Annotated, as amended (NMSA 1978), to administer the Fund under Section 10-7C-1-19 NMSA 1978. The Fund was created to provide comprehensive group health insurance coverage for individuals (and their spouses, dependents and surviving spouses) who have retired or will retire from public service in New Mexico.

Notes to Financial Statements (continued)

NMRHCA is an independent agency of the State of New Mexico. The funds administered by NMRHCA are considered part of the State of New Mexico financial reporting entity and are OPEB trust funds of the State of New Mexico. NMRHCA's financial information is included with the financial presentation of the State of New Mexico.

Benefits provided. The Fund is a multiple employer cost sharing defined benefit healthcare plan that provides eligible retirees (including terminated employees who have accumulated benefits but are not yet receiving them), their spouses, dependents and surviving spouses and dependents with health insurance and prescription drug benefits consisting of a plan, or optional plans of benefits, that can be contributions to the Fund and by co-payments or out-of-pocket payments of eligible retirees.

Employees covered by benefit terms - At June 30, 2017, the Fund's measurement date, the following employees were covered by the benefit terms:

Plan membership	
Current retirees and surviving spouses	51,208
Inactive and eligible for deferred benefit	11,478
Current active members	97,349
	<u>160,035</u>
Active membership	
State general	19,593
State police and corrections	1,886
Municipal general	21,004
Municipal police	3,820
Municipal FTRE	2,290
Educational Retirement Board	48,756
	<u>97,349</u>

Contributions - Employer and employee contributions to the Fund total 3% for non-enhanced retirement plans and 3.75% of enhanced retirement plans of each participating employee's salary as required by Section 10-7C-15 NMSA 1978. The contributions are established by statute and are not based on an actuarial calculation. All employer and employee contributions are non-refundable under any circumstance, including termination of the employer's participation in the Fund. Contributions to the Fund from the Village were \$3,520 for the year ended June 30, 2018.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the Village reported a liability of \$161,781 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Village's proportion of the net OPEB liability was based on actual contributions provided to the Fund for the year ending June 30, 2017. At June 30, 2017, the Village's proportion was 0.00357%.

Notes to Financial Statements (continued)

For the year ended June 30, 2018, the Village recognized OPEB expense of \$6,432. At June 30, 2018 the Village reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 6,208
Changes of assumptions	-	28,285
Differences between actual and projected earnings on OPEB plan investments	-	2,327
Contributions made after the measurement date	<u>3,520</u>	<u>-</u>
Total	<u>\$ 3,520</u>	<u>\$ 36,820</u>

Deferred outflows of resources totaling \$3,062 represent the Village's contributions to the Fund made subsequent to the measurement date and will be recognized as a reduction of net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ended June 30:	
2019	\$ (7,828)
2020	(7,828)
2021	(7,828)
2022	(7,828)
2023	<u>(5,508)</u>
Total	<u>\$ (36,820)</u>

Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation using the following actuarial assumptions:

Valuation date	June 30, 2017
Actuarial cost method	Entry age normal, level percent of pay, calculated on individual employee basis
Asset valuation method	Market value of assets

Notes to Financial Statements (continued)

Actuarial assumptions:

Inflation	2.50% for ERB; 2.25% for PERA
Projected payroll increases	3.50%
Investment rate of return	7.25%, net of OPEB plan investment expense and margin for adverse deviation including inflation
Health care cost trend rate	8% graded down to 4.5% over 14 years for Non-Medicare medical plan costs and 7.5% graded down to 4.5% over 12 for Medicare medical plan costs

Rate of Return. The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which the expected future real rates of return (net of investment fees and inflation) are developed for each major asset class. These returns 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, adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumptions.

The best estimates for the long-term expected rate of return is summarized as follows:

<u>Asset Class</u>	<u>Long-Term Rate of Return</u>
US core fixed income	4.1%
US equity - large cap	9.1
Non US - emerging markets	12.2
Non US - developed equities	9.8
Private equity	13.8
Credit and structured finance	7.3
Real estate	6.9
Absolute return	6.1
US equity - small/mid cap	9.1

Discount rate. The discount rate used to measure the Fund's total OPEB liability is 3.81% as of June 30, 2017. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at rates proportional to the actuary determined contribution rates. For this purpose, employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries are not included. Based on those assumptions, the Fund's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members through the fiscal year ending June 30, 2028. Thus, the 7.25% discount rate was used to calculate the net OPEB liability through 2029. Beyond 2029, the index rate for 20-year, tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher. Thus, 3.81% is the blended discount rate.

