

PORCH & ASSOCIATES LLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

VILLAGE OF MILAN, NEW MEXICO

Financial Statements, Supplementary Information
and
Independent Auditors' Report

June 30, 2018

VILLAGE OF MILAN, NEW MEXICO
TABLE OF CONTENTS

	Page
List of Principal Officials	i
Independent Auditor’s Report	1
Government-Wide Financial Statements	
Statement of Net Position	5
Statement of Activities.....	6
Fund Financial Statements	
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 Fund – Joint Utility	12
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Fund – Joint Utility	13
Statement of Cash Flows – Proprietary Fund – Joint Utility	14
Statement of Fiduciary Assets and Liabilities – Agency Funds	16
Notes to Financial Statements	17

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

	Page
Supplemental Information	
<i>Nonmajor Governmental Funds</i>	
Combining Balance Sheet.....	50
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	53
Required Supplementary Information	
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.....	56
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.....	57
Schedule of the Village’s Proportionate Share of the Net OPEB Liability – Last 10 Fiscal Years	58
Schedule of the Village’s Contributions to the OPEB Plan – Last 10 Fiscal Years.....	59
Notes to Required Supplementary Information	60
Supplementary Information – Supporting Schedules	
Schedule of Changes in Assets and Liabilities – Agency Funds	62
Schedule of Deposit Accounts	63
Schedule of Pledged Collateral.....	64
Schedule of Joint Powers Agreements.....	65

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

	Page
Other Reports	
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 <i>Government Auditing Standards</i>	66
Summary Schedule of Prior Audit Findings	68
Schedule of Other Findings as required by New Mexico State Statute, Section 12-6-5, NMSA 1978	69
Exit Conference.....	74

VILLAGE OF MILAN, NEW MEXICO

List of Principal Officials

June 30, 2018

Elected Officials

Felix O. Gonzales	Mayor
Helen M. Dayan	Mayor Pro-Tem
Vivian Brumbelow	Trustee
Chris Archuleta	Trustee
Ellen Baca	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. Felix O. Gonzales, 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, 2018, 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, 2018, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material 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. Felix O. Gonzales, 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, charges for services, or the cash flows thereof.

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, 2018, 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, and the aggregate remaining fund information of the Village of Milan, New Mexico, as of June 30, 2018, 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. Felix O. Gonzales, 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 Village's pension plan and OPEB 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. Felix O. Gonzales, 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, 2018 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, 2018

VILLAGE OF MILAN, NEW MEXICO
STATEMENT OF NET POSITION
June 30, 2018

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 2,350,164	1,062,941	3,413,105
Cash and cash equivalents - restricted	322	287,990	288,312
Receivables:			
Taxes:			
Gross receipts	307,647	1,659	309,306
Gasoline	10,771	-	10,771
Motor vehicle	1,724	-	1,724
Cibola Transit Authority	10,055	-	10,055
Property	43,510	-	43,510
Lodger's	468	-	468
Franchise	12,647	-	12,647
Due from other funds	-	103,980	103,980
Accounts receivable, net of allowance	-	141,888	141,888
Capital assets, not depreciated	3,400,557	3,054,880	6,455,437
Capital assets, net of accumulated depreciation	9,562,424	3,393,891	12,956,315
Total assets	15,753,070	8,047,229	23,800,299
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources related to pension	420,605	64,920	485,525
Deferred outflows of resources related to OPEB	22,851	3,541	26,392
Total deferred outflows of resources	443,456	68,461	511,917
LIABILITIES			
Accounts payable	336,811	79,376	416,187
Accrued compensation and benefits	88,224	9,034	97,258
Interest payable	-	5,221	5,221
Deposits payable	-	158,507	158,507
Sales tax payable	-	118,393	118,393
Escheatment payable	-	750	750
Due to other funds	-	98,130	98,130
Compensated absences, due in one year	39,696	9,566	49,262
Compensated absences, due in more than one year	13,231	-	13,231
Long-term liabilities, due in one year	79,004	148,758	227,762
Long-term liabilities, due in more than one year	645,243	632,476	1,277,719
Net pension liability	1,452,806	265,590	1,718,396
Net OPEB liability	1,194,776	185,118	1,379,894
Total liabilities	3,849,791	1,710,919	5,560,710
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to pensions	225,947	36,121	262,068
Deferred inflows of resources related to OPEB	271,929	42,132	314,061
	497,876	78,253	576,129
NET POSITION			
Net investment in capital assets	12,238,734	5,667,537	17,906,271
Restricted for capital projects	333,432	-	333,432
Restricted for debt service	22,893	-	22,893
Unrestricted	(746,200)	658,981	(87,219)
Total net position	\$ 11,848,859	6,326,518	18,175,377

