

# PORCH & ASSOCIATES LLC

---

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

VILLAGE OF MILAN, NEW MEXICO

Financial Statements, Supplementary Information  
and  
Independent Auditors' Report

June 30, 2017

VILLAGE OF MILAN, NEW MEXICO  
TABLE OF CONTENTS

	Page
<b>List of Principal Officials</b> .....	i
<b>Independent Auditor’s Report</b> .....	1
<b>Government-Wide Financial Statements</b>	
Statement of Net Position .....	5
Statement of Activities.....	6
<b>Fund Financial Statements</b>	
Balance Sheet – Governmental Funds .....	7
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position .....	8
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	9
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the Statement of Activities.....	10
Statement of Revenues and Expenditures - Budget and Actual – (Non-GAAP Budgetary Basis) General Fund.....	11
Statement of Net Position – Proprietary Funds.....	12
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds.....	13
Statement of Cash Flows – Proprietary Funds.....	14
Statement of Fiduciary Assets and Liabilities – Agency Funds .....	16
<b>Notes to Financial Statements</b> .....	17

VILLAGE OF MILAN, NEW MEXICO  
TABLE OF CONTENTS (CONTINUED)

	Page
<b>Supplemental Information</b>	
<i>Nonmajor Governmental Funds</i>	
Combining Balance Sheet.....	47
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances .....	50
<b>Required Supplementary Information</b>	
Schedule of the Village’s Proportionate Share of the Net Pension Liability of the Public Employees Retirement Association Plan’s Municipal General Division and Municipal Police Division – Last 10 Fiscal Years.....	53
Schedule of the Village’s Contributions to the Public Employees Retirement Association Plan’s Municipal General Division and Municipal Police Division – Last 10 Fiscal Years.....	54
Notes to Schedules of the Public Employees Retirement Association’s Plan Information.....	55
<b>Supplementary Information – Supporting Schedules</b>	
Schedule of Changes in Assets and Liabilities – Agency Funds .....	57
Schedule of Deposit Accounts .....	58
Schedule of Pledged Collateral.....	59
Schedule of Joint Powers Agreements.....	60

VILLAGE OF MILAN, NEW MEXICO  
TABLE OF CONTENTS (CONTINUED)

	Page
<b>Other Reports</b>	
Independent Auditor’s 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.....	61
Summary Schedule of Prior Audit Findings .....	63
Schedule of Other Findings as required by New Mexico State Statute, Section 12-6-5, NMSA 1978 .....	64
Exit Conference.....	71

**VILLAGE OF MILAN, NEW MEXICO**

**List of Principal Officials**

**June 30, 2017**

**Elected Officials**

George Knotts	Mayor
Orlando R. Gallegos	Mayor Pro-Tem
Vivian Brumbelow	Trustee
Helen M. Dayan	Trustee
Felix O. Gonzales	Trustee

**Administrative Officials**

Paul Pena	Village Manager
Denise M. Baca	Village Clerk

**Independent Auditor's Report**

Mr. Wayne Johnson, New Mexico State Auditor and  
Mr. George W. Knotts, Mayor and  
The Village Board of Trustees  
Village of Milan, 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 comparison for the general fund of the Village of Milan, New Mexico (Village), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the Village's nonmajor governmental funds presented as supplementary information, as defined by the Government Accounting Standards Board, in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2017, as listed in the table of contents.

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

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

**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 from 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.

Mr. Wayne Johnson, New Mexico State Auditor and  
Mr. George W. Knotts, Mayor and  
The Village Board of Trustees  
Village of Milan, New Mexico

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.

### **Basis for Qualified Opinion on the Business Type Activities**

As noted more fully in finding 2017-001, the Village's accounting for and internal controls over utility billing were inadequate such that it was not possible to perform an audit sufficient in scope to allow us to determine the correct balances for accounts receivable, sales tax payable, deposits payable, or charges for services.

### **Qualified Opinion**

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion on the Business Type Activities" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Business Type Activities of the Village as of June 30, 2017, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Unmodified 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 CDBG fund, and the aggregate remaining fund information of the Village of Milan, New Mexico, as of June 30, 2017, and the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Management has omitted management's discussion and analysis, that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by 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. Our opinion on the basic financial statements is not affected by this missing information.

Mr. Wayne Johnson, New Mexico State Auditor and  
Mr. George W. Knotts, Mayor and  
The Village Board of Trustees  
Village of Milan, New Mexico

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

*Other Information*

Our audit was conducted for the purpose of forming opinions the Village's financial statements, the combining and individual fund financial statements, and the budgetary comparisons. The schedules required by Section 2.2.2 NMAC, as listed in the Supplementary Information – Supporting Schedules section of the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules required by 2.2.2 NMAC are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the schedules required by 2.2.2 NMAC are fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Mr. Wayne Johnson, New Mexico State Auditor and  
Mr. George W. Knotts, Mayor and  
The Village Board of Trustees  
Village of Milan, New Mexico

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government auditing standards*, we have also issued our report dated December 13, 2017 on our consideration of the Village'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's internal control over financial reporting and compliance.

*Porch & Associates, LLC*

Albuquerque, New Mexico  
December 13, 2017

**VILLAGE OF MILAN, NEW MEXICO**  
**STATEMENT OF NET POSITION**  
**June 30, 2017**

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,999,437	1,357,570	3,357,007
Cash and cash equivalents - restricted	5	280,115	280,120
Receivables:			
Taxes:			
Gross receipts	83,541	1,846	85,387
Gasoline	14,641	-	14,641
Cibola Transit Authority	19,226	-	19,226
Property	11,276	-	11,276
Lodger's	433	-	433
Franchise	13,341	-	13,341
Due from other funds	-	70,893	70,893
Accounts receivable, net of allowance	-	258,072	258,072
Capital assets, not depreciated	3,356,549	2,445,735	5,802,284
Capital assets, net of accumulated depreciation	9,580,201	3,073,345	12,653,546
<b>Total assets</b>	<b>15,078,650</b>	<b>7,487,576</b>	<b>22,566,226</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows of resources related to pension	625,782	165,141	790,923
<b>LIABILITIES</b>			
Accounts payable	125,407	42,982	168,389
Accrued compensation and benefits	80,144	8,004	88,148
Interest payable	-	6,143	6,143
Deposits payable	-	64,828	64,828
Sales tax payable	-	88,865	88,865
Escheatment payable	-	309	309
Due to other funds	-	72,580	72,580
Compensated absences, due in one year	30,173	6,610	36,783
Compensated absences, due in more than one year	10,058	-	10,058
Long-term liabilities, due in one year	57,258	148,791	206,049
Long-term liabilities, due in more than one year	574,322	781,234	1,355,556
Net pension liability	1,758,828	459,141	2,217,969
<b>Total liabilities</b>	<b>2,636,190</b>	<b>1,679,487</b>	<b>4,315,677</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows of resources related to pensions	17,269	4,557	21,826
<b>NET POSITION</b>			
Net investment in capital assets	12,305,170	4,589,055	16,894,225
Restricted for capital projects	473,631	-	473,631
Restricted for debt service	22,425	-	22,425
Unrestricted	249,747	1,379,618	1,629,365
<b>Total net position</b>	<b>\$ 13,050,973</b>	<b>5,968,673</b>	<b>19,019,646</b>

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

**VILLAGE OF MILAN, NEW MEXICO**  
**STATEMENT OF ACTIVITIES**  
**Year Ended June 30, 2016**

<b>Functions/Programs</b>	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total
<b>Primary government</b>							
Governmental activities							
General government	\$ 1,198,151	50,929	90,000	-	(1,057,222)	-	(1,057,222)
Public safety	1,178,093	40,268	281,700	-	(856,125)	-	(856,125)
Highways and streets	667,382	-	253,557	1,408,726	994,901	-	994,901
Culture and recreation	497,054	-	-	-	(497,054)	-	(497,054)
<b>Total governmental activities</b>	<u>3,545,164</u>	<u>91,197</u>	<u>625,257</u>	<u>1,408,726</u>	<u>(1,419,984)</u>	<u>-</u>	<u>(1,419,984)</u>
Business-type activities							
Joint Utility	1,637,355	1,503,391	-	-	-	(133,964)	(133,964)
<b>Total primary government</b>	<u>\$ 5,182,519</u>	<u>1,594,588</u>	<u>625,257</u>	<u>1,408,726</u>	<u>(1,419,984)</u>	<u>(133,964)</u>	<u>(1,553,948)</u>
General Revenues:							
Gross receipts taxes					1,596,087	20,554	1,616,641
Gasoline taxes					169,269	-	169,269
Property taxes					226,179	-	226,179
Motor vehicle registrations					19,107	-	19,107
Lodger's taxes					3,148	-	3,148
Franchise taxes					76,943	-	76,943
Rentals					37,233	-	37,233
Interest					1,477	53	1,530
Other					37,055	(300)	36,755
Forgiven debt					-	32,938	32,938
<b>Total general revenues and transfers</b>					<u>2,166,498</u>	<u>53,245</u>	<u>2,219,743</u>
<b>Change in net position</b>					<u>746,514</u>	<u>(80,719)</u>	<u>665,795</u>
Net position, beginning of year					12,326,859	6,049,392	18,376,251
Restatement					(22,400)	-	(22,400)
Net position, beginning of year, as restated					<u>12,304,459</u>	<u>6,049,392</u>	<u>18,353,851</u>
<b>Net position, end of year</b>					<u>\$ 13,050,973</u>	<u>5,968,673</u>	<u>19,019,646</u>

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

**VILLAGE OF MILAN, NEW MEXICO**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**June 30, 2017**

	General	Co-Op Street Improvements	Nonmajor Governmental Funds	Total
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,104,110	536,403	358,924	1,999,437
Cash and cash equivalents - restricted	-	-	5	5
Receivables:				
Taxes:				
Gross receipts	83,541	-	-	83,541
Gasoline	1,691	-	12,950	14,641
Cibola Transit Authority	19,226	-	-	19,226
Property	11,247	-	29	11,276
Lodger's	-	-	433	433
Franchise	13,341	-	-	13,341
Due from other funds	159,849	-	-	159,849
<b>Total assets</b>	<b>\$ 1,393,005</b>	<b>536,403</b>	<b>372,341</b>	<b>2,301,749</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 49,160	62,772	13,475	125,407
Accrued compensation and benefits	77,001	-	3,143	80,144
Due from other funds	158,573	-	2,325	160,898
<b>Total liabilities</b>	<b>284,734</b>	<b>62,772</b>	<b>18,943</b>	<b>366,449</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue - property taxes	8,955	-	-	8,955
<b>FUND BALANCES</b>				
Restricted for:				
Special revenue funds	-	-	330,973	330,973
Capital projects funds	-	473,631	-	473,631
Debt service funds	-	-	22,425	22,425
Unassigned	1,099,316	-	-	1,099,316
<b>Total fund balances</b>	<b>1,099,316</b>	<b>473,631</b>	<b>353,398</b>	<b>1,926,345</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,393,005</b>	<b>536,403</b>	<b>372,341</b>	<b>2,301,749</b>

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

**VILLAGE OF MILAN, NEW MEXICO**  
**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF NET POSITION**  
**June 30, 2017**