Notes to Financial Statements (continued)

Sensitivity of the net OPEB liability to changes in the discount rate and healthcare cost trend rates. The following presents the net OPEB liability of the Village, as well as what the Village's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.81%) or 1-percentage-point higher (4.81%) than the current discount rate:

<u>1% Decrease</u> <u>(2.81%)</u>	<u>Current Discount</u> <u>(3.81%)</u>	<u>1% Increase</u> <u>(4.81%)</u>
\$ 196,238	\$ 161,781	\$ 134,746

The following presents the net OPEB liability of the Village, as well as what the Village's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage point higher than the current healthcare cost trend rates:

<u>1% Decrease</u>	<u>Current Trend</u> <u>Rates</u>	<u>1% Increase</u>
\$ 137,606	\$ 161,781	\$ 180,631

OPEB plan fiduciary net position. Detailed information about the OPEB plan's fiduciary net position is available in NMRHCA's audited financial statements for the year ended June 30, 2017.

Payable Changes in the Net OPEB Liability. At June 30, 2018, the Village reported a payable of \$0 for outstanding contributions due to NMRHCA for the year ended June 30, 2018.

10. DEPOSITS HELD FOR OTHERS, ENTERPRISE FUND

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

Hydrant Meter deposits \$ 9,244

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

Residential properties \$ 50
Commercial properties \$ 100

Notes to Financial Statements (continued)

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>Seniors Fund</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
<u>Nonspendable</u>					
Inventory	\$ -	\$ -	\$ -	\$ -	\$ -
Total nonspendable	-	-	-	-	-
<u>Restricted for:</u>					
Fire protection	-	250,727	-	-	250,727
Public safety	-	-	-	45,305	45,305
Emergency services	-	-	-	159,752	159,752
Recreation services	-	-	-	3,499	3,499
Corrections	-	-	-	12,729	12,729
State mandated cash reserves	49,554	-	-	-	49,554
Capital outlay	-	-	-	-	-
Debt service	-	1,938	-	-	1,938
Total restricted	49,554	252,665	-	221,285	523,504
<u>Committed to:</u>					
Other purposes	-	-	-	-	-
Total committed	-	-	-	-	-
<u>Unassigned:</u>	1,027,411	-	-	-	1,027,411
Total Fund Balances	\$ 1,076,965	\$ 252,665	\$ -	\$ 221,285	\$ 1,550,915

12. LEGISLATIVE APPROPRIATIONS

<u>Appropriation</u>	<u>Term</u>	<u>Amount</u>	<u>Remaining Balance</u>
Laws of 2016, Chapter 82 Section 10, Subsection A Paragraph 18	October 3, 2017 to June 30, 2021	\$ 136,000	\$ 15,464

<u>Appropriation</u>	<u>Term</u>	<u>Amount</u>	<u>Remaining Balance</u>
Laws of 2014, Chapter 65 Section 10, Subsection 10A Paragraph 29	November 20, 2015 to June 30, 2018	\$ 900	\$ 281

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

Notes to Financial Statements (continued)

13. SUBSEQUENT EVENTS

A review of subsequent events through April 4, 2019, the date the financial statements were available to be issued, indicated nothing of audit significance.

14. RESTATEMENT OF NET POSITION

The Village had a prior period adjustment of \$192,173 of which was required for the implementation of GASB Statement No. 75. The adjustment reflects a beginning net OPEB liability of \$195,235 and a beginning deferred outflow of resources of \$3,062.

15. TAX ABATEMENT

The Village of Melrose has evaluated GASB 77 with regard to tax abatements and has determined that the Village is not a party to any agreements that abate taxes.

NON-MAJOR FUNDS

NON-MAJOR SPECIAL REVENUE FUNDS

ALL FUNDS - All funds were created by management directive.

EMS (EMERGENCY MEDICAL SERVICES) FUND - To account for State revenues received to be used for emergency services within Village limits. Financing is provided from the State of New Mexico pursuant to the Emergency Medical Services Act (Authority is NMSA 24-10A-1).