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

VILLAGE OF MILAN, NEW MEXICO
STATEMENT OF ACTIVITIES
Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Primary government							
Governmental activities							
General government	\$ 1,343,932	60,453	131,704	-	(1,151,775)	-	(1,151,775)
Public safety	1,135,255	32,525	189,266	-	(913,464)	-	(913,464)
Highways and streets	860,430	-	178,773	1,508,046	826,389	-	826,389
Culture and recreation	468,181	-	-	-	(468,181)	-	(468,181)
Total governmental activities	<u>3,811,984</u>	<u>92,978</u>	<u>499,743</u>	<u>1,508,046</u>	<u>(1,711,217)</u>	<u>-</u>	<u>(1,711,217)</u>
Business-type activities							
Joint Utility	1,580,421	1,279,100	-	50,465	-	(250,856)	(250,856)
Total primary government	<u>\$ 5,392,405</u>	<u>1,372,078</u>	<u>499,743</u>	<u>1,558,511</u>	<u>(1,711,217)</u>	<u>(250,856)</u>	<u>(1,962,073)</u>
General Revenues:							
Gross receipts taxes					2,076,691	19,798	2,096,489
Gasoline taxes					130,784	-	130,784
Property taxes					296,346	-	296,346
Motor vehicle registrations					19,531	-	19,531
Lodger's taxes					2,772	-	2,772
Franchise taxes					76,863	-	76,863
Rentals					31,643	-	31,643
Interest					1,830	9,216	11,046
Disposition of capital assets					7,885	10,145	18,030
Other					72,813	578	73,391
Transfers					(788,854)	788,854	-
Total general revenues and transfers					<u>1,928,304</u>	<u>828,591</u>	<u>2,756,895</u>
Change in net position					<u>217,087</u>	<u>577,735</u>	<u>794,822</u>
Net position, beginning of year					13,050,973	5,968,673	19,019,646
Restatement					(1,419,201)	(219,890)	(1,639,091)
Net position, beginning of year, as restated					<u>11,631,772</u>	<u>5,748,783</u>	<u>17,380,555</u>
Net position, end of year					<u>\$ 11,848,859</u>	<u>6,326,518</u>	<u>18,175,377</u>

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

VILLAGE OF MILAN, NEW MEXICO
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2018

	General	Co-Op Street Improvements	Nonmajor Governmental Funds	Total
ASSETS				
Cash and cash equivalents	\$ 1,300,551	706,491	343,122	2,350,164
Cash and cash equivalents - restricted	-	-	322	322
Receivables:				
Taxes:				
Gross receipts	307,647	-	-	307,647
Gasoline	-	-	10,771	10,771
Motor vehicle	1,724	-	-	1,724
Cibola Transit Authority	10,055	-	-	10,055
Property	43,399	-	111	43,510
Lodger's	-	-	468	468
Franchise	12,647	-	-	12,647
Grants	9,212	43,569	-	52,781
Due from other funds	162,574	-	-	162,574
Total assets	\$ 1,847,809	750,060	354,794	2,952,663
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 31,930	286,517	18,364	336,811
Accrued compensation and benefits	84,757	-	3,467	88,224
Due to other funds	158,114	-	2,492	160,606
Total liabilities	274,801	286,517	24,323	585,641
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - grants	-	130,111	-	130,111
Unavailable revenue - property taxes	39,670	-	-	39,670
Total deferred inflows of resources	39,670	130,111	-	169,781
FUND BALANCES				
Restricted for:				
Special revenue funds	-	-	307,578	307,578
Capital projects funds	-	333,432	-	333,432
Debt service funds	-	-	22,893	22,893
Unassigned	1,533,338	-	-	1,533,338
Total fund balances	1,533,338	333,432	330,471	2,197,241
Total liabilities and fund balances	\$ 1,847,809	750,060	354,794	2,952,663

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, 2018

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

Total fund balance - governmental funds	\$ 2,197,241
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	12,962,981
Accrued compensated absences not payable from current revenues.	(52,927)
Deferred revenue is recorded as income under the accrual method, and not the modified accrual method.	169,781
Long-term liabilities, including the net pension liability and OPEB liability, are not and payable in the current period and, therefore are not reported in the governmental fund.	(3,371,829)
The change in the difference in due to/due from accounts is expensed in the entity wide financial statements.	(1,968)
Deferred outflows of resources related to pension and OPEB are not due and payable in the current period and, therefore, are not reported in the governmental funds.	443,456
Deferred inflows of resources related to pensions are not received in the current period and, therefore, are not reported in the governmental funds.	(225,947)
Deferred inflows of resources related to OPEB are not received in the current period and, therefore, are not reported in the governmental funds.	<u>(271,929)</u>
Net position - governmental activities	<u><u>\$ 11,848,859</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, 2018