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

<b>Total fund balance - governmental funds</b>	\$ 1,926,345
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	12,936,750
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.	8,955
Accrued compensated absences not payable from current revenues.	(40,231)
Long-term liabilities, including the net pension liability, are not and payable in the current period and, therefore are not reported in the governmental fund.	(2,390,408)
The difference in due to/due from accounts is expensed in the entity wide financial statements.	1,049
Deferred outflows of resources related to pension are not due and payable in the current period and, therefore, are not reported in the governmental funds.	625,782
Deferred inflows of resources related to pensions are not received in the current period and, therefore, are not reported in the governmental funds.	<u>(17,269)</u>
<b>Net position - governmental activities</b>	<u><u>\$ 13,050,973</u></u>

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

**VILLAGE OF MILAN, NEW MEXICO**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES -**  
**GOVERNMENTAL FUNDS**  
**Year Ended June 30, 2017**

	General	Co-Op Street Improvements	Nonmajor Governmental Funds	Total
<b>Revenues</b>				
Taxes	\$ 1,957,857	-	173,971	2,131,828
Licenses, permits, fees, and fines	50,929	-	40,268	91,197
From federal sources:				
Grants	-	-	240,608	240,608
From non-federal sources:				
Grants	253,557	1,168,118	22,400	1,444,075
Intergovernmental	90,000	-	259,300	349,300
Rental	37,233	-	-	37,233
Interest	1,093	303	81	1,477
Other	34,638	-	2,417	37,055
<b>Total revenues</b>	<b>2,425,307</b>	<b>1,168,421</b>	<b>739,045</b>	<b>4,332,773</b>
<b>Expenditures</b>				
<b>Current</b>				
General government	1,184,745	3,631	1,591	1,189,967
Public safety	902,980	-	106,543	1,009,523
Highways and streets	221,306	64,127	210,262	495,695
Culture and recreation	412,491	-	497	412,988
Debt service - principal	22,010	-	33,370	55,380
Debt service - interest	1,123	-	3,361	4,484
Capital outlay	204,886	1,322,821	541,676	2,069,383
<b>Total expenditures</b>	<b>2,949,541</b>	<b>1,390,579</b>	<b>897,300</b>	<b>5,237,420</b>
Deficiency of revenues over expenditures before other financings sources	(524,234)	(222,158)	(158,255)	(904,647)
<b>Other Financing Sources (Uses)</b>				
Proceeds from the issuance of debt	-	480,000	-	480,000
Operating transfers out	(40,000)	-	40,000	-
<b>Total other financing sources (uses)</b>	<b>(40,000)</b>	<b>480,000</b>	<b>40,000</b>	<b>480,000</b>
<b>Net change in fund balances</b>	<b>(564,234)</b>	<b>257,842</b>	<b>(118,255)</b>	<b>(424,647)</b>
Fund balance, beginning of year	1,663,550	215,789	494,053	2,373,392
Restatement	-	-	(22,400)	(22,400)
Fund balance, beginning of year, as restated	1,663,550	215,789	471,653	2,350,992
<b>Fund balance, end of year</b>	<b>\$ 1,099,316</b>	<b>473,631</b>	<b>353,398</b>	<b>1,926,345</b>

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

**VILLAGE OF MILAN, NEW MEXICO  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
Year Ended June 30, 2017**

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

**Net changes in fund balances - governmental funds** \$ (424,647)

Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay in the current period.

Depreciation expense	(464,087)	
Capital outlay	2,141,484	
Excess of depreciation over capital outlay		1,677,397

The issuance of long-term debt (e.g., capital leases) provides current financial resources to governmental funds, but has no effect on net position. (480,000)

The repayment of the principal of capital loans consumes the current financial resources of governmental funds, but has no effect on net position. 55,380

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (41,095)

The difference in due to/due from accounts is expensed in the entity wide financial statements. 1,049

Accrued compensated absences are expensed under the accrual method, and not the modified accrual method. 20,266

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

Change in net pension liability and the related deferred inflows and deferred inflows of resources related to pensions		(61,836)
--	--	----------

**Change in net position - governmental activities** \$ 746,514

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

**VILLAGE OF MILAN, NEW MEXICO**  
**STATEMENT OF REVENUES AND EXPENDITURES -**  
**BUDGET AND ACTUAL - (NON-GAAP BUDGETARY BASIS)**  
**GENERAL FUND**  
**Year Ended June 30, 2017**

	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 2,391,713	2,391,713	2,187,515	(204,198)
Licenses, permits, fees, and fines	66,100	66,100	50,929	(15,171)
Grants	5,000	5,000	253,557	248,557
Intergovernmental	90,000	90,000	90,000	-
Rental	-	-	37,233	37,233
Interest	1,750	1,750	1,093	(657)
Other	1,421,131	1,421,131	34,638	(1,386,493)
<b>Total revenues</b>	<b>3,975,694</b>	<b>3,975,694</b>	<b>2,654,965</b>	<b>(1,320,729)</b>
Expenditures				
General government	1,300,378	1,300,378	1,184,745	115,633
Public safety	925,031	925,031	898,961	26,070
Highways and streets	-	-	221,306	(221,306)
Culture and recreation	861,936	861,936	412,491	449,445
Debt service - principal	-	-	22,010	(22,010)
Debt service - interest	-	-	1,123	(1,123)
Capital outlay	756,940	756,940	204,886	552,054
<b>Total expenditures</b>	<b>3,844,285</b>	<b>3,844,285</b>	<b>2,945,522</b>	<b>898,763</b>
Deficiency of revenues over expenditures	131,409	131,409	(290,557)	(421,966)
Other financing sources (uses)				
Operating transfers in	7,000	7,000	-	(7,000)
Operating transfers out	(40,000)	(33,000)	(40,000)	(7,000)
<b>Total other financing         sources (uses)</b>	<b>(33,000)</b>	<b>(26,000)</b>	<b>(40,000)</b>	<b>(14,000)</b>
Net change in fund balance	\$ 98,409	105,409	(330,557)	(435,966)
Prior year cash appropriated			330,557	
			-	
Budgetary revenues			\$ 2,654,965	
Change in taxes receivable			(229,658)	
GAAP revenues			\$ 2,425,307	
Budgetary expenditures			\$ 2,945,522	
Changes in accounts payable			700	
Changes in accrued compensation and benefits			3,319	
GAAP expenditures			\$ 2,949,541	

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



**VILLAGE OF MILAN, NEW MEXICO**  
**STATEMENT OF NET POSITION -**  
**PROPRIETARY FUND - JOINT UTILITY**  
**June 30, 2017**

**ASSETS**

Current Assets

Cash and cash equivalents	\$ 1,357,570
Accounts receivable, net of allowance	258,072
Taxes receivable	1,846
Due from other funds	70,893
<b>Total current assets</b>	<u>1,688,381</u>

Noncurrent Assets

Restricted cash and cash equivalents	280,115
Capital assets, net of accumulated depreciation	5,519,080
<b>Total noncurrent assets</b>	<u>5,799,195</u>
<b>Total assets</b>	<u>7,487,576</u>

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred outflows of resources related to pensions	<u>165,141</u>
--	----------------

**LIABILITIES AND NET POSITION**

Current Liabilities

Accounts payable	42,982
Accrued compensation and benefits	8,004
Interest payable	6,143
Deposits payable	64,828
Sales tax payable	88,865
Escheatment payable	309
Due to other funds	72,580
Compensated absences	6,610
Long-term debt	148,791
<b>Total current liabilities</b>	<u>439,112</u>

Noncurrent Liabilities

Long-term debt, less current maturities	781,234
Net pension liability	459,141
<b>Total noncurrent liabilities</b>	<u>1,240,375</u>
<b>Total liabilities</b>	<u>1,679,487</u>

**DEFERRED INFLOWS OF RESOURCES**

Deferred inflows of resources related to pensions	<u>4,557</u>
---	--------------

Net Position

Net investments in capital assets	4,589,055
Unrestricted	1,379,618
<b>Total net position</b>	<u>\$ 5,968,673</u>

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

**VILLAGE OF MILAN, NEW MEXICO  
STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN FUND NET POSITION -  
PROPRIETARY FUND - JOINT UTILITY  
Year Ended June 30, 2017**

Operating Revenues	
Charges for services	\$ 1,487,087
Late charges	16,304
<b>Total operating revenues</b>	<u>1,503,391</u>
Operating Expenses	
Operating expenses	1,367,099
Depreciation	231,820
<b>Total operating expenses</b>	<u>1,598,919</u>
Operating Loss	<u>(95,528)</u>
Nonoperating Revenues (Expenses)	
Interest income	53
Interest expense	(38,436)
Gross receipts tax	20,554
Other income (expense)	(300)
Forgiven debt	32,938
<b>Total nonoperating revenues (expenses)</b>	<u>14,809</u>
<b>Change in net position</b>	(80,719)
Net position, beginning of year	<u>6,049,392</u>
<b>Net position, end of year</b>	<u><u>\$ 5,968,673</u></u>

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

**VILLAGE OF MILAN, NEW MEXICO**  
**STATEMENT OF CASH FLOWS -**  
**PROPRIETARY FUND - JOINT UTILITY**  
**Year Ended June 30, 2017**

Cash Flows From Operating Activities	
Cash received from customers	\$ 1,527,018
Cash payments to vendors and employees	(1,287,096)
<b>Net cash provided by operating activities</b>	<u>239,922</u>
Cash Flows From Noncapital and Related Financing Activities	
Gross receipts tax	18,708
Other expense	(300)
Net change in due to/due from balances	(2,456)
<b>Net provided by noncapital financing activities</b>	<u>15,952</u>
Cash Flows From Capital and Related Financing Activities	
Purchase of capital assets	(49,806)
Principle payment on debt	(164,311)
Interest payment on debt	(43,736)
<b>Net cash used by capital and related financing activities</b>	<u>(257,853)</u>
Cash Flows From Investing Activities	
Interest income	<u>53</u>
<b>Net change in cash and cash equivalents</b>	(1,926)
Cash, beginning of year	<u>1,639,611</u>
<b>Cash, end of year</b>	<u><u>\$ 1,637,685</u></u>

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

**VILLAGE OF MILAN, NEW MEXICO**  
**STATEMENT OF CASH FLOWS -**  
**PROPRIETARY FUND - JOINT UTILITY (CONTINUED)**  
**Year Ended June 30, 2017**

	Joint Utilities
Operating loss	\$ (95,528)
Adjustments to reconcile operating income to net cash flows:	
Depreciation expense	231,820
Changes in assets and liabilities:	
Accounts receivable	23,627
Other assets	683
Deferred outflows of resources	(148,129)
Accounts payable	(115,592)
Accrued compensated and benefits	(970)
Deposits payable	3,855
Sales tax payable	88,865
Escheatment payable	309
Compensated absences	(3,620)
Net pension liability	256,006
Deferred inflows of resources	(1,404)
<b>Net cash provided by operating activities</b>	<u><u>\$ 239,922</u></u>

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

**VILLAGE OF MILAN, NEW MEXICO**  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES -**  
**AGENCY FUNDS**  
**June 30, 2017**

**ASSETS**

Current assets	
Cash and cash equivalents	\$ 6,287
<b>Total assets</b>	<u><u>\$ 6,287</u></u>

**LIABILITIES**

Current liabilities	
Due to other entities	\$ 6,287
<b>Total liabilities</b>	<u><u>\$ 6,287</u></u>

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

**VILLAGE OF MILAN, NEW MEXICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Nature of Entity. The Village of Milan (Village) was incorporated under provisions Chapter 3, Article 2, NMSA 1978. The Village operates under Mayor-Trustee-Manager form of government and provides the following services as provided for by law public safety (police and fire), highways and streets, sanitation, health and social services, culture and recreation, public works, planning and zoning, economic development and general administrative services.