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, 2018

Statement A-1

	EMS Fund	Law Enforcement Protection Fund	Recreation Fund	Cemetery Fund	Corrections Fund	Total
ASSETS						
Cash on deposit	\$ 159,752	\$ 27,129	\$ 3,499	\$ 18,176	\$ 12,729	\$ 221,285
Accounts receivable	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 159,752</u>	<u>\$ 27,129</u>	<u>\$ 3,499</u>	<u>\$ 18,176</u>	<u>\$ 12,729</u>	<u>\$ 221,285</u>
LIABILITIES						
Accounts payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE						
Restricted	<u>159,752</u>	<u>27,129</u>	<u>3,499</u>	<u>18,176</u>	<u>12,729</u>	<u>221,285</u>
Total fund balance	<u>159,752</u>	<u>27,129</u>	<u>3,499</u>	<u>18,176</u>	<u>12,729</u>	<u>221,285</u>
Total fund balance and liabilities	<u>\$ 159,752</u>	<u>\$ 27,129</u>	<u>\$ 3,499</u>	<u>\$ 18,176</u>	<u>\$ 12,729</u>	<u>\$ 221,285</u>

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, 2018

Statement A-2

	EMS Fund	Law Enforcement Protection Fund	Recreation Fund	Cemetery Fund	Corrections Fund	Totals
REVENUES						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Gas taxes	-	-	-	-	-	-
Charges for services	21,333	-	-	4,859	-	26,192
Licenses and permits	-	-	-	-	-	-
Fines and forfeitures	-	-	-	-	2,080	2,080
Local sources	2,487	-	-	-	-	2,487
State sources	7,195	20,000	-	1,452	-	28,647
Federal sources	-	-	-	-	-	-
Earnings from investments	-	-	-	42	-	42
Total revenues	31,015	20,000	-	6,353	2,080	59,448
EXPENDITURES						
Current:						
General government	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-
Public safety	24,393	897	-	6,785	5,000	37,075
Culture and recreation	-	-	378	-	-	378
Capital outlay	-	-	-	-	-	-
Total expenditures	24,393	897	378	6,785	5,000	37,453
Excess (deficiency) of revenues over expenditures	6,622	19,103	(378)	(432)	(2,920)	21,995
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
Loan proceeds	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-
Net change in fund balance	6,622	19,103	(378)	(432)	(2,920)	21,995
Fund balance, beginning of year	153,130	8,026	3,877	18,608	15,649	199,290
Fund balance, end of year	\$ 159,752	\$ 27,129	\$ 3,499	\$ 18,176	\$ 12,729	\$ 221,285

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*

Fiscal Year Measurement Date	2018 2017	2017 2016	2016 2015	2015 2014
Village of Melrose's proportion of net pension liability (asset)	0.0140%	0.01260%	0.01260%	0.01120%
Village of Melrose's proportionate share of the net pension liability (asset)	\$ 192,372	\$ 201,306	\$ 128,468	\$ 87,381
Village of Melrose's covered-employee payroll	\$ 176,003	\$ 158,308	\$ 139,135	\$ 135,739
Village of Melrose's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	109.30%	127.16%	92.33%	64.37%
Plan fiduciary net position as a percentage of the total pension liability	73.74%	69.18%	76.99%	81.29%

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

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*

	2018	2017	2016	2015
Contractually required contribution	\$ 13,074	\$ 11,714	\$ 10,296	\$ 10,045
Contributions in relation to the contractually required contribution	<u>(13,074)</u>	<u>(11,714)</u>	<u>(10,296)</u>	<u>(10,045)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Village of Melrose's covered-employee payroll	\$ 176,003	\$ 158,308	\$ 139,135	\$ 135,739
Contributions as a percentage of covered-employee payroll	7.4%	7.4%	7.4%	7.4%

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

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, 2018

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

Assumptions: The Public Employees Retirement Association of New Mexico Annual Actuarial Valuation as of June 2017 report is available at <http://www.nmpera.org/>

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

STATE OF NEW MEXICO
 VILLAGE OF MELROSE
 SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
 Retiree Health Care Authority (RHCA) OPEB Plan
 Last 10 Fiscal Years*

	<u>2018*</u>
Village of Melrose's proportion of net OPEB liability (asset)	0.00357%
Village of Melrose's proportionate share of the net OPEB liability (asset)	\$ 161,781
Village of Melrose's covered-employee payroll	\$ 176,003
Village of Melrose's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	91.92%
Plan fiduciary net position as a percentage of the total OPEB liability	11.34%

*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 will present information for available years.