	General	Co-Op Street Improvements	Nonmajor Funds	Total
Revenues				
Taxes	\$ 2,438,265	-	134,007	2,572,272
Licenses, permits, fees, and fines	60,453	-	32,525	92,978
From non-federal sources:				
Grants	178,773	1,377,935	22,400	1,579,108
Intergovernmental	131,704	-	166,866	298,570
Rental	31,643	-	-	31,643
Interest	1,227	509	94	1,830
Other	64,099	-	8,714	72,813
Total revenues	2,906,164	1,378,444	364,606	4,649,214
Expenditures				
Current				
General government	1,082,683	62,923	4,210	1,149,816
Public safety	838,828	-	136,742	975,570
Highways and streets	229,685	281,827	211,149	722,661
Culture and recreation	397,030	-	-	397,030
Debt service - principal	23,567	-	33,691	57,258
Debt service - interest	1,145	-	3,041	4,186
Capital outlay	107,089	123,039	210,625	440,753
Total expenditures	2,680,027	467,789	599,458	3,747,274
Excess (deficiency) of revenues over expenditures before other financings sources	226,137	910,655	(234,852)	901,940
Other Financing Sources (Uses)				
Proceeds from the sale of capital assets	7,885	-	-	7,885
Proceeds from the issuance of debt	-	-	149,925	149,925
Operating transfers in	200,000	65,000	62,000	327,000
Operating transfers out	-	(1,115,854)	-	(1,115,854)
Total other financing sources (uses)	207,885	(1,050,854)	211,925	(631,044)
Net change in fund balances	434,022	(140,199)	(22,927)	270,896
Fund balance, beginning of year	1,099,316	473,631	353,398	1,926,345
Fund balance, end of year	\$ 1,533,338	333,432	330,471	2,197,241

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, 2018

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

Net changes in fund balances - governmental funds	\$ 270,896
<p>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.</p>	
Depreciation expense	(363,397)
Capital outlay	<u>389,628</u>
Excess of capital outlay over depreciation	26,231
<p>The issuance of long-term debt provides current financial resources to governmental funds, but has no effect on net position.</p>	
	(149,925)
<p>The repayment of the principal of long-term debt consumes current financial resources of governmental funds, but has no effect on net position.</p>	
	57,258
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>	
	160,826
<p>The difference in due to/due from accounts is expensed in the entity wide financial statements.</p>	
	(3,017)
<p>Accrued compensated absences are expensed under the accrual method, and not the modified accrual method.</p>	
	(12,696)
<p>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:</p>	
Change in net pension liability and the related deferred inflows and deferred inflows of resources related to pensions.	(107,833)
Change in net OPEB liability and the related deferred inflows and deferred inflows of resources related to OPEB.	<u>(24,653)</u>
Change in net position - governmental activities	<u><u>\$ 217,087</u></u>

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, 2018

	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 2,235,922	2,235,922	2,191,839	(44,083)
Licenses, permits, fees, and fines	23,700	23,700	60,453	36,753
Grants	3,000	3,000	169,561	166,561
Intergovernmental	90,000	90,000	131,704	41,704
Rental	-	-	31,643	31,643
Interest	1,500	1,500	1,227	(273)
Other	927,195	927,195	64,099	(863,096)
Total revenues	3,281,317	3,281,317	2,650,526	(630,791)
Expenditures				
General government	1,213,650	1,213,650	1,119,998	93,652
Public safety	894,392	894,392	838,828	55,564
Highways and streets	-	-	229,685	(229,685)
Culture and recreation	679,951	679,951	397,030	282,921
Debt service - principal	-	-	23,567	(23,567)
Debt service - interest	-	-	1,145	(1,145)
Capital outlay	635,195	635,195	107,089	528,106
Total expenditures	3,423,188	3,423,188	2,717,342	705,846
Deficiency of revenues over expenditures	(141,871)	(141,871)	(66,816)	75,055
Other financing sources (uses)				
Operating transfers in	200,000	200,000	200,000	-
Proceeds from sale of capital assets	-	-	7,885	7,885
Total other financing sources (uses)	200,000	200,000	207,885	7,885
Net change in fund balance	\$ 58,129	58,129	141,069	82,940
Budgetary revenues			\$ 2,650,526	
Change in taxes receivable			246,426	
Grants			9,212	
GAAP revenues			<u>\$ 2,906,164</u>	
Budgetary expenditures			\$ 2,717,342	
Changes in accounts payable			(45,071)	
Changes in accrued compensation and benefits			7,756	
GAAP expenditures			<u>\$ 2,680,027</u>	

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, 2018

ASSETS

Current Assets

Cash and cash equivalents	\$ 1,062,941
Accounts receivable, net of allowance	141,888
Taxes receivable	1,659
Due from other funds	103,980
Total current assets	<u>1,310,468</u>

Noncurrent Assets

Restricted cash and cash equivalents	287,990
Capital assets, net of accumulated depreciation	6,448,771
Total noncurrent assets	<u>6,736,761</u>
Total assets	<u>8,047,229</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources related to pensions	64,920
Deferred outflows of resources related to OPEB	3,541
Total deferred outflows	<u>68,461</u>

LIABILITIES

Current Liabilities

Accounts payable	79,376
Accrued compensation and benefits	9,034
Interest payable	5,221
Deposits payable	158,507
Sales tax payable	118,393
Escheatment payable	750
Due to other funds	98,130
Compensated absences	9,566
Long-term debt	148,758
Total current liabilities	<u>627,735</u>

Noncurrent Liabilities

Long-term debt, less current maturities	632,476
Net pension liability	265,590
Net OPEB liability	185,118
Total noncurrent liabilities	<u>1,083,184</u>
Total liabilities	<u>1,710,919</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources related to pensions	36,121
Deferred inflows of resources related to OPEB	42,132
Total deferred inflows of resources	<u>78,253</u>

NET POSITION

Net investments in capital assets	5,667,537
Unrestricted	658,981
Total net position	<u>\$ 6,326,518</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, 2018**