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

**A. Financial Reporting Entity**

The Village Board of Trustees (Board) is elected by the public and has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the Village is a financial reporting entity as defined by the Governmental Accounting Standard Board (GASB) in its Statement No. 14, "The Financial Reporting Entity." There are no component units included within the reporting entity as defined by Statement No. 14.

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) 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 normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The Statement of 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 operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and enterprise funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**VILLAGE OF MILAN, NEW MEXICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(CONTINUED)**

**A. Financial Reporting Entity (Continued)**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Enterprise 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 proprietary fund's principle ongoing operations.

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 recorded.

Governmental 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. For this purpose, the Village considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is made.

The Village follows the following revenue recognition principles applied to nonexchange transactions which are in accordance with GASB *Statement 33, Accounting and Reporting for Nonexchange Transactions*:

*Derived tax revenues* are recognized as revenue in the period when the underlying exchange transaction has occurred and the resources are available. Derived tax revenues include gross receipts tax, gasoline taxes, and cigarette taxes.

*Imposed nonexchange revenues – property taxes* are levied and collected by the Cibola County treasurer on behalf of the Village. The taxes are levied in November and payable in two installments, November 10<sup>th</sup> and May 10<sup>th</sup>. The County remits to the Village a percentage of the collections made during the month. Taxes are considered delinquent and subject to lien, penalty, and interest 60 days after the date on which they are due.

**VILLAGE OF MILAN, NEW MEXICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(CONTINUED)**

**A. Financial Reporting Entity (Continued)**

*Imposed nonexchange revenue other than property taxes* are recognized in the period when an enforceable legal claim has arisen and the resources are available.

*Government-mandated nonexchange transactions and voluntary nonexchange transactions* are recognized when all applicable eligibility requirements have been met and the resources are available. These include grant revenues, state shared taxes and intergovernmental revenue. Grant revenues are recognized as revenues when the related costs are incurred.

Other revenues susceptible to accrual are investment income and charges for services. All other revenues are recognized when they are received and are not susceptible to accrual because they are usually not measurable until payment is actually received.

The Village reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise when resources are received by the Village before it has legal claim to the resources, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods when both revenue recognition criteria are met, or when the Village has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

The Village reports the following major governmental funds:

*General Fund.* The general fund is the Village’s primary operating fund. It accounts for all the financial resources of the general government, except those required to be accounted for in another fund.

*Co-Op Street Improvements* The fund is used to account for costs associated with the improvements to the Village streets. Funding is primarily received through cooperative agreements with the State of New Mexico and grants.



**VILLAGE OF MILAN, NEW MEXICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(CONTINUED)**

**A. Financial Reporting Entity (Continued)**

Proprietary funds are accounted for on the flow of economic resources measurement focus (all assets and all liabilities associated with the operation of these funds are included on the balance sheet) and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The Village applies all applicable GASB pronouncements in accounting and reporting for its proprietary operations.

Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The Village reports the following major proprietary funds:

*Joint Utility Enterprise Fund.* The fund accounts for the provision of water, wastewater, and solid waste services to the residents of the Village. All activities necessary to provide such services are accounted for in this fund including, but not limited to administration, operations, maintenance, billing, and collection.

**B. Cash and Cash Equivalents**

Cash and cash equivalents include amounts in demand deposits, money market funds, and certificates of deposit. Cash deposits are reported at carrying amount, which reasonably estimates fair value.

All investments are stated at fair value that is determined by using selected bases. Interest income, realized gains and losses on investment transactions, and amortization of premiums/discounts on investment purchases are included for financial statement purposes as investment income and are allocated to participating funds based on the specific identification of the source of funds for a given investment.

The Village does not have an investment policy. Village funds are invested in accordance with New Mexico State Statute 6-10-36 which provides for the following investments:

1. United States Treasury Securities (Bills, Notes and Bonds) and other securities issued by the United States government or its agencies or instrumentalities that are either direct obligations of the United States of America, the Federal Home Loan Mortgage Corp., the Federal National Mortgage Association, the Federal Farm Credit Bank, or the Student Loan Marketing Association, or are backed by the full faith and credit of the United States government.

**VILLAGE OF MILAN, NEW MEXICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(CONTINUED)**

**B. Cash and Cash Equivalents (Continued)**

2. Insured and/or collateralized (with U.S. Government Securities and/or New Mexico Bonds) certificates of deposit of banks, savings and loan associations, and
3. credit unions, pursuant to State Board of Finance Collateral Policies.
4. Money market funds whose portfolios consist entirely of United States Government Securities or agencies sponsored by the United States government.
5. Investments in the New Mexico State Treasurer external investment pool (Local Government Investment Pool).

**C. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond the year-end are recorded as prepaid items.

**D. Capital Assets**

Capital assets, which include software, library books, 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 Village as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

Governmental Accounting Standards Board (GASB) 34 *Basic Financial Statements and Managements Discussion and Analysis for State and Local Governments* allows phase III governments an exemption from the retroactive application of the capitalization requirements to major general infrastructure assets. The Village has elected to not retroactively record infrastructure assets.

Assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

**VILLAGE OF MILAN, NEW MEXICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(CONTINUED)**

**D. Capital Assets (Continued)**

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Improvements other than buildings	10 - 50 years
Buildings and structures	30 years
Machinery and equipment	5 - 50 years
Furniture and fixtures	5 - 30 years
Infrastructure	5 - 50 years

Capital Assets in proprietary funds are depreciated using the straight-line method over the estimated useful lives of the assets as follows:

Buildings and other improvements	25 - 33 years
Water and sewer system	20 - 50 years
Machinery and equipment	5 - 10 years

The Audit Act, 12-6-10, NMSA 1978, requires all assets which cost more than \$5,000 and have a life greater than one year to be added to the General Fixed Asset Account Group and a yearly inventory of those assets must be taken.

**E. Intangible Assets**

Under Statement of ASC 350, *Intangibles - Goodwill and Other*, intangible assets with indefinite lives are no longer amortized. Indefinite lived intangible assets, such as water rights, are tested for impairment on an annual basis. There were no intangible assets at year-end.

**F. Deferred Inflows of Resources**

In addition to liabilities, the statement of financial position will sometimes report 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 future periods and so will not be recognized as an inflow of resources (revenue) until that time. The Village has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

**VILLAGE OF MILAN, NEW MEXICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(CONTINUED)**

**G. Pensions – Deferred Inflows and Deferred Outflows or Resources**

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 the payable in accordance with the benefit terms. Investments are reported at fair value.

**H. Accrued Employee Benefits**

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the general long-term debt account group. No expenditure is reported for these amounts. Vested or accumulated vacation leave for proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees.

**I. Fund Balances**

The Village follows GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Nonspendable fund balance—amounts that are in nonspendable form (such as inventory) or are required to be maintained intact.
- Restricted fund balance—amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance—amounts constrained to specific purposes by the Village itself, using its highest level of decision-making authority (i.e., Village Council). To be reported as committed, amounts cannot be used for any other purpose unless the Village takes the same highest-level action to remove or change the constraint.

**VILLAGE OF MILAN, NEW MEXICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(CONTINUED)**

**I. Fund Balances (Continued)**

- Assigned fund balance—amounts the Village intends to use for a specific purpose. Intent can be expressed by the Village Council or by an official or body to which the Village Council delegates the authority.
- Unassigned fund balance—amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The Village Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by the Village Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Village considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Village considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Village Council have provided otherwise in its commitment or assignment actions.

**Major Funds**

The Village's Co-Op Street Improvements fund has fund balances restricted to the improvement of Village roads.

**Other Funds**

*Restricted Fund Balances.* The Corrections, Fire Protection, Law Enforcement Protection, Lodger's Tax Reserve, Municipal Streets, Recreation, and Debt Service funds have fund balances restricted due to enabling legislation or debt agreements. The purpose of each fund and reference to the enabling legislation may be found on page 46.

**VILLAGE OF MILAN, NEW MEXICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(CONTINUED)**

**J. Net Position**

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. Net investment in capital assets excludes unspent debt proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Village or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

**K. Interfund Transactions**

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

**L. Cash Flows**

For purposes of the Statement of Cash Flows, the enterprise fund considers checking accounts, money market accounts, certificates of deposit, and highly liquid assets with a maturity of three months or less when purchased to be cash equivalents.

**VILLAGE OF MILAN, NEW MEXICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(CONTINUED)**

**M. Budgetary Information**

Actual amounts on the budgetary basis are prepared on the cash basis of accounting which recognizes revenues when received and expenditures when paid. Annual budgets are adopted for the general, special revenue, capital projects, and enterprise funds. The Village does not prepare a budget for the debt service fund.

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

1. Prior to June 1, the Village Administrator 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.
2. The Village Administrator 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.
3. Formal budgetary integration is employed as a management control device during the year for the general fund, special revenue funds, capital projects fund and enterprise funds.
4. 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.

**N. Use of Estimates**

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

**VILLAGE OF MILAN, NEW MEXICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(CONTINUED)**

**O. Implementation of New Accounting Standards**

During the year ended June 30, 2017, the Village adopted the following Government Accounting Standards Board Statements (GASB):

*GASB No. 77 – Tax Abatement Disclosures.* The objective of this Statement is to assist the users of financial statements in assessing (1) whether a government’s current-year revenues were sufficient to pay for current-year services, (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government’s financial resources come from and how it uses them, and (4) a government’s financial position and economic condition and how they have changed over time. The statement will not have a material impact on the Village’s financial statements.



**VILLAGE OF MILAN, NEW MEXICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**NOTE 2 CASH**

*Deposits*

*Custodial Credit Risk - Deposits.* Custodial credit risk is, in the event of the failure of a depository financial institution, the Village will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Village does not have a deposit policy for custodial credit risk. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are (1) uncollateralized, (2) collateralized with securities held by the pledging financial institution, or (3) collateralized with securities held by the pledging financial institution's trust department or agent but not in the Village's name. As of June 30, 2017, the Village's bank balance total of \$3,423,023 was exposed to credit risk in the amount of \$2,923,043 as follows:

Uninsured and collateral held by pledging bank's trust department not in the Village's name	<u>\$ 2,923,043</u>
---	---------------------

In accordance with Section 6-10-17, NMSA, 1978 Compilation, the Village is required to collateralize an amount equal to one-half of the public money in excess of federally insured balances at each financial institution.

The total balance in any single financial institution may at times exceed the FDIC coverage available to deposits. The Village is required to obtain from each bank that is a depository for public funds pledged collateral in an aggregate amount equal to one half of the public money in each account.

Balances held by the New Mexico Finance Authority do not require insurance or collateral.

**NOTE 3 ACCOUNTS RECEIVABLE – PROPRIETARY FUNDS**

Accounts receivable represents billings for water and waste water fees. It is management's policy to cut off water and waste water services for non-payment. A lien is placed on the properties which have outstanding water bills.