See Independent Auditor's Report

STATE OF NEW MEXICO
 VILLAGE OF MELROSE
 SCHEDULE OF CONTRIBUTIONS
 Retiree Health Care Authority (RHCA) OPEB Plan
 Last 10 Fiscal Years*

	2018*
Contractually required contributions	\$ 3,520
Contributions in relation to the contractually required contribution	(3,520)
Contribution deficiency (excess)	\$ -
Village of Melrose's covered-employee payroll	\$ 176,003
Contribution as a percentage of covered-employee payroll	2.00%

*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 will present information for available years.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
 For the Year Ended June 30, 2018

Changes of assumptions: RHCA conducts an actuarial experience study for the Plan on a biennial basis. Based on the six-year actuarial experience study presented to the Board of Trustees on June 30, 2017, RHCA implemented the following changes in assumptions for fiscal years 2017 and 2016.

- 1) Fiscal year 2017 valuation assumptions that changed based on this study:
 - a. Lower Investment return from 7.75% to 7.25%
 - b. Lower Inflation rate from 3.00% to 2.50%
 - c. Minor changes to demographic assumptions
- 2) Assumptions that were not changed:
 - a. Population growth per year at 0.00%
 - b. Health care cost trend rate 8% graded down to 4.5% over 14 years for Non-Medicare medical plan costs and 7.5% graded down to 4.5% over 12 for Medicare medical plan costs.

See also the Note IV (c) Actuarial Assumptions of the financial statement note disclosure on the OPEB Plan.

See Independent Auditor's Report

OTHER SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO
 VILLAGE OF MELROSE
 Schedule of Changes in Assets
 and Liabilities - All Agency Funds
 Year Ended June 30, 2018

	Balances June 30, 2017	Additions	Deletions	Balances June 30, 2018
ASSETS				
Cash	\$ -	\$ 918	\$ 918	\$ -
Total assets	<u>\$ -</u>	<u>\$ 918</u>	<u>\$ 918</u>	<u>\$ -</u>
LIABILITIES				
Due to other agencies	\$ -	\$ 918	\$ 918	\$ -
Total liabilities	<u>\$ -</u>	<u>\$ 918</u>	<u>\$ 918</u>	<u>\$ -</u>

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

Rice and Associates, C.P.A.

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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. Brian Colon
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, Fire Protection and Senior Funds of the Village of Melrose, as of and for the year ended June 30, 2018 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 April 4, 2019.

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 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), Transactions for CDBG Fund Not on

Accounting System (2018-004), Cash Reconciliations (2018-009) and Violation of Anti-Donation Clause (2018-010) to be significant deficiencies.

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), Amounts Collected on Behalf of the State (2017-009), Receipts Not Voided (2018-001), Incorrect Postings (2018-002), CDBG File Not Complete (2018-003), Late Audit Report (2018-005), Transfers Between Bank Accounts Recorded a Transfer In/Out (2018-006), Ambulance Service Billings and Accounts Receivable (2018-007), Motor Vehicle Department Transactions (2018-008) and Presentation of the Audit Report in Open Session of a Council Meeting (2018-011).

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
April 4, 2019

STATUS OF FINDINGS AND RESPONSES

Prior Year Audit Findings:

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

Current Year Audit Findings:

1. Receipts Not Voided (2018-001)
2. Incorrect Postings (2018-002)
3. CDBG File Not Complete (2018-003)
4. Transactions for CDBG Fund Not on Accounting System (2018-004)
5. Late Audit Report (2018-005)
6. Transfers Between Bank Accounts Recorded as Transfer In/Out (2018-006)
7. Ambulance Service Billings and Accounts Receivable (2018-007)
8. Motor Vehicle Department Transactions (2018-008)
9. Cash Reconciliations (2018-009)
10. Violation of Anti-Donation Clause (2018-010)
11. Presentation of the Audit Report in Open Session of a Council Meeting (2018-011)

Chief Procurement Officer - Other Non-Compliance
(2017-001)

CONDITION	As of June 30, 2018, the Village did not have a Chief Procurement Officer. There was progress after the fiscal year end.
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, 2017 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	The Village Clerk will be responsible for correcting this finding. The Village Clerk attended the first available training class in October 2018. Clerk received certification at that time. This finding has now been resolved.