Operating Revenues	
Charges for services	\$ 1,269,423
Late charges	9,677
Total operating revenues	<u>1,279,100</u>
Operating Expenses	
Operating expenses	1,325,898
Depreciation	219,509
Total operating expenses	<u>1,545,407</u>
Operating Loss	<u>(266,307)</u>
Nonoperating Revenues (Expenses)	
Interest income	9,216
Interest expense	(35,014)
Gross receipts tax	19,798
Other income (expense)	578
Disposition of capital assets	10,145
Grants	50,465
Transfers in	1,115,854
Transfers out	(327,000)
Total nonoperating revenues (expenses)	<u>844,042</u>
Change in net position	<u>577,735</u>
Net position, beginning of year	5,968,673
Restatement	(219,890)
Net position, beginning of year, after restatement	<u>5,748,783</u>
Net position, end of year	<u><u>\$ 6,326,518</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, 2018

Cash Flows From Operating Activities	
Cash received from customers	\$ 1,395,284
Cash payments to vendors and employees	(1,219,817)
Net cash provided by operating activities	<u>175,467</u>
Cash Flows From Noncapital and Related Financing Activities	
Gross receipts tax revenue	19,985
Other revenue	578
Net change in due to/due from balances	(7,537)
Operating transfers in	839,319
Net cash provided by noncapital financing activities	<u>852,345</u>
Cash Flows From Capital and Related Financing Activities	
Purchase of capital assets	(1,149,200)
Principle payment on debt	(148,791)
Interest payment on debt	(35,936)
Proceeds from the disposal of capital assets	10,145
Net cash used by capital and related financing activities	<u>(1,323,782)</u>
Cash Flows From Investing Activities	
Interest income	9,216
Net change in cash and cash equivalents	<u>(286,754)</u>
Cash, beginning of year	<u>1,637,685</u>
Cash, end of year	<u>\$ 1,350,931</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, 2018

Operating loss	\$ (266,307)
Adjustments to reconcile operating loss to net cash flows provided by operating activities:	
Depreciation expense	219,509
Changes in assets and liabilities:	
Accounts receivable	116,184
Deferred outflows of resources related to pensions	100,221
Deferred outflows of resources related to OPEB	(33)
Accounts payable	36,394
Accrued compensated and benefits	1,030
Deposits payable	93,679
Sales tax payable	29,528
Escheatment payable	441
Compensated absences	2,956
Net pension liability	(193,551)
Net OPEB liability	(38,280)
Deferred inflows of resources related to pensions	31,564
Deferred inflows of resources related to OPEB	42,132
Net cash provided by operating activities	<u><u>\$ 175,467</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, 2018

ASSETS

Current assets	
Cash and cash equivalents	\$ 6,105
Total assets	<u>\$ 6,105</u>

LIABILITIES

Current liabilities	
Due to other entities	\$ 6,105
Total liabilities	<u>\$ 6,105</u>

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

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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

As required by GAAP, financial statements are presented for the Village and its component units. A legally separate organization that does not qualify as a primary government is a potential component unit. The normal criterion for deciding whether a potential component unit is, in fact, a component unit is financial accountability. Financial accountability is determined by analyzing fiscal dependency, board appointments, financial benefit or burden relationships, or the ability of the primary government to impose its will on the potential component unit. Based on these criteria, the Village has no component units.

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*.

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

A. Financial Reporting Entity (Continued)

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.

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.

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

A. Financial Reporting Entity (Continued)

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 10th and May 10th. 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.

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, 2018**

**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, 2018**

**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, 2018

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 and grants. 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, 2018**

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

G. Pensions and OPEB – 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.

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the New Mexico Retiree Health Care Authority (NMRHCA) and additions to and deductions from NMRHCA’s fiduciary net position have been determined on the same basis as they are reported by NMRHCA. For this purpose, NMRHCA recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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.

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

I. Fund Balances (Continued)

- 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.
- 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 49.

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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, 2018

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 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, 2018**

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

O. GASB 77 Disclosures (Tax Abatements)

In accordance with 2.2.2.10(BB) NMAC, the Village is required to make certain disclosures regarding GASB 77, as applicable. Management of the Village is not aware of any tax abatement agreements that existed and require disclosure as of June 30, 2018.

P. Implementation of New Accounting Standards

During the year ended June 30, 2018, the Village adopted the following Government Accounting Standards Board Statements (GASB):

GASB No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. Implementation of GASB No. 75 will have a material impact on the Village's liabilities, deferred inflows of resources, deferred outflows of resources, and net assets. Details of GASB No. 75 and its implementation may be found in Footnotes 12 and 17.