Accounts receivable is comprised of the following at June 30, 2017:

Accounts receivable	\$ 285,103
Allowance for uncollectible accounts	<u>(27,031)</u>
Accounts receivable, net of allowance	<u>\$ 258,072</u>

**VILLAGE OF MILAN, NEW MEXICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**NOTE 4 CAPITAL ASSETS**

Governmental fund capital asset activity for the year ending June 30, 2017 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Governmental Activities</b>				
Capital assets, not depreciated				
Land	\$ 593,375	-	-	593,375
Construction in process	1,895,883	867,291	-	2,763,174
<b>Total, not depreciated</b>	<b>\$ 2,489,258</b>	<b>867,291</b>	<b>-</b>	<b>3,356,549</b>
Capital assets, depreciated				
Buildings and improvements	\$ 5,254,114	28,335	-	5,282,449
Land improvements	131,367	-	-	131,367
Infrastructure	6,380,212	999,729	-	7,379,941
Furniture and equipment	824,259	143,169	-	967,428
Vehicles	1,608,633	102,960	-	1,711,593
<b>Total, depreciated</b>	<b>14,198,585</b>	<b>1,274,193</b>	<b>-</b>	<b>15,472,778</b>
Accumulated depreciation for				
Buildings and improvements	2,560,261	107,453	-	2,667,714
Land improvements	9,554	4,777	-	14,331
Infrastructure	932,577	168,522	-	1,101,099
Furniture and equipment	549,826	15,814	-	565,640
Vehicles	1,376,272	167,521	-	1,543,793
<b>Total accumulated depreciation</b>	<b>5,428,490</b>	<b>464,087</b>	<b>-</b>	<b>5,892,577</b>
<b>Total capital assets, depreciated, net</b>	<b>\$ 8,770,095</b>	<b>810,106</b>	<b>-</b>	<b>9,580,201</b>
<b>Total capital assets, net</b>	<b>\$ 11,259,353</b>	<b>1,677,397</b>	<b>-</b>	<b>12,936,750</b>

Depreciation expense was charged to functions/programs of the government as follows:

General government	\$ 69,946
Public safety	146,324
Highways and streets	168,136
Culture and recreation	79,681
<b>Total depreciation expense</b>	<b>\$ 464,087</b>

**VILLAGE OF MILAN, NEW MEXICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**NOTE 4 CAPITAL ASSETS (CONTINUED)**

Enterprise fund capital asset activity for the year ending June 30, 2017 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Business-type Activities</b>				
Capital assets, not depreciated:				
Land	\$ 695,250	-	-	<b>695,250</b>
Water rights	1,413,000	-	-	<b>1,413,000</b>
Construction in process	287,679	49,806	-	<b>337,485</b>
<b>Total, not depreciated</b>	<b>\$ 2,395,929</b>	<b>49,806</b>	<b>-</b>	<b>2,445,735</b>
Capital assets, depreciated:				
Buildings and improvements	\$ 181,844	-	-	<b>181,844</b>
Plant and system	8,567,435	-	-	<b>8,567,435</b>
Furniture and fixtures	1,089,196	-	-	<b>1,089,196</b>
Vehicles	26,795	-	-	<b>26,795</b>
<b>Total, depreciated</b>	<b>9,865,270</b>	<b>-</b>	<b>-</b>	<b>9,865,270</b>
Accumulated depreciation for:				
Buildings and improvements	76,496	3,261	-	<b>79,757</b>
Plant and system	5,572,332	191,238	-	<b>5,763,570</b>
Furniture and fixtures	905,271	26,034	-	<b>931,305</b>
Vehicles	6,006	11,287	-	<b>17,293</b>
<b>Total accumulated depreciation</b>	<b>6,560,105</b>	<b>231,820</b>	<b>-</b>	<b>6,791,925</b>
<b>Total capital assets, depreciated, net</b>	<b>\$ 3,305,165</b>	<b>(231,820)</b>	<b>-</b>	<b>3,073,345</b>
<b>Total capital assets, net</b>	<b>\$ 5,701,094</b>	<b>(182,014)</b>	<b>-</b>	<b>5,519,080</b>

**VILLAGE OF MILAN, NEW MEXICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**NOTE 5 LONG-TERM OBLIGATIONS – GOVERNMENTAL FUNDS**

During the year ended June 30, 2017, the following changes occurred:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities</b>					
Compensated absences	\$ 60,497	45,073	(65,339)	<b>40,231</b>	30,173
Notes payable	206,960	480,000	(55,380)	<b>631,580</b>	57,258
Net pension liability	<u>1,151,100</u>	<u>607,728</u>	<u>-</u>	<u><b>1,758,828</b></u>	<u>-</u>
<b>Total</b>	<u>\$1,418,557</u>	<u>1,132,801</u>	<u>(120,719)</u>	<u><b>2,430,639</b></u>	<u>87,431</u>

*Notes Payable:*

The Village entered into a loan agreement with NMFA on April 4, 2012, for principal amount of \$326,157. The proceeds were used to purchase equipment for two fire trucks. The term is for 10 years and bears interest at a rate of 1.535%. In addition, the Village's Annual State Fire Allotment is pledged for repayment of the loan. The annual debt service payment is due in July of each year.

The Village entered into a loan agreement with NMFA on May 19, 2016, for a principal amount of \$480,000. The proceeds were used for flood prevention projects. The term is 20 years and bears interest at a rate of 2.64%. The net system revenues of the joint utility have been pledged for repayment of the loan. The annual debt service payment is made in June of each year.

The schedule principal and interest payments are as follows:

Year Ending June 30	Principal	Interest	Total
2018	\$ 57,258	4,186	61,444
2019	57,738	3,706	61,444
2020	58,312	3,132	61,444
2021	58,981	2,463	61,444
2022	59,726	1,717	61,443
2023 – 2027	119,913	3,647	123,560
2028 – 2032	121,419	2,141	123,560
2033 – 2037	<u>98,233</u>	<u>615</u>	<u>98,848</u>
	<u>\$ 631,580</u>	<u>21,607</u>	<u>653,187</u>

**VILLAGE OF MILAN, NEW MEXICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**NOTE 5 LONG-TERM OBLIGATIONS – GOVERNMENTAL FUNDS**  
**(CONTINUED)**

*Accrued Compensated Absences.* Employees accrue either eight or ten hours per pay period depending on if the employee has been with the village less than or more than ten years, respectively. Employees with ten or less years of service may accrue a maximum number of annual leave of 96 hours. Employees with more than ten years of service may accrue a maximum number of annual leave of 120 hours. Compensated absence balances have been liquidated with general fund money in prior years.

**NOTE 6 LONG-TERM DEBT - ENTERPRISE FUNDS**

During the year ended June 30, 2017, the following changes occurred:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Business-type activities</b>					
Compensated absences	\$ 10,230	11,769	(15,389)	<b>6,610</b>	6,610
Net pension liability	203,135	256,006	-	<b>459,141</b>	-
Notes payable	<u>1,127,186</u>	<u>-</u>	<u>(197,161)</u>	<b><u>930,025</u></b>	<u>148,791</u>
<b>Total</b>	<b>\$ 1,340,551</b>	<b>267,775</b>	<b>(212,550)</b>	<b><u>1,395,776</u></b>	<b>155,401</b>

*Note Payable - City of Grants.* In June 1998, pursuant to an arbitration and partial settlement agreement, the Village agreed to purchase a 17.41% ownership interest in the wastewater treatment facility from the City of Grants. The purchase price was \$1,590,000. At closing, the Village made a down payment of \$850,000 and is making monthly debt service payments of \$3,083. The balance of the note at June 30, 2016 was \$52,773. During the year ending June 30, 2017, the Village made \$19,924 in payments on the note. On December 12, 2016, the Village and the City entered into an agreement whereby the remaining balance of \$32,849 was no longer due. The Village has adjusted the debt balance off of its books and recorded forgiven debt income in the amount of \$32,849.

**VILLAGE OF MILAN, NEW MEXICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**NOTE 6 LONG-TERM DEBT - ENTERPRISE FUNDS (CONTINUED)**

*New Mexico Finance Authority (NMFA) Loan.* The Village’s Joint Utility Enterprise Fund accounts for a loan agreement pursuant to Ordinance No. 200 dated August 4, 2003, between the Village and NMFA. The proceeds of the note were used to acquire land and appurtenant water rights. The principal amount of the note was \$2,583,296 of which \$240,000 was used to purchase the land and water rights, and \$183,926 was used to establish a reserve account. Interest on the note is at 3.792%, which includes a 0.25% administrative fee. Interest and principal payments are due May 1st and November 1st of each year. The note matures on May 1, 2023. The note is collateralized by the Village’s gross receipts taxes.

The schedule principal and interest payments are as follows:

Year Ending June 30	Principal	Interest	Total
2018	\$ 148,791	36,858	185,649
2019	148,758	31,327	180,085
2020	151,605	25,643	177,248
2021	156,124	19,708	175,832
2022	160,831	13,449	174,280
2023	163,916	6,850	170,766
	<u>\$ 930,025</u>	<u>133,835</u>	<u>1,063,860</u>

**NOTE 7 PROPERTY TAXES**

Cibola County is responsible for assessing, collecting, and distributing property taxes for the Village. Property taxes are assessed on November 1 of each year based on the assessed value on the prior January 1 and are payable in two equal installments by November 10 of the year in which the tax bill is prepared and by May 10 of the following year. Property taxes are delinquent if not paid by December 10 and June 10. Taxes on real property are liened on January 1 of the year for which the taxes are imposed.

**NOTE 8 INTERFUND OPERATING TRANSFERS**

The General Fund fund transferred \$40,000 to the Municipal Street fund during the year ended June 30, 2017. The money was used to meet matching requirements for grants.

**VILLAGE OF MILAN, NEW MEXICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**NOTE 9 DUE TO AND DUE FROM OTHER FUNDS**

A summary of the due from and due to other funds at June 30, 2017 is as follows:

	Due From Other Funds	Due To Other Funds
Governmental Funds		
Major Funds:		
General	\$ 159,849	158,573
Non-major Funds:		
Corrections	-	7
Fire Protection	-	1,087
Municipal Streets	-	1,231
Proprietary Funds		
Joint Utility	70,893	72,580
<b>Total</b>	<u>\$ 230,742</u>	<u>233,478</u>

The balance of due from accounts does not agree with the balance of due from accounts at yearend. This fact has been added as a finding to the financial statements.

**NOTE 10 CONTINGENT DEBT OBLIGATION**

On June 1, 1993, the Village entered into a joint powers agreement to establish the Northwest New Mexico Solid Waste Authority (NWNMRSWA). The participants in the agreement are McKinley County, Cibola County, the City of Grants, the City of Gallup, and the Village of Milan. NWNMRSWA's separately issued financial statements may be obtained from NWNMRSWA at P.O. Box 1330, Thoreau, New Mexico, 87323.

On May 18, 1995, the Village Trustees approved Ordinance 171 which authorized the execution and delivery of a loan agreement and intercept agreement by and between the Village and the New Mexico Finance Authority (NMFA), evidencing a special limited obligation of the Village to pay a principal amount not to exceed \$8,250,000 together with interest thereon, for the purpose of acquiring and constructing a solid waste disposal facility as a member of the NWNMRSWA.

On February 18, 1998, the Village Trustees approved Ordinance 177 which authorized the execution and delivery of a loan agreement and intercept agreement by and between the Village and NMFA, evidencing a special limited obligation of the Village to pay a principal amount not to exceed \$1,615,353 together with interest thereon, for the purpose of acquiring and constructing a solid waste disposal facility and refinancing certain lease purchase agreements, as a member of the NWNMRSWA.