Purchase Orders Required - Other Non-Compliance

(2017-002)

CONDITION	The Village is not using Purchase Orders for all purchases made. There has been no progress in this area.
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 be responsible for correcting this finding. The Village Clerk/Chief Procurement Officer creates a purchase order for all purchases. This finding was resolved January 2019.

Transactions Made by Third Parties
Not Recorded on Books of Record - Finding that Does Not Rise
to the Level of Significant Deficiency
(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. There has been no progress in this area.
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 be responsible for correcting this finding. The new Village Clerk/Treasurer will ensure all amounts and transactions are properly recorded in books of record. This finding was resolved July 1, 2019.

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 has been no progress in this area.
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 be responsible for correcting this finding. In consultation with NM DFA analyst it was determined that a separate bank account is not necessary - "that is local autonomy" but a separate fund is required which is and has been in place (restricted cash). The water meter deposits will be reconciled to the restricted cash. This finding was resolved June 30, 2019.

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">1. Transfers shown are transfers between bank accounts not between funds.2. The balance in the CDBG bank account of \$31,330 was not reported.3. The Sewer Savings incorrectly shows a \$10 overdraft.4. The 299 Fund incorrectly shows \$10 in Savings for the Fire Fund.5. The Seniors Fund incorrectly shows a cash overdraft of \$2,035. <p>There has been only some progress in this area.</p>
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 be responsible for correcting this finding. The Village Clerk/Treasurer will coordinate with their NM DFA budget analyst to ensure reports are being prepared correctly and will continue to work closely with them. The Village Clerk/Treasurer will continue attending NM DFA's training and encourage management to attend. This finding was resolved June 30, 2019.</p>

Amounts Due to JEC and AOC - Other Non-Compliance
(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. There has been no progress in this area.
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 be responsible for correcting this finding. The Village Clerk resolved this issue beginning July 1, 2017. These amounts are collected, disbursed and reported in the Agency fund (Trust & Agency).

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. There has been no progress in this area.
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	The Village Clerk will be responsible for correcting this finding. The Village Clerk and Mayor/Council are reviewing possible new accounting software packages. This finding was resolved on July 1, 2019.

Receipts Not Voided - Finding that Does Not Rise
to the Level of Significant Deficiency
(2018-001)

CONDITION	During testing of receipts, six out of six receipts shown as voided did not have all copies attached.
CRITERIA	All voided receipts should have all copies attached. This ensures the receipt was not used.
CAUSE	Management was unaware of this procedure.
EFFECT	Revenues/cash receipts could be mishandled posted to the wrong fund or not receipted/reported correctly.
RECOMMENDATION	Staff needs to learn how to properly void a receipt and implement that procedure as soon as possible.
RESPONSE	The Village Clerk will be responsible for correcting this finding. The Village Clerk and Water Clerk attach all voided receipts to front page in receipt book. This finding was resolved July 1, 2018.

Incorrect Postings - Finding that Does Not Rise
to the Level of Significant Deficiency
(2018-002)

CONDITION	Staff paid a vendor with a check in the amount of \$18,313. The check was then returned by the vendor. Staff included this amount as not only an expenditure but also revenues when it was returned.
CRITERIA	Only actual payments and receipts are to be recorded as revenues and expenditures.
CAUSE	Prior staff did not understand how to post the return of this check.
EFFECT	Revenues and expenditures were overstated.
RECOMMENDATION	There is now new staff at the Village. The new staff should be trained on how to handle an incorrect payment to a vendor.
RESPONSE	The Village Clerk will be responsible for correcting this finding. The check should have been voided and will be in the future if this issue occurs again. This finding has been resolved.

CDBG File Not Complete - Finding that Does Not Rise
to the Level of Significant Deficiency
(2018-003)

CONDITION	The CDBG File did not have copies of all requests for reimbursement and the receipt of the monies requested.
CRITERIA	The CDBG file should be complete and include copies of all requests for reimbursement and receipt of all corresponding monies received.
CAUSE	Prior management did not ensure this file was complete.
EFFECT	It is possible that amounts requested may not be received or amounts that should have been requested, were not.
RECOMMENDATION	All construction projects should include all required documentation to ensure all requests have been correctly made and received by the new staff.
RESPONSE	The Village Clerk will be responsible for correcting this finding. The Village Clerk has attended CDBG training and will keep all necessary documentation in a CDBG file. This finding was resolved April 2019.