GASB No. 85 – Omnibus. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). 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, 2018

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, 2018, the Village's bank balance total of \$3,540,833 was exposed to credit risk in the amount of \$3,040,833 as follows:

Uninsured and collateral held by pledging bank's trust department not in the Village's name	<u>\$ 2,201,497</u>
Uninsured and uncollateralized	<u>\$ 839,336</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, 2018:

Accounts receivable	\$ 175,491
Allowance for uncollectible accounts	<u>(33,603)</u>
Accounts receivable, net of allowance	<u>\$ 141,888</u>

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 4 CAPITAL ASSETS

Governmental fund capital asset activity for the year ending June 30, 2018 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities				
Capital assets, not depreciated				
Land	\$ 593,375	-	-	593,375
Construction in process	2,763,174	44,008	-	2,807,182
Total, not depreciated	<u>\$ 3,356,549</u>	<u>44,008</u>	<u>-</u>	<u>3,400,557</u>
Capital assets, depreciated				
Buildings and improvements	\$ 5,282,449	-	-	5,282,449
Land improvements	131,367	-	-	131,367
Infrastructure	7,379,941	157,108	-	7,537,049
Furniture and equipment	967,428	29,012	(35,520)	960,920
Vehicles	1,711,593	159,500	(222,503)	1,648,590
Total, depreciated	<u>15,472,778</u>	<u>345,620</u>	<u>(258,023)</u>	<u>15,560,375</u>
Accumulated depreciation for				
Buildings and improvements	2,667,714	107,031	-	2,774,745
Land improvements	14,331	4,761	-	19,092
Infrastructure	1,101,099	168,084	-	1,269,183
Furniture and equipment	565,640	14,023	(35,520)	544,143
Vehicles	1,543,793	69,498	(222,503)	1,390,788
Total accumulated depreciation	<u>5,892,577</u>	<u>363,397</u>	<u>(258,023)</u>	<u>5,997,951</u>
Total capital assets, depreciated, net	<u>\$ 9,580,201</u>	<u>(17,777)</u>	<u>-</u>	<u>9,562,424</u>
Total capital assets, net	<u>\$ 12,936,750</u>	<u>26,231</u>	<u>-</u>	<u>12,962,981</u>

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

General government	\$ 54,770
Public safety	114,577
Highways and streets	131,657
Culture and recreation	<u>62,393</u>
Total depreciation expense	<u>\$ 363,397</u>

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 4 CAPITAL ASSETS (CONTINUED)

Enterprise fund capital asset activity for the year ending June 30, 2018 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Business-type Activities				
Capital assets, not depreciated:				
Land	\$ 695,250	-	-	695,250
Water rights	1,413,000	-	-	1,413,000
Construction in process	337,485	609,145	-	946,630
Total, not depreciated	\$ 2,445,735	609,145	-	3,054,880
Capital assets, depreciated:				
Buildings and improvements	\$ 181,844	-	-	181,844
Plant and system	8,567,435	540,055	-	9,107,490
Furniture and fixtures	1,089,196	-	-	1,089,196
Vehicles	26,795	-	-	26,795
Total, depreciated	9,865,270	540,055	-	10,405,325
Accumulated depreciation for:				
Buildings and improvements	79,757	3,244	-	83,001
Plant and system	5,763,570	180,793	-	5,944,363
Furniture and fixtures	931,305	27,336	-	958,641
Vehicles	17,293	8,136	-	25,429
Total accumulated depreciation	6,791,925	219,509	-	7,011,434
Total capital assets, depreciated, net	\$ 3,073,345	320,546	-	3,393,891
Total capital assets, net	\$ 5,519,080	929,691	-	6,448,771

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 5 LONG-TERM OBLIGATIONS – GOVERNMENTAL FUNDS

During the year ended June 30, 2018, the following changes occurred:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Compensated absences	\$ 40,231	60,021	(47,325)	52,927	39,696
Notes payable	631,580	149,925	(57,258)	724,247	79,004
Net pension liability	1,758,828	-	(306,022)	1,452,806	-
Net OPEB liability	<u>1,441,841</u>	-	<u>(247,065)</u>	<u>1,194,776</u>	-
Total	<u>\$3,872,480</u>	<u>209,946</u>	<u>(657,670)</u>	<u>3,424,756</u>	<u>118,700</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 May of each year.

The Village entered into a loan agreement with NMFA on August 25, 2017, for a principal amount of \$149,925. The proceeds were used for the purchase of a mini-pumper fire truck. The term is seven years and bears interest at a rate of 0.10%. The distribution of the State Fire Protection Funds has been pledged for repayment of the loan. The annual debt service payment is made in June of each year.

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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

The schedule principal and interest payments are as follows:

Year Ending June 30	Principal	Interest	Total
2019	\$ 79,004	3,958	82,962
2020	79,702	3,260	82,962
2021	80,392	2,570	82,962
2022	81,158	1,803	82,961
2023	45,317	914	46,231
2024 – 2028	163,185	3,411	166,596
2029 – 2033	121,722	1,837	123,559
2034 – 2037	73,767	369	74,136
	<u>\$ 724,247</u>	<u>18,122</u>	<u>742,369</u>

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, 2018, the following changes occurred:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities					
Compensated absences	\$ 6,610	14,699	(11,743)	9,566	9,566
Notes payable	930,025	-	(148,791)	781,234	148,758
Net pension liability	459,141	-	(193,551)	265,590	-
Net OPEB liability	223,398	-	(38,280)	185,118	-
Total	<u>\$ 1,619,174</u>	<u>14,699</u>	<u>(392,365)</u>	<u>1,241,508</u>	<u>158,324</u>

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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

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, 2018, 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.