**VILLAGE OF MILAN, NEW MEXICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**NOTE 10 CONTINGENT DEBT OBLIGATION (CONTINUED)**

Ordinance No. 194 was approved on November 21, 2002 by Village Trustees authorizing the execution and delivery of a loan agreement by and between the Village and the NMFA. The loan agreement called for the issuance of a limited obligation to refund the note approved above by Ordinance 171 as described above. The obligation amount authorized by Ordinance 194 was in the amount of \$5,600,000. The debt obligations are payable solely from the net revenues of NWNMRSWA as well as the Environmental Gross Receipts Tax Revenues imposed on the participating entities.

The NWNMRSWA has agreed to assist the Village in testing and monitoring the Village's closed solid waste disposal site. At June 30, 2016, the management of NWNMRSWA and the Village do not anticipate any additional significant liability to the Village for closure/post closure costs

**NOTE 11 PERA PENSION PLAN**

*Plan description.* The Public Employees Retirement Fund (PERA Fund) is a cost sharing, multiple employer defined benefit pension plan. This fund has six divisions of members, including State General, State Police/Adult Correction Officer, Municipal General, Municipal Police/Detention Officers, Municipal fire, and State Legislative Divisions, and offers 24 different types of coverage within the PERA plan. All assets accumulated may be used to pay benefits, including refunds of member contributions, to any of the plan members or beneficiaries, as defined by the terms of this plan. Certain coverage plans are only applicable to a specific division. Eligibility for membership in the PERA Fund is set forth in the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). Except as provided for in the Volunteer Firefighters Retirement Act (10-11A-1 to 10-11A-7, NMSA 1978), the Judicial Retirement Act (10-12B-1 to 10-12B-19, NMSA 1978), the Magistrate Retirement Act (10-12C-1 to 10-12C-18, NMSA 1978), and the Educational Retirement Act (Chapter 22, Article 11, NMSA 1978), and the provisions of Sections 29-4-1 through 29-4-11, NMSA 1978 governing the State Police Pension Fund, each employee and elected official of every affiliated public employer is required to be a member in the PERA Fund.

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

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

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



**VILLAGE OF MILAN, NEW MEXICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**NOTE 11 PERA PENSION PLAN (CONTINUED)**

*Contributions* – The contribution requirements of defined benefit plan members and the Village are established in state statute under Chapter 10, Article 11, NMSA 1978. The contribution requirements may be amended by acts of the legislature. For the employer and employee contribution rates in effect for FY16 for the various PERA coverage options, for both Tier I and Tier II, see the tables available in the note disclosures on pages 29 through 31 of the PERA FY16 annual audit report at:

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

The PERA coverage option that applies to Village is The Municipal General Division and the Municipal Police Division. Statutorily required contributions to the pension plan from the Village were \$108,445 for the year ended June 30, 2017.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions* – The PERA pension liability amounts, net pension liability amounts, and sensitivity information were based on an annual actuarial valuation performed as of June 30, 2015. The PERA pension liability amounts for each division were rolled forward from the valuation date to the Plan year ending June 30, 2016, using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement dated June 30, 2016.

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

**VILLAGE OF MILAN, NEW MEXICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**NOTE 11 PERA PENSION PLAN (CONTINUED)**

PERA Municipal General Division

For the PERA Municipal General Division, at June 30, 2017, the Village reported a liability of \$1,739,856 for its proportionate share of the net pension liability. At June 30, 2016, the Village's proportion was 0.1089%, which increased from its proportion measured as of June 30, 2015 of 0.1066%.

For the year ended June 30, 2017, the Village recognized PERA Municipal General Division pension expense of \$94,560. At June 30, 2017, the Village reported PERA General Fund Division deferred outflows of resources and deferred inflows of resources of \$625,782 and \$17,269, respectively, related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 86,931	16,980
Change of assumption	102,022	289
Net difference between projected and actual earnings on pension plan investments	320,130	-
Change in proportion	47,367	-
Village contributions subsequent to the measurement date	69,332	-
	<u>\$ 625,782</u>	<u>17,269</u>

\$69,332 reported as deferred outflows of resources related to pensions resulting from the Village contributions subsequent to the measurement date June 30, 2016, will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and deferred inflows related to pensions will be recognized in pension expense as follows:

2018	\$ 126,211
2019	126,211
2020	205,227
2021	81,532
2022	-
	<u>\$ 539,181</u>

**VILLAGE OF MILAN, NEW MEXICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**NOTE 11 PERA PENSION PLAN (CONTINUED)**

PERA Municipal Police Division

For the PERA Municipal Police Division, at June 30, 2017, the Village reported a liability of \$478,114 for its proportionate share of the net pension liability. At June 30, 2016, the Village's proportion was 0.0648%, which increased from its proportion measured as of June 30, 2015 of 0.0556%.

For the year ended June 30, 2017, the Village recognized PERA Municipal Police Division pension expense of \$43,991. At June 30, 2017, the Village reported PERA Municipal Police Division deferred outflows of resources and deferred inflows of resources of \$225,050 and \$8,623, respectively, related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 35,101	-
Change of assumption	31,668	8,623
Net difference between projected and actual earnings on pension plan investments	75,616	-
Change in proportion	43,552	-
Village contributions subsequent to the measurement date	39,113	-
	<u>\$ 225,050</u>	<u>8,623</u>

\$39,113 reported as deferred outflows of resources related to pensions resulting from the Village contributions subsequent to the measurement date June 30, 2016, will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and deferred inflows related to pensions will be recognized in pension expense as follows:

2017	\$ 47,394
2018	47,394
2019	62,232
2020	20,294
2021	-
	<u>\$ 177,314</u>

**VILLAGE OF MILAN, NEW MEXICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**NOTE 11 PERA PENSION PLAN (CONTINUED)**

*Actuarial assumptions* – As described above, the PERA Fund member group pension liabilities and net pension liabilities are based on actuarial valuations performed as of June 30, 2015, for each of the membership groups. Then each PERA Fund member group pension liability was rolled from the valuation date to the Plan year ending June 30, 2016, using generally accepted actuarial principles. There were not significant events or changes in benefit provisions that required an adjustment to the roll-forward liabilities as of June 30, 2016. These actuarial methods and assumptions were adopted by the Board for use in the June 30, 2016, actuarial valuation.

Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay, open
Amortization period	Solved for based on statutory rates
Asset valuation method	Fair value
Actuarial assumptions:	
– Investment rate of return	7.48% annual rate, net of investment expense
– Projected benefit payment	100 years
– Payroll growth	2.75% for first 10 years, then 3.25% annual rate
– Projected salary increases	3.00% to 14.00% annual rate
– Included inflation at	2.25% annual rate first 10 years, 2.75% all other years
– Mortality assumption	RP-2000 Mortality Tables (Combined table for healthy post-retirements, Employee table for active members, and Disabled table for disabled retirees before retirement age) with projections to 2018 using Scale AA.
– Experience study dates	July 1, 2008 to June 30, 2013 (demographic) and July 1, 2010 through June 20, 2015 (economic)

**VILLAGE OF MILAN, NEW MEXICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**NOTE 11 PERA PENSION PLAN (CONTINUED)**

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

All Funds – Asset Class	Target Allocation	Long-Term Expected Rate of Return
Global Equity	43.5 %	7.39 %
Risk Reduction & Mitigation	21.5	1.79
Credit Oriented Fixed Income	15.0	5.77
Absolute Return	<u>20.0</u>	7.35
Total	<u><u>100.0 %</u></u>	

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

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.

The discount rate used to measure the total pension liability in the prior year was 7.75 percent.

**VILLAGE OF MILAN, NEW MEXICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**NOTE 11 PERA PENSION PLAN (CONTINUED)**

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

	1% Decrease (6.48%)	Current Discount Rate (7.48%)	1% Increase (8.48%)
<u>PERA Municipal General Division</u>			
Village's proportionate share of the net pension liability	\$ 2,593,970	1,739,856	1,031,411

	1% Decrease (6.48%)	Current Discount Rate (7.48%)	1% Increase (8.48%)
<u>PERA Municipal Police Division</u>			
Village's proportionate share of the net pension liability	\$ 703,424	478,114	293,836

*Pension plan fiduciary net position* – Detailed information about the pension's fiduciary net position is available in the separately issued FY16 Restated PERA financial report. The report is available at <http://www.pera.state.nm.us/publications.html>.

**NOTE 12 POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN**

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

**VILLAGE OF MILAN, NEW MEXICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**NOTE 12 POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN**

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

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

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

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

**VILLAGE OF MILAN, NEW MEXICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**NOTE 12 POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN**

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4, or 5; municipal fire member coverage plan 3, 4, or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2017, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2017, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2017, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

Village's contributions to the RHCA for the years ended June 30, 2017, 2016 and 2015 were \$26,377, \$29,832, and \$26,796, respectively, which equal the required contributions for each year.



**VILLAGE OF MILAN, NEW MEXICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**NOTE 13 RISK MANAGEMENT**

The Village is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. The Village participates in the New Mexico Self-Insurer's Fund risk pool. Fund for workers' compensation claims and employer's liability insurance including general, auto, uninsured motorist, law enforcement, and public official's errors and omissions liabilities. The policy limits for workers' compensation is unlimited and \$1,050,000 per occurrence for employer's liability. There is no deductible. Liability policy limits range from \$1,000,000 to \$750,000 per occurrence, with a \$4,000,000 annual aggregate per policy. Deductibles range from \$500 to \$5,000.

The Village has not filed any claims for which the settlement amount exceeded the insurance coverage in any preceding years. However, should a claim be filed against the Village which exceeds the insurance coverage, the Village would be responsible for a loss in excess of the coverage amounts. As claims are filed, the New Mexico Self-Insurers Fund assesses and estimates the potential for loss.

At June 30, 2017, no unpaid claims have been filed which exceed the policy limits and to the best of management's knowledge and belief all known and unknown claims will be covered by insurance. No major lawsuits have been filed against the Village.

**NOTE 14 COMMITMENTS AND CONTINGENCIES**

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Village expects such amount, if any, to be immaterial. The Village is involved in various claims and lawsuits arising in the normal course of business. The Village is insured through the New Mexico City Insurance Authority. In the opinion of management, the outcome of these matters will not have a material effect on the financial position of the Village.

The Village entered into a grant agreement with CDBG in a prior year. The grant project was completed during the year under audit. The total project cost was less than anticipated. As a result, the Village spent less than it anticipated. The grant had a matching requirement which was underspent because the project cost less than anticipated. The grantor has stated that the match requirement should be in proportion to the total cost spent. This implies that the Village may owe approximately \$50,000 back to CDBG. The grantor is reviewing the grant file to determine if amounts are due back from the Village, but has not completed their review as of the date of the audit.

**VILLAGE OF MILAN, NEW MEXICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**NOTE 15 SUBSEQUENT EVENTS**

The Village has evaluated subsequent events through December 13, 2017, the date the financial statements were available to be issued. Subsequent to June 30, 2017, the Village had the following material subsequent event:

- The Village is a defendant in a lawsuit brought by the City of Grants claiming that the Village owes the City \$580,532 unpaid wastewater treatment expenses. The claim grows out of an arbitration decision entered in 1998 whereby it was understood that the City would operate a jointly owned facility and bill the Village its share of those expenses. The claim extends back to 2013 and is an accumulated of what the City now has determined to be underpayments during this time period. The matter is set to go to trial in October 2018.