Transactions for CDBG Fund Not on Accounting System
- Significant Deficiency
(2018-004)

CONDITION	The Village has a separate CDBG Project that has its own bank account, however none of the expenditures or receipts of the CDBG grant are recorded on the Villages books of record. This includes \$233,203 in revenues and \$233,203 in expenditures. This includes \$31,330 in cash on the DFA quarterly report.
CRITERIA	According to DFA regulations all DFA quarterly reports must be prepared from the Villages books and records. This means all transactions of all funds must be recorded.
CAUSE	Neither prior management or new management was aware of this requirement.
EFFECT	A total of \$233,203 in revenues and \$233,203 in expenditures is not being recorded properly
RECOMMENDATION	Management should ensure that all transactions of all funds should be recorded as soon as the transaction occurs.
RESPONSE	The Village Clerk will be responsible for correcting this finding. The Village Clerk will ensure that all transactions, including finite projects, will be recorded immediately and properly in the Village books and records. This finding was resolved June 30, 2019.

Late Audit Report - Material Non-Compliance
(2018-005)

CONDITION	The audit report was submitted to the State Auditor after the required deadline of December 15, 2018.
CRITERIA	Village audits are required to be submitted to the State Auditor by December 15 as required by NMAC 2.2.2.9A(1)(d).
CAUSE	Management could not provide auditable financial statements to the auditing firm before the required deadline.
EFFECT	NMAC 2.2.2.9A(1)(d) was not followed.
RECOMMENDATION	Management needs to ensure all audits documents are submitted to the State Auditor's Office by the required deadline.
RESPONSE	This finding will be the responsibility of the Village Clerk. The accounting system has been changed beginning July 1, 2019 and will provide suitable financial statements. This finding was resolved July 1, 2019.

Transfers Between Bank Accounts Recorded as Transfers In/Out -
Other Non-Compliance
(2018-006)

CONDITION	Prior Management was incorrectly reporting transfers between bank accounts as transfers between funds. For example: An amount transferred from a savings account to a checking for the Water Fund of \$50,000 was recorded as a transfer In.
CRITERIA	Transfers between bank accounts are not the same as transfers between funds. Only transfers between funds are recorded on the DFA quarterly report.
CAUSE	Prior management was not adequately trained on how to record transfers between funds and transfers between bank accounts.
EFFECT	The books of record incorrectly shows an increase in resources by \$50,000.
RECOMMENDATION	New management should be trained on how to record transfers between bank accounts immediately.
RESPONSE	The Village Clerk will be responsible for correcting this finding. The Village Clerk/Treasurer will ensure transfers between bank accounts are recorded correctly. This finding was resolved June 30, 2019.

Ambulance Service Billings and Accounts Receivable -
Other Non-Compliance
(2018-007)

CONDITION	The Village is offering ambulance services. Management has obtained a firm which performs the credential services, billings and prepares accounts receivable. Management, however, is not 1. reconciling each "run" to the patient billings, 2. receiving a list of outstanding balances or "accounts receivable" each month, 3. only amounts received are being reported.
CRITERIA	All monies should be shown "gross" not "net" on the financial statements. Proper internal controls should be in place to account for all amounts due the Village (accounts receivable).
CAUSE	Management has not taken steps to ensure all procedures are in place so that the transactions of the EMS Fund are recorded and reported correctly.
EFFECT	Financial statement amounts may be understated, including accounts receivable, charges for services and expenditures.
RECOMMENDATION	Management should obtain the information from the EMS billing service each month. After all receivables are recorded, each "run" for the month should be reconciled to that list to ensure all patients have been billed.
RESPONSE	The Village Clerk will be responsible for correcting this finding. Management is putting procedures in place to properly track, reconcile, and record all monies for the volunteer EMS services. This finding was resolved July 1, 2019.

Motor Vehicle Department Transactions - Other Non-Compliance
(2018-008)

CONDITION Prior management was including MVD payments as revenues and expenditures in the General Fund (totaling \$22,119) for the fiscal year. Also, the December 2017 collections were never remitted to the NM Taxation and Revenue Department.

CRITERIA All pass through amounts collected on behalf of another Governmental Agency are to be recorded in a Trust and Agency Fund. Also, all amounts received should be remitted to that Agency by the end of the following month.

CAUSE Prior management was unaware of how these monies should be recorded and remitted.

EFFECT Management is incorrectly overstating (recording) \$22,119 of revenues and expenditures in the General Fund.