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
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>\$ 781,234</u>	<u>96,977</u>	<u>878,211</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.

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 8 INTERFUND OPERATING TRANSFERS

The Co-Op Street Improvements fund transferred \$1,115,854 to the Joint Utility fund during the year ended June 30, 2018. The transferred moved completed assets between the two funds.

The Joint Utility fund transferred \$200,000 to the General Fund, \$65,000 to the Co-Op Street Improvement fund, and \$62,000 to nonmajor funds during the year ended June 30, 2018. The money was used to meet matching requirements for grants and grant payments.

NOTE 9 DUE TO AND DUE FROM OTHER FUNDS

A summary of the due from and due to other funds at June 30, 2018 is as follows:

	Due From Other Funds	Due To Other Funds
Governmental Funds		
Major Funds:		
General	\$ 162,574	158,114
Non-major Funds:		
Corrections	-	11
Fire Protection	-	1,087
Municipal Streets	-	1,394
Proprietary Funds		
Joint Utility	103,980	98,130
Total	<u>\$ 266,554</u>	<u>258,736</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.

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 10 CONTINGENT DEBT OBLIGATION (CONTINUED)

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.

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, 2018, the management of NWNMRSWA and the Village do not anticipate any additional significant liability to the Village for closure/post closure costs

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 11 PERA PENSION PLAN

Plan description. The Public Employees Retirement Fund (PERA or 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.

The PERA coverage option that applies to Village is the Municipal General Division and the Municipal Police Division.

Eligibility for membership in the Public Employees Retirement Fund is set forth in the public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). Except as provided for in the Volunteer Firefighters Retirement Act (10-11A-1 to 10-11A-7, NMSA 1978), the Judicial Retirement Act (10-12B-1 to 10-12B-19, NMSA 1978), the Magistrate Retirement Act (10-12C-1 to 10-12C-18, NMSA 1978), and the Educational Retirement Act (Chapter 22, Article 11, NMSA 1978), each employee and elected official of every affiliated public employer is required to be a member in the Public Employees Retirement Fund, unless specifically excluded.

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-B.

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

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 11 PERA PENSION PLAN (CONTINUED)

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

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, 2016. The PERA pension liability amounts for each division were rolled forward from the valuation date to the Plan year ending June 30, 2017, using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement dated June 30, 2017.

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, 2017.

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 11 PERA PENSION PLAN (CONTINUED)

Only employer contributions for the pay period end dates that fell within the period of July 1, 2016 to June 30, 2017, were included in the total contributions for a specific employer. Regular and any adjustment contributions that applied to FY 2017 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.

PERA Municipal General Division

Statutorily required contributions to the pension plan's Municipal General Division from the Village were \$65,882 for the year ended June 30, 2018.

For the PERA Municipal General Division, at June 30, 2018, the Village reported a liability of \$1,335,610 for its proportionate share of the net pension liability. At June 30, 2018, the Village's proportion was 0.0972%, which decreased from its proportion measured as of June 30, 2017 of 0.1089%.

For the year ended June 30, 2018, the Village recognized PERA Municipal General Division pension expense of \$73,651. At June 30, 2018, the Village reported PERA General Fund Division deferred outflows of resources and deferred inflows of resources of \$326,471 and \$181,647, respectively, related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 52,481	68,406
Change of assumption	61,591	13,802
Net difference between projected and actual earnings on pension plan investments	109,579	-
Change in proportion	28,395	99,439
Village contributions subsequent to the measurement date	74,425	-
	<u>\$ 326,471</u>	<u>181,647</u>

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 11 PERA PENSION PLAN (CONTINUED)

\$74,425 reported as deferred outflows of resources related to pensions resulting from the Village contributions subsequent to the measurement date June 30, 2017, will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows and deferred inflows related to pensions will be recognized in pension expense as follows:

2019	\$	22,332
2020		91,776
2021		(11,686)
2022		(32,023)
2023		-
	\$	<u>70,399</u>

PERA Municipal Police Division

Statutorily required contributions to the pension plan's Municipal Police Division from the Village were \$37,958 for the year ended June 30, 2018.

For the PERA Municipal Police Division, at June 30, 2018, the Village reported a liability of \$382,785 for its proportionate share of the net pension liability. At June 30, 2018, the Village's proportion was 0.0689%, which decreased from its proportion measured as of June 30, 2017 of 0.0648%.

For the year ended June 30, 2018, the Village recognized PERA Municipal Police Division pension expense of \$42,466. At June 30, 2018, the Village reported PERA Municipal Police Division deferred outflows of resources and deferred inflows of resources of \$159,054 and \$80,421, respectively, related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 23,249	71,520
Change of assumption	22,774	8,901
Net difference between projected and actual earnings on pension plan investments	30,828	-
Change in proportion	44,245	-
Village contributions subsequent to the measurement date	<u>37,958</u>	-
	<u>\$ 159,054</u>	<u>80,421</u>

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 11 PERA PENSION PLAN (CONTINUED)

\$37,958 reported as deferred outflows of resources related to pensions resulting from the Village contributions subsequent to the measurement date June 30, 2017, will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows and deferred inflows related to pensions will be recognized in pension expense as follows:

2019	\$ 19,622
2020	35,639
2021	(5,572)
2022	(9,014)
2023	<u>-</u>
	<u>\$ 40,675</u>

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, 2016, 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, 2017, 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, 2017. These actuarial methods and assumptions were adopted by the Board for use in the June 30, 2017, actuarial valuation.