**NOTE 16 RESTATEMENT OF NET POSITION**

The CDBG fund was reported as a major fund in the prior year, but has been reported as a nonmajor fund in the current year. Therefore, beginning fund balance for the nonmajor funds has been increased by \$249,287, and major funds have increased by the same amount.

In addition, the net position of the Law Enforcement Protection fund has been restated by \$22,400. This is due to accounts receivable being recorded for payments received during the year. The accounts receivable should not have been recorded.

**VILLAGE OF MILAN, NEW MEXICO**  
**NONMAJOR FUNDS**  
**June 30, 2017**

**SPECIAL REVENUE FUNDS**

*Corrections.* To establish an additional sources of funds for municipalities to offset the costs of corrections. The source of funds is a fee which must be paid by all persons violating laws relating the operations of a motor vehicle. Authority is NMSA 33-9-3.

*Fire Protection.* To account for the operations and maintenance of the fire department. The operations are financed by an allotment from the annual fire grant from the State of New Mexico. Authority is NMSA 59-A-53-1.

*Law Enforcement Protection.* To account for the expenditures from the State of New Mexico for training, equipment and capital outlay. Authority is NMSA 29-13-4.

*Lodger's Tax Reserve.* Account for collections received through a specific tax levy on area motels and hotels. Expenditures can be used for cultural and recreational activities. Authority is 3-38-14 NMSA 1978.

*Municipal Streets.* To account for funds used to maintain roads for which the Village is responsible. Funding is provided by the gas tax. Expenditures are restricted to the construction and maintenance of Village roads. Authority is NMSA 7-1-6.27.

*Recreation.* Accounts for the operations of the Village's recreational facilities and programs. Financing is provided by the State of New Mexico from a portion or the cigarette tax collected by the state and fees charged for recreational activities sponsored by the Village. Expenditures are subject to Village Trustee approval. Such revenue provides for payment of all current operating costs and may be used for that purpose only. Authority is 7-12-15 NMSA 1978.

**CAPITAL OUTLAY FUNDS**

*CDBG.* The fund is used to account for costs associated with the CDBG grant. Funding is primarily received through grant agreements with the State of New Mexico.

**DEBT SERVICE FUNDS**

*Debt Service.* Accounts for funds used for the payment of principal and interest due on general obligation bonds. Financing is provided by a special tax levy approved by the voters.

**VILLAGE OF MILAN, NEW MEXICO  
 COMBINING BALANCE SHEET  
 NONMAJOR FUNDS  
 June 30, 2017**

	Special Revenue		
	Corrections	Fire Protection	Law Enforcement Protection
<b>ASSETS</b>			
Cash and cash equivalents	\$ 91,951	52,776	-
Cash and cash equivalents - restricted	-	5	-
Receivables:			
Taxes:			
Gasoline	-	-	-
Lodger's	-	-	-
Property	-	-	-
<b>Total assets</b>	<b>\$ 91,951</b>	<b>52,781</b>	<b>-</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 622	-	-
Accrued compensation and benefits	-	-	-
Due to other funds	7	1,087	-
<b>Total liabilities</b>	<b>629</b>	<b>1,087</b>	<b>-</b>
<b>FUND BALANCES</b>			
Restricted for:			
Special revenue funds	91,322	51,694	-
Debt service funds	-	-	-
<b>Total fund balances</b>	<b>91,322</b>	<b>51,694</b>	<b>-</b>
<b>Total liabilities and fund balances</b>	<b>\$ 91,951</b>	<b>52,781</b>	<b>-</b>

**VILLAGE OF MILAN, NEW MEXICO  
 COMBINING BALANCE SHEET  
 NONMAJOR FUNDS  
 June 30, 2017**

	Special Revenue		
	Lodger's Tax Reserve	Municipal Streets	Recreation
<b>ASSETS</b>			
Cash and cash equivalents	\$ 23,172	25,182	22,035
Cash and cash equivalents - restricted	-	-	-
Receivables:			
Taxes:			
Gasoline	-	12,950	-
Lodger's	433	-	-
Property	-	-	-
<b>Total assets</b>	<b>\$ 23,605</b>	<b>38,132</b>	<b>22,035</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ -	5,229	-
Accrued compensation and benefits	-	3,143	-
Due to other funds	-	1,231	-
<b>Total liabilities</b>	<b>-</b>	<b>9,603</b>	<b>-</b>
<b>FUND BALANCES</b>			
Restricted for:			
Special revenue funds	23,605	28,529	22,035
Debt service funds	-	-	-
<b>Total fund balances</b>	<b>23,605</b>	<b>28,529</b>	<b>22,035</b>
<b>Total liabilities and fund balances</b>	<b>\$ 23,605</b>	<b>38,132</b>	<b>22,035</b>

**VILLAGE OF MILAN, NEW MEXICO  
 COMBINING BALANCE SHEET  
 NONMAJOR FUNDS  
 June 30, 2017**

	<u>Capital Outlay</u>		
	CDBG	Debt Service	Total Nonmajor
<b>ASSETS</b>			
Cash and cash equivalents	\$ 121,412	22,396	358,924
Cash and cash equivalents - restricted	-	-	5
Receivables:			
Taxes:			
Gasoline	-	-	12,950
Lodger's	-	-	433
Property	-	29	29
<b>Total assets</b>	<b>\$ 121,412</b>	<b>22,425</b>	<b>372,341</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 7,624	-	13,475
Accrued compensation and benefits	-	-	3,143
Due to other funds	-	-	2,325
<b>Total liabilities</b>	<b>7,624</b>	<b>-</b>	<b>18,943</b>
<b>FUND BALANCES</b>			
Restricted for:			
Special revenue funds	113,788	-	330,973
Debt service funds	-	22,425	22,425
<b>Total fund balances</b>	<b>113,788</b>	<b>22,425</b>	<b>353,398</b>
<b>Total liabilities and fund balances</b>	<b>\$ 121,412</b>	<b>22,425</b>	<b>372,341</b>

**VILLAGE OF MILAN, NEW MEXICO**  
**COMBINING STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND**  
**BALANCES - NONMAJOR FUNDS**  
**Year Ended June 30, 2017**

	Special Revenue		
	Corrections	Fire Protection	Law Enforcement Protection
Revenues			
Taxes	\$ -	-	-
Licenses, permits, fees, and fines	40,268	-	-
From federal sources			
Grants	-	-	-
From non-federal sources:			
Grants	-	-	22,400
Intergovernmental	-	259,300	-
Interest	35	-	-
Other	-	2,417	-
<b>Total revenues</b>	<b>40,303</b>	<b>261,717</b>	<b>22,400</b>
Expenditures			
Current			
General government	-	-	-
Public safety	20,482	86,061	-
Highways and streets	-	-	-
Culture and recreation	-	-	-
Debt service - principal	-	33,370	-
Debt service - interest	-	3,361	-
Capital outlay	-	143,169	22,400
<b>Total expenditures</b>	<b>20,482</b>	<b>265,961</b>	<b>22,400</b>
Excess (deficiency) of revenues over expenditures before other financing sources	19,821	(4,244)	-
Other financing sources (uses)			
Operating transfers in	-	-	-
Net change in fund balances	19,821	(4,244)	-
Fund balance, beginning of year	71,501	55,938	22,400
Restatement	-	-	(22,400)
Fund balance, beginning of year, as restated	71,501	55,938	-
<b>Fund balance, end of year</b>	<b>\$ 91,322</b>	<b>51,694</b>	<b>-</b>

**VILLAGE OF MILAN, NEW MEXICO**  
**COMBINING STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND**  
**BALANCES - NONMAJOR FUNDS**  
**Year Ended June 30, 2017**

	Special Revenue		
	Lodger's Tax Reserve	Municipal Streets	Recreation
Revenues			
Taxes	\$ 3,148	169,269	-
Licenses, permits, fees, and fines	-	-	-
From federal sources			
Grants	-	-	-
From non-federal sources:			
Grants	-	-	-
Intergovernmental	-	-	-
Interest	11	12	11
Other	-	-	-
	<hr/>	<hr/>	<hr/>
<b>Total revenues</b>	<b>3,159</b>	<b>169,281</b>	<b>11</b>
	<hr/>	<hr/>	<hr/>
Expenditures			
Current			
General government	1,581	-	10
Public safety	-	-	-
Highways and streets	-	210,262	-
Culture and recreation	-	-	497
Debt service - principal	-	-	-
Debt service - interest	-	-	-
Capital outlay	-	-	-
	<hr/>	<hr/>	<hr/>
<b>Total expenditures</b>	<b>1,581</b>	<b>210,262</b>	<b>507</b>
	<hr/>	<hr/>	<hr/>
Excess (deficiency) of revenues over expenditures before other financing sources	1,578	(40,981)	(496)
	<hr/>	<hr/>	<hr/>
Other financing sources (uses)			
Operating transfers in	-	40,000	-
	<hr/>	<hr/>	<hr/>
Net change in fund balances	1,578	(981)	(496)
	<hr/>	<hr/>	<hr/>
Fund balance, beginning of year	22,027	29,510	22,531
Restatement	-	-	-
Fund balance, beginning of year, as restated	22,027	29,510	22,531
	<hr/>	<hr/>	<hr/>
<b>Fund balance, end of year</b>	<b>\$ 23,605</b>	<b>28,529</b>	<b>22,035</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>



**VILLAGE OF MILAN, NEW MEXICO**  
**COMBINING STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND**  
**BALANCES - NONMAJOR FUNDS**  
**Year Ended June 30, 2017**

	<u>Capital Outlay</u>		
	CDBG	Debt Service	Total Non-major
Revenues			
Taxes	\$ -	1,554	173,971
Licenses, permits, fees, and fines	-	-	40,268
From federal sources			
Grants	240,608	-	240,608
From non-federal sources:			
Grants	-	-	22,400
Intergovernmental	-	-	259,300
Interest	-	12	81
Other	-	-	2,417
	<hr/>	<hr/>	<hr/>
<b>Total revenues</b>	<b>240,608</b>	<b>1,566</b>	<b>739,045</b>
	<hr/>	<hr/>	<hr/>
Expenditures			
Current			
General government	-	-	1,591
Public safety	-	-	106,543
Highways and streets	-	-	210,262
Culture and recreation	-	-	497
Debt service - principal	-	-	33,370
Debt service - interest	-	-	3,361
Capital outlay	376,107	-	541,676
	<hr/>	<hr/>	<hr/>
<b>Total expenditures</b>	<b>376,107</b>	<b>-</b>	<b>897,300</b>
	<hr/>	<hr/>	<hr/>
Excess (deficiency) of revenues over expenditures before other financing sources	(135,499)	1,566	(158,255)
	<hr/>	<hr/>	<hr/>
Other financing sources (uses)			
Operating transfers in	-	-	40,000
	<hr/>	<hr/>	<hr/>
Net change in fund balances	(135,499)	1,566	(118,255)
	<hr/>	<hr/>	<hr/>
Fund balance, beginning of year	249,287	20,859	494,053
Restatement	-	-	(22,400)
	<hr/>	<hr/>	<hr/>
Fund balance, beginning of year, as restated	249,287	20,859	471,653
	<hr/>	<hr/>	<hr/>
<b>Fund balance, end of year</b>	<b>\$ 113,788</b>	<b>22,425</b>	<b>353,398</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**VILLAGE OF MILAN, NEW MEXICO**

**Schedule of the Village's Proportionate Share of the Net Pension Liability of  
the Net Pension Liability of the Public Employees Retirement Association Plan's  
Municipal General Division and Municipal Police Division - Last 10 Fiscal Years\*  
June 30, 2017**

**Municipal General Division**

	2017	2016	2015
Village's proportion of the net pension liability (asset)	0.1089%	0.1066%	0.1015%
Village's proportionate share of the net pension liability (asset)	\$ 1,739,856	1,086,879	791,809
Village's covered-employee payroll	\$ 1,081,988	1,033,613	1,144,280
Village's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	161%	105%	69%
Plan fiduciary net position as a percentage of the total plan liability	69.18%	76.99%	81.29%

**Municipal Police Division**

	2017	2016	2015
Village's proportion of the net pension liability (asset)	0.0648%	0.0556%	0.0512%
Village's proportionate share of the net pension liability (asset)	\$ 478,114	267,356	166,906
Village's covered-employee payroll	\$ 279,400	238,190	198,431
Village's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	171%	112%	84%
Plan fiduciary net position as a percentage of the total plan liability	69.18%	76.99%	81.29%

\* The amounts presented were determined as of June 30, 2017. This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is completed, the Village will present information for those years for which information is available.