RECOMMENDATION The new management should be trained on how to record and remit these monies correctly as soon as possible.

RESPONSE The Village Clerk will be responsible for correcting this finding. The revenue in question are receipts from the state for taxes generated. The Village was not the fiscal agent for the state until February 25, 2019. Prior to that time, a local bank was the fiscal agent. When the Village took over the MVD, the receipts and disbursements handled on behalf of the state are in an agency fund.

Cash Reconciliations - Significant Deficiency
(2018-009)

CONDITION	<p>Management is not reconciling cash from the prior year and ensuring it matches beginning cash on the books of record in the new year.</p> <p>Examples are:</p> <ol style="list-style-type: none">1. Beginning cash (7-1-17) for the General Fund (checking account) was \$1,006,158, however ending cash (6-30-17) shown on the books of record is \$1,006,183. A \$25 difference.2. The cash balance in the Trust and Agency Fund - Meter Deposit included amounts for the AOC/JEC Traffic tickets - Agency Fund as of February, 2019. If reconciled to the bank account on June 30, 2018, this oversight would have been found.3. Prior Management was "plugging" the bank reconciliation for the General Fund by \$83.4. Management is including \$1,360 worth of outstanding checks that are over two years old.5. Management shows a transfer from one bank account in the amount of \$715 at 6-29-18, however, the corresponding Deposit in transit and receipt into the savings bank account is not recorded.
CRITERIA	<p>All reconciled bank accounts should agree to the books of record.</p>
CAUSE	<p>Management is not ensuring the bank reconciliations agree to the books of record.</p>
EFFECT	<p>Financial Statements, DFA quarterly reports and bank reconciliations are being misstated.</p>

RECOMMENDATION

Management should ensure all bank reconciliations agree to the books of record and the books of record are used to prepare the DFA quarterly report.

RESPONSE

The Village Clerk will be responsible for correcting this finding. The Village Clerk will ensure bank reconciliations agree with the books and are used to prepare the DFA quarterly report. This finding was resolved June 30, 2019.

Violation of Anti-Donation Clause - Significant Deficiency
(2018-010)

CONDITION	The Village purchased an electric can opener for the Senior Center in the amount of \$782. When the Village requested the reimbursement for the can opener, DFA disallowed the purchase through the grant. Thus, the General Fund of the Village had to absorb this expenditure. Because the Senior Center is run by a non-profit (501(c)3) the Village is bound by the Anti-Donation Clause to not purchase items for the Senior Center. So this purchase should not have been made.
CRITERIA	The Village should only allow purchases through the Grants awarded by the State/DFA.
CAUSE	Prior management did not submit the paperwork to DFA by the required deadline.
EFFECT	The General Fund made a purchase that was not budgeted. The prior Village management violated the Anti-Donation Clause.
RECOMMENDATION	All reimbursement requests should be submitted timely to the State of NM DFA.
RESPONSE	The Village Clerk will be responsible for correcting this finding. The Village Clerk will submit all reimbursement requests in a timely manner. Policies are in place to ensure this does not happen again. This finding was resolved June 30, 2019.

Presentation of the Audit Report in Open Session
of a Council Meeting - Other Non-Compliance
(2018-011)

CONDITION	Prior Village Management presented the audit report to the Council instead of complying with the SAO Rule 2.2.2.M(4).
CRITERIA	SAO Rule 2.2.2.M(4) states that "Once the audit report is officially released, the audit report shall be presented by the IPA, to a quorum at a meeting held in accordance with the Open Meetings Act."
CAUSE	Prior Management did not want the IPA to present the audit report.
EFFECT	A regulation of the SAO Rule was not complied with by management.
RECOMMENDATION	Village management should ensure this regulation is followed in the following fiscal year.
RESPONSE	The Mayor is responsible for this finding. The Mayor will ensure that audit reports are presented to a quorum of the Village Council by the IPA in accordance with the Open Meetings Act. This finding will be resolved when this audit is presented to the board.

FINANCIAL STATEMENT PREPARATION

The combining and individual fund financial statements and notes to the financial statements for the year ended, June 30, 2018 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 April 4, 2019 to discuss the current audit report. In attendance were Mr. Barry Green, Mayor, Ms. Khira Whitehead, City Clerk/Finance Officer, Ms. Pamela A. Rice, CPA and Mr. Antonio Lucero, Contract Auditors.