Actuarial valuation date	June 30, 2016
Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay, open
Amortization period	Solved for based on statutory rates
Asset valuation method	4-year smoothed market value
Actuarial assumptions:	
– Investment rate of return	7.51% annual rate, net of investment expense
– Projected benefit payment	100 years
– Payroll growth	2.75% for first 9 years, then 3.25% annual rate
– Projected salary increases	3.00% to 14.00% annual rate
– Included inflation at	2.25% annual rate first 9 years, 2.75% all other years

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 11 PERA PENSION PLAN (CONTINUED)

- 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, 2016 (economic)

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:

<u>All Funds – Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>
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 7.51 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 7.48 percent.

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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 7.51%, 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 (6.51%) or 1-percentage-point higher (8.51%) than the current rate:

	1% Decrease (6.51%)	Current Discount Rate (7.51%)	1% Increase (8.51%)
<u>PERA Municipal General Division</u>			
Village's proportionate share of the net pension liability	\$ 2,093,342	1,335,610	705,450

	1% Decrease (6.51%)	Current Discount Rate (7.51%)	1% Increase (8.51%)
<u>PERA Municipal Police Division</u>			
Village's proportionate share of the net pension liability	\$ 610,435	382,785	195,964

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 OTHER POST-EMPLOYMENT BENEFITS (OPEB)

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

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

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 12 OTHER POST-EMPLOYMENT BENEFITS (OPEB) CONTINUED

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

Employees covered by benefit terms. At June 30, 2017, the Fund's measurement date, the following employees were covered by the benefit terms (number of participants):

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

Contributions. Employer and employee contributions to the Fund total 3% for non-enhanced retirement plans and 3.75% of enhanced retirement plans of each participating employee's salary as required by Section 10-7C-15 NMSA 1978. The contributions are established by statute and are not based on an actuarial calculation. All employer and employee contributions are non-refundable under any circumstance, including termination of the employer's participation in the Fund. Contributions to the Fund from the Village were \$41,165 for the year ended June 30, 2018.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB. At June 30, 2018, the Village reported a liability of \$1,379,894 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Village's proportion of the net OPEB liability was based on actual contributions provided to the Fund for the year ending June 30, 2017. At June 30, 2017, the Village's proportion was 0.03045%.

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 12 OTHER POST-EMPLOYMENT BENEFITS (OPEB) CONTINUED

For the year ended June 30, 2018, the Village recognized OPEB expense of \$54,830. At June 30, 2018 the Village reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	52,953
Change of assumptions	-	241,257
Difference between actual and projected earnings on OPEB plan investments	-	19,851
Village contributions subsequent to the measurement date	<u>26,392</u>	-
	<u>\$ 26,392</u>	<u>314,061</u>

Deferred outflows of resources totaling \$26,392 represent Village contributions to the Fund made subsequent to the measurement date and will be recognized as a reduction of net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

2019	\$ (66,772)
2020	(66,772)
2021	(66,772)
2022	(66,772)
2023	<u>(46,973)</u>
	<u>\$ (314,061)</u>

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

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

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 12 OTHER POST-EMPLOYMENT BENEFITS (OPEB) CONTINUED

Actuarial assumptions:

– Inflation	2.5% for ERB; 2.25% for PERA
– Projected payroll increases	3.5%
– Investment rate of return	7.25, net of OPEB plan investment expense and margin for adverse deviation including inflation
– Health care cost trend rate	8% graded down to 4.5% over 14 years for Non-Medicare medical plan costs and 7.5% graded down to 4.5% over 12 for Medicare medical plan costs

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

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

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

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 12 OTHER POST-EMPLOYMENT BENEFITS (OPEB) CONTINUED

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

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

	1% Decrease (2.81%)	Current Discount Rate (3.81%)	1% Increase (4.81%)
Village's proportionate share of the OPEB liability	\$ 1,673,790	1,379,894	1,149,307

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

	1% Decrease	Current Trend Rate	1% Increase
Village's proportionate share of the OPEB liability	\$ 1,173,695	1,379,894	1,540,679

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

Payable Changes in the Net OPEB Liability. At June 30, 2018, the Village reported a payable of \$1,658 for outstanding contributions due to NMRHCA for the year ended June 30, 2018.

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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, 2018, 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 RELATED PARTY TRANSACTIONS

An employee of the Village owns a company with which the Village contracts for cleaning services. The employee's company was paid \$10,500 during the year under audit.

NOTE 15 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.

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 15 COMMITMENTS AND CONTINGENCIES (CONTINUED)

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.

NOTE 16 SUBSEQUENT EVENTS

The Village has evaluated subsequent events through December 13, 2018, the date the financial statements were available to be issued. Subsequent to June 30, 2018, the Village had no material subsequent events.