**VILLAGE OF MILAN, NEW MEXICO****Schedule of the Village's Contributions to the Public Employees Retirement Association****Plan's Municipal General Division and Municipal Police Division - Last 10 Fiscal Years\*****June 30, 2017****Municipal General Division**

	2017	2016	2015
Contractually required contributions	\$ 69,332	60,671	84,369
Contributions in relation to the contractually required contribution	69,332	60,671	84,369
Contribution deficiency (excess)	\$ -	-	-
Village's covered-employee payroll	\$ 1,081,988	1,033,613	1,144,280
Contributions as a percentage of covered-employee payroll	6.4%	5.9%	7.4%

**Municipal Police Division**

	2017	2016	2015
Contractually required contributions	\$ 39,113	36,554	20,499
Contributions in relation to the contractually required contribution	39,113	36,554	20,499
Contribution deficiently (excess)	\$ -	-	-
Village's covered-employee payroll	\$ 279,400	238,190	\$ 198,431
Contributions as a percentage of covered-employee payroll	14.0%	15.3%	10.3%

\* The amounts presented were determined as of June 30, 2017. This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is completed, the Village will present information for those years for which information is available.

**VILLAGE OF MILAN, NEW MEXICO**  
**NOTES TO SCHEDULES OF THE PUBLIC EMPLOYEE**  
**RETIREMENT ASSOCIATION'S PLAN INFORMATION**  
**June 30, 2017**

*Changes in Benefit Terms* – The PERA Fund COLA and retirement eligibility benefits changes in recent years are described in Note 1 of the PERA CAFR, which is available at:

<https://www.saonm.org>.

*Changes of Assumptions* – The Public Employees Retirement Association of New Mexico Annual Actuarial Valuation as of June 30, 2016 report is available at:

<http://www.nmpera.org>.

**VILLAGE OF MILAN, NEW MEXICO**  
**AGENCY FUNDS**  
**June 30, 2017**

*Police Bonds.* To account for the receipt and disbursement of money collected by the Village in a custodial capacity.

**VILLAGE OF MILAN, NEW MEXICO**  
**SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES -**  
**AGENCY FUNDS**  
**Year Ended June 30, 2017**

	Balance			Balance
	June 30, 2015	Additions	Deductions	June 30, 2016
Police bonds	\$ 6,368	3	84	6,287

**VILLAGE OF MILAN, NEW MEXICO**  
**SCHEDULE OF DEPOSIT ACCOUNTS**  
**June 30, 2017**

Type	Depository	Account Name	Depository Balance	Reconciled Balance
Int bearing checking	Bank of New Mexico	General	\$ 132,896	94,687
Money market	US Bank	General	939,875	939,798
Int bearing checking	Bank of New Mexico	General	42,452	115,541
Non-Int bearing checking	US Bank	General Payroll	20,267	14,507
Int bearing checking	Bank of New Mexico	Corrections	91,233	91,947
Non-Int bearing checking	Bank of New Mexico	Fire Protection	54,940	52,776
Int bearing checking	Bank of New Mexico	Lodger's Tax	23,172	23,171
Int bearing checking	Bank of New Mexico	Street	26,121	25,181
Int bearing checking	Bank of New Mexico	Recreation	22,035	22,034
Non-Int bearing checking	Bank of New Mexico	CDBG	134,532	121,412
Int bearing checking	Bank of New Mexico	Co-Op Street	536,403	536,359
Int bearing checking	Bank of New Mexico	Debt Service	22,396	22,395
Non-Int bearing checking	US Bank	Joint Utility	1,183,961	1,157,660
Int bearing checking	Bank of New Mexico	Water Deposit	109,870	109,866
CD	US Bank	Joint Utility	60,633	60,633
Int bearing checking	US Bank	Joint Utility	6,978	6,978
Int bearing savings	US Bank	Joint Utility	6,968	6,968
<b>Cash and cash equivalents - non-agency funds</b>			<b>3,414,732</b>	<b>3,401,913</b>
	Petty cash	Operating	-	100
	Petty cash	Joint Utility	-	150
<b>Total cash and cash equivalents - non-agency funds</b>			<b>\$ 3,414,732</b>	<b>3,402,163</b>
Agency funds cash accounts:				
Non-Int bearing checking	US Bank	Municipal Court Pooled Cash	\$ 6,286	6,286
New Mexico Finance Authority				
Int bearing checking	NM Finance Authority	Trust	98,555	94,768
Int bearing checking	NM Finance Authority	Trust	186,079	185,347
Int bearing checking	NM Finance Authority	Trust	5	5
<b>Total funds with the New Mexico Finance Authority</b>			<b>\$ 284,639</b>	<b>280,120</b>

**VILLAGE OF MILAN, NEW MEXICO**  
**SCHEDULE OF PLEDGED COLLATERAL**  
**June 30, 2017**

	US Bank	Bank of New Mexico	Total
Deposits at June 30, 2017	\$ 2,218,682	1,204,361	3,423,043
Less: FDIC coverage	250,000	250,000	500,000
Uninsured public funds	1,968,682	954,361	2,923,043
Pledged collateral held by the pledging bank's trust department or agent but not in the Village's name	2,500,000	756,547	3,256,547
Uninsured and uncollateralized	\$ -	-	-
50% pledged collateral requirement per statute	\$ 984,341	477,181	1,461,522
Total pledged collateral	2,500,000	756,547	3,256,547
Pledged collateral over the requirement	\$ (1,515,659)	(279,367)	(1,795,026)

Pledged collateral at June 30, 2017 consists of the following:

Security	CUSIP	Maturity	Fair Market Value	Fair Market Value	Total
Bernalillo NM MSD	085279NY9	8/1/2020	\$ -	150,425	150,425
Bloomfield NM Mun Sch Dist BQ	094077KN3	9/1/2019	-	104,757	104,757
Gassden NM ISD BQ Call	362550KR5	8/15/2018	-	501,365	501,365
Federal Home Loan Bank of Cincinnati	522775	10/3/2017	2,500,000	-	2,500,000
			\$ 2,500,000	756,547	3,256,547

The custodian of the pledged securities for US Bank is the Federal Home Loan Bank in Cincinnati, Ohio.

The custodian of the pledged securities for Bank of New Mexico is the Independent Bankers Bank in Farmers Branch, Texas.



VILLAGE OF MILAN, NEW MEXICO  
SCHEDULE OF JOINT POWERS AGREEMENTS  
June 30, 2017

Joint Power Agreement	Participants	Responsible Party	Description	Beginning and Ending Dates	Total estimated project amount and amount applicable to Village	Amount contributed by Village during fiscal year	Audit Responsibility	Fiscal agent and responsible reporting entity
Grants Airport	Village of Milan City of Grants	City of Grants	To provide for the management, operation, maintenance, improvement and financing of the Grants-Milan municipal airport	08/96 to indefinite	None	\$ 7,498	City of Grants	City of Grants
Animal Control	Village of Milan City of Grants	City of Grants	Collect and keep custody of animals	09/76 to indefinite	The Village will reimburse the City of Grants for 35% of net operating and maintenance costs	\$ 5,200	City of Grants	City of Grants
Rio San Jose Flood Control	Village of Milan Rio San Jose Flood Control Authority	Rio San Jose Flood Control Authority	To provide for administrative space, personnel, furniture, equipment and utilities for the operation of the District.	01/86 to indefinite	The Village provides 160 square feet of office space including utilities; the Village employs one person who is directed by the District. The District reimburses the Village for the salary and payroll costs.	\$ - The District reimbursed the Village \$6,390	Rio San Jose Flood Control Authority	Rio San Jose Flood Control Authority
Wildlife Protection Activities	State of New Mexico Energy, Minerals and Natural Resources Department Village of Milan	State of New Mexico Energy, Minerals and Natural Resources Department	To provide a cooperative fire protection system covering any or all private, County, non-municipal, and State lands within or adjacent to the Village.	Indefinite	Payments are on a reimbursement basis.	\$ -	State of New Mexico Energy, Minerals and Natural Resources Department	State of New Mexico Energy, Minerals and Natural Resources Department
Northwest New Mexico Regional Solid Waste Authority	Village of Milan City of Grants City of Gallup County of McKinley Cibola County	Northwest New Mexico Regional Solid Waste Authority	To provide for the disposition of solid waste by establishing a modern solid waste disposal facilities.	05/06 to indefinite	The Village is required to contribute 50% of its Environmental Gross Receipts Tax.	\$ 20,554	Northwest New Mexico Regional Solid Waste Authority	Northwest New Mexico Regional Solid Waste Authority
Library	Village of Milan City of Grants Cibola County	City of Grants	Establishment of a library program	07/81 to indefinite	Contribute 20% of the yearly operating costs	\$ 10,000	City of Grants	City of Grants
Dispatch	City of Grants Cibola County Village of Milan	City of Grants	Provision of dispatch services	01/15 to indefinite	The Village pays 5% of the operational budget.	\$ 59,022	City of Grants	City of Grants
Transit	Village of Milan City of Grants Cibola County	Cibola County	To jointly create and operate a municipal transit authority providing transportation between various points within the City, the Village, the County and surrounding areas.	9/06 to indefinite	The Village is required to contribute 15% of the yearly operating costs	\$ -	Village of Milan	Village of Milan
Senior Citizens Center	Village of Milan City of Grants	City of Grants	Establishment of a senior citizens center.	Indefinite	Cost sharing	\$ 4,400	City of Grants	City of Grants
Mosquito Control	Village of Milan Cibola County Vector	Cibola County Vector	Provides mosquito control in and around the Village.	05/83 to Indefinite	The Village will pay the County \$350 per year	\$ 12,863	Cibola County Vector	Cibola County Vector

# PORCH & ASSOCIATES LLC

CERTIFIED PUBLIC ACCOUNTANTS  
10612 ROYAL BIRKDALE NE  
ALBUQUERQUE, NM 87111

## **Independent Auditor's 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***

Mr. Wayne Johnson, New Mexico State Auditor and  
Mr. George W. Knotts, Mayor and  
The Village Board of Trustees  
Village of Milan, 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, financial statements of the governmental activities, the business-type activities, each major fund and the budgetary comparison of the general fund of the Village of Milan (Village) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements and have issued our report thereon dated December 13, 2017. Our report expressed a qualified opinion on the joint utility enterprise fund because the Village's accounting for and internal controls over utility billing were inadequate such that it was not possible to perform an audit sufficient in scope to allow us to determine the correct balances for accounts receivable, sales tax payable, deposits payable, or charges for services.

### **Internal Control Over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Mr. Wayne Johnson, New Mexico State Auditor and  
Mr. George W. Knotts, Mayor and  
The Village Board of Trustees  
Village of Milan, New Mexico

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that were not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings responses that we consider to be material weaknesses. The material weakness is listed as finding 2017-001.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of other findings as required by the New Mexico state statute, section 12-6-5, NMSA 1978 as item 2017-002 through 2017-004.

### **The Village's Response to the Finding**

The Village's response to the finding identified in our audit is described in the accompany schedule of findings and responses. The Village's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

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

*Porch & Associates, LLC*

Albuquerque, New Mexico  
December 13, 2017

**VILLAGE OF MILAN, NEW MEXICO  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
Year Ended June 30, 2017**

**Findings from Year Ended June 30, 2015:**

**Current Status:**

2013-010 Deficiencies in Internal Control Structure Design

Resolved

**VILLAGE OF MILAN, NEW MEXICO**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**Year Ended June 30, 2017**

**2017-001 Internal Control Over Utility Billing and Related Accounts – Material Weakness**

*Condition:* As part of our testing of the internal controls over water utility billing we selected a sample of 25 utility bills issued during the year under audit and recalculated them based on the Villages current rate ordinance. We found that five of the recalculated bills did not match the amounts billed to the customer. Two of the bills were for commercial accounts, and three were for residential. The details of the recalculations are as follows:

- One commercial bill recalculated at \$269.43, but was billed \$263.06, an underbilling of \$6.37.
- One commercial bill recalculated at \$116.57, but was billed \$115.13, an underbilling of \$1.44.
- One residential bill recalculated at \$149.98, but was billed \$148.54, an underbilling of \$1.44.
- One residential bill recalculated at \$30.85, but was billed \$30.73, an underbilling of \$0.12.
- One residential bill recalculated at \$48.34, but was billed \$48.10, an underbilling of \$0.12.

In researching these differences, we found that the rate tables in the utility billing system did not match the rate ordinance for Tier 2 (5,001 to 20,000 gallons), Tier 3 (20,001 to 40,000 gallons), and Tier 4 (40,001, 100,000 gallons) for water billing.

As part of our testing of the internal controls over sewer utility billing we selected a sample of 25 utility bills issued during the year under audit and recalculated them based on the Villages current rate ordinance. We found that one of the recalculated bills did not match the amounts billed to the customer. The details of the recalculations are as follows:

- One residential bill recalculated at \$81.86, but was billed \$64.04, an underbilling of \$17.82.

In researching this difference, we found that the rate tables in the utility billing system did not match the rate ordinance for Tier 2, Tier 3, and Tier 4 usage for sewer billing.

In addition to the issues note above, the Village was unable to produce a listing of utility billing accounts receivable as of June 30, 2017. As a result, it was not possible to know what accounts receivable balance existed in utility accounts receivable at year-end.

**VILLAGE OF MILAN, NEW MEXICO**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**Year Ended June 30, 2017**

**2017-001 Internal Control Over Utility Billing and Related Accounts – Material Weakness (Continued)**

In addition, the Village made two larger errors in utility billing during the year under audit. The Village overbilled client \$2,834,736 for misreads. For the most part, these amounts were adjusted in the following month. However, of this amount, \$477,011 had not been corrected by the Village as of June 30, 2017. An audit adjustment was required at year-end.

To put the amount of the misreads into perspective, the Joint Utility's revenue for the entire year is \$1,487,087. The misread amount is material to revenue.

In addition, sales tax payable at year-end is \$88,865. The related accounts receivable is \$258,072. This implies a sales tax rate of 34.43%. The governmental sales tax rate is 5%. Therefore, the sales tax payable cannot be correct at year-end.

In addition, the utility customer deposit account does not agree with the utility deposit cash account.

*Criteria:* The utility billing rate ordinance should be entered into the utility billing system and then checked to ensure it is correct. Otherwise, the approved rates are not being billed to the customers.

Utility meter reads should be reviewed and approved before they are generated into bills. The final billing should be reviewed to ensure it is correct before it is sent to utility customers.

Customer deposits should be received as an increase to cash and an increase to utility deposits. Returned deposits should be recorded as a decrease to cash and a decrease to utility deposits. These amounts should be reconciled each month.

*Effect:* It is not possible to know the correct amount of utility revenue that should have been charged during the year. It is not possible to know the related accounts receivable, sales tax payable, or utility deposit balances.

*Cause:* Insufficient review of utility billing transactions by the employees of the utility billing department.

*Auditor's Recommendations:* The Village should develop procedures to ensure that:

1. Meter read errors are caught and corrected before bills are generated and sent to the utility customers.
2. Utility billing reports are correct and the postings to the utility accounting system are entered correctly, reviewed, and approved.

**VILLAGE OF MILAN, NEW MEXICO**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**Year Ended June 30, 2017**

**2017-001 Internal Control Over Utility Billing and Related Accounts – Material Weakness (Continued)**

3. The accounts receivable reports are printed each month and then reconciled to the trial balance.
4. Deposit balances are reconciled each month to the deposit cash account.
5. The sales tax payable account is correct relative to the accounts receivable balance.

Errors in Water & Sewer Rates

*Corrective Action(s):* New water and/or sewer rates are entered into the computer by the Billing Clerk. The rates will be verified by the Accounting Manager, and the Village Manager. There will be a test billing run to verify that the system is billing the customer correctly.

*Responsible person(s):* Billing Clerk and Accounting.

*Timeline of corrective action:* Completed October 2017.

Water Deposits Not Reconciled

*Corrective Action(s):* At the end of each month the Billing Clerk will print a water deposit report. This report will be reconciled with the cash deposits and submitted to the Accounting Manager for verification and reconciliation with the accounting system and submitted to the Village manager for approval.

*Responsible person(s):* Billing Clerk, Accounting Manager, and Village Manager.

*Timeline of corrective action:* January 31, 2018.

Receivable Reports

*Corrective Action(s):* The billing clerk will generate a monthly aging report that will be given to the Accounting Manager for reconciliation with the accounts receivables. The Billing Clerk will be scheduled for additional training on the billing system.

*Responsible Person(s):* Billing Clerk and Accounting Manager.

*Timeline of Corrective action:* Beginning December 31, 2017.

**VILLAGE OF MILAN, NEW MEXICO**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**Year Ended June 30, 2017**

**2017-002 Internal Controls Over Cash Accepted at the Pool and Public Money Act  
– Control Deficiency and Other Noncompliance**

*Condition:* As part of our testing of the internal controls over cash receipts at the pool we selected a sample of ten daily cash reports and tested them for compliance with the Village's internal controls and the Public Money act. We found the following:

- For five of the ten items tested the deposit was not made within 24 hours of receipt.
- For four of the ten items tested we found that the cash drawer was not reconciled for the day.
- For four of the ten items tested we found that the deposit into the bank did not agree with the daily financial report.

*Criteria:* The Village's internal control policies require the cash drawer to be reconciled on a daily basis, and the deposit in the bank to match the daily financial report.

According to 2.2.2.10(J)(3) New Mexico Administrative Code (NMAC), compliance with the Public Money Act, 6-10-1 to 6-10-63 NMSA 1978 is required. According to section 6-10-3 NMSA 1978, all public money in the custody or under the control of any state official or agency obtained or received by any official or agency from any source, except as in Section 6-10-54 NMSA 1978 provided, be deposited before the close of the next succeeding business day.

*Cause:* Internal controls were not being monitored by employees in charge at the pool.

*Effect:* Pool receipts could be stolen and internal controls would not catch the fraud.

*Auditor's Recommendation:* Management should develop a process to ensure that the cash draw is reconciled on a daily basis, the financial reports agree to the bank deposit, and deposits are made within 24 hours of receipt. In addition, management should develop a procedure to review compliance with these internal controls.

*Management's Response:*

*Corrective Action(s):* The money being received at the pool will be receipted by the employees at the pool. The Pool Supervisor will reconcile the money with the receipts each morning and deliver the money with a reconciliation report to the receivables clerk. The Receivables Clerk will verify the report and balances, and deposit the money with the daily deposit from the billing dept.



**VILLAGE OF MILAN, NEW MEXICO**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**Year Ended June 30, 2017**

**2017-002 Internal Controls Over Cash Accepted at the Pool and Public Money Act**  
**– Control Deficiency and Other Noncompliance**

*Responsible person(s):* Pool Supervisor and Receivables Clerk.

*Timeline of corrective action:* Immediately.

**VILLAGE OF MILAN, NEW MEXICO  
SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended June 30, 2017**

**2017-003 Due To/Due From Balances – Finding that Does Not Rise to the Level of Significant Deficiency**

*Condition:* The due to/due from balances do not agree by \$2,736.

*Criteria:* Due to/due from balances should reconcile to each other.

*Cause:* Unknown.

*Effect:* The difference between the due to/due from accounts should either be an income or expense. Therefore, income or expenses are misstated by \$2,736.

*Auditor's Recommendation:* Management should reconcile the due to/due from accounts on a monthly basis. Management should develop a review process to ensure a difference in the due to/due from accounts does not happen again.

*Management's Response:*

*Corrective Action(s):* Accounting Manager will reconcile the Due to/Due From accounts at the end of each month. The report will be submitted to the Village Manager for review and approval.

*Responsible person(s):* Accounting Manager and Village Manager.

*Timeline of corrective action:* Beginning December 31, 2017.

**VILLAGE OF MILAN, NEW MEXICO  
SCHEDULE OF OTHER FINDINGS AS REQUIRED BY NEW MEXICO  
STATE STATUTE, SECTION 12-6-5, NMSA 1978  
Year Ended June 30, 2017**

**2017-004 Processing of Unclaimed Property (Compliance and Other Matter)**

*Condition:* The Village has on the statement of net position – proprietary fund – joint utility \$309 in items that should be escheated to the state.

*Criteria:* Section 7-8A-1 NMSA 1978, the Uniform Unclaimed Property Act, requires checks and deposits to be escheated one year after they become abandoned.

*Effect:* The Village is not in compliance with state statutes related to unclaimed property.

*Cause:* The Village was not aware of the requirement to escheat items older than one year.

*Auditor's Recommendation:* The Village should develop a process to review unclaimed property and process them according to state statutes.

*Management's Response:*

*Corrective Action(s):* At the end of each quarter the Billing Clerk and Accounting Manager will submit a report of unclaimed property to the Village Manager. The Village Manager will review the reports and submit a recommendation on which properties should be escheated to the State.

*Responsible person(s):* Billing Clerk, Accounting Manager, and Village Manager.

*Timeline of corrective action:* First report due December 31, 2017.

**VILLAGE OF MILAN, NEW MEXICO  
EXIT CONFERENCE  
Year Ended June 30, 2017**

An exit conference was held on December 14, 2017, and attended by the following:

Village of Milan, New Mexico

O. Robert Gallegos, Mayor Pro-tem  
Marcella Sandoval, Village Manager  
Esther Barnes, Payroll Clerk

Porch & Associates LLC

Thad Porch, Managing Principal

\* \* \* \* \*

The financial statements were prepared by Porch & Associates LLC from the books and records of the Village of Milan. However, the contents of these financial statements remain the responsibility of the Village's management.