NOTE 17 RESTATEMENT OF NET POSITION

During the year ended June 30, 2018, the Village implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The Village has restated the beginning entity wide net position by \$(1,419,201) and the proprietary fund net position by \$(219,890) as part of the implementation of this GASB Statement.

VILLAGE OF MILAN, NEW MEXICO
NONMAJOR FUNDS
June 30, 2018

SPECIAL REVENUE FUNDS

Corrections. To establish an additional source 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, 2018**

	Special Revenue		
	Corrections	Fire Protection	Law Enforcement Protection
ASSETS			
Cash and cash equivalents	\$ 104,005	83,771	3,809
Cash and cash equivalents - restricted	-	322	-
Receivables:			
Taxes:			
Gasoline	-	-	-
Lodger's	-	-	-
Property	-	-	-
Total assets	\$ 104,005	84,093	3,809
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 4,403	7,027	-
Accrued compensation and benefits	-	-	-
Due to other funds	11	1,087	-
Total liabilities	4,414	8,114	-
FUND BALANCES			
Restricted for:			
Special revenue funds	99,591	75,979	3,809
Debt service funds	-	-	-
Total fund balances	99,591	75,979	3,809
Total liabilities and fund balances	\$ 104,005	84,093	3,809

**VILLAGE OF MILAN, NEW MEXICO
 COMBINING BALANCE SHEET
 NONMAJOR FUNDS
 June 30, 2018**

	Special Revenue		
	Lodger's Tax Reserve	Municipal Streets	Recreation
ASSETS			
Cash and cash equivalents	\$ 21,858	4,102	22,046
Cash and cash equivalents - restricted	-	-	-
Receivables:			
Taxes:			
Gasoline	-	10,771	-
Lodger's	468	-	-
Property	-	-	-
Total assets	\$ 22,326	14,873	22,046
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ -	6,934	-
Accrued compensation and benefits	-	3,467	-
Due to other funds	-	1,394	-
Total liabilities	-	11,795	-
FUND BALANCES			
Restricted for:			
Special revenue funds	22,326	3,078	22,046
Debt service funds	-	-	-
Total fund balances	22,326	3,078	22,046
Total liabilities and fund balances	\$ 22,326	14,873	22,046

**VILLAGE OF MILAN, NEW MEXICO
 COMBINING BALANCE SHEET
 NONMAJOR FUNDS
 June 30, 2018**

	<u>Capital Outlay</u>		
	CDBG	Debt Service	Total Nonmajor
ASSETS			
Cash and cash equivalents	\$ 80,749	22,782	343,122
Cash and cash equivalents - restricted	-	-	322
Receivables:			
Taxes:			
Gasoline	-	-	10,771
Lodger's	-	-	468
Property	-	111	111
Total assets	\$ 80,749	22,893	354,794
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ -	-	18,364
Accrued compensation and benefits	-	-	3,467
Due to other funds	-	-	2,492
Total liabilities	-	-	24,323
FUND BALANCES			
Restricted for:			
Special revenue funds	80,749	-	307,578
Debt service funds	-	22,893	22,893
Total fund balances	80,749	22,893	330,471
Total liabilities and fund balances	\$ 80,749	22,893	354,794

**VILLAGE OF MILAN, NEW MEXICO
COMBINING STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND
BALANCES - NONMAJOR FUNDS
Year Ended June 30, 2018**

	Special Revenue		
	Corrections	Fire Protection	Law Enforcement Protection
Revenues			
Taxes	\$ -	-	-
Licenses, permits, fees, and fines	32,525	-	-
From non-federal sources:			
Grants	-	-	22,400
Intergovernmental	-	166,866	-
Interest	48	-	-
Other	-	5,464	3,195
Total revenues	32,573	172,330	25,595
Expenditures			
Current			
General government	-	-	-
Public safety	24,304	112,438	-
Highways and streets	-	-	-
Debt service - principal	-	33,691	-
Debt service - interest	-	3,041	-
Capital outlay	-	148,800	21,786
Total expenditures	24,304	297,970	21,786
Excess (deficiency) of revenues over expenditures before other financing sources	8,269	(125,640)	3,809
Other financing sources (uses)			
Proceeds from the issuance of debt	-	149,925	-
Operating transfers in	-	-	-
Total other financing sources (uses)	-	149,925	-
Net change in fund balances	8,269	24,285	3,809
Fund balance, beginning of year	91,322	51,694	-
Fund balance, end of year	\$ 99,591	75,979	3,809

**VILLAGE OF MILAN, NEW MEXICO
COMBINING STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND
BALANCES - NONMAJOR FUNDS
Year Ended June 30, 2018**

	Special Revenue		
	Lodger's Tax Reserve	Municipal Streets	Recreation
Revenues			
Taxes	\$ 2,772	130,784	-
Licenses, permits, fees, and fines	-	-	-
From non-federal sources:			
Grants	-	-	-
Intergovernmental	-	-	-
Interest	11	7	11
Other	-	55	-
Total revenues	2,783	130,846	11
Expenditures			
Current			
General government	4,062	148	-
Public safety	-	-	-
Highways and streets	-	211,149	-
Debt service - principal	-	-	-
Debt service - interest	-	-	-
Capital outlay	-	-	-
Total expenditures	4,062	211,297	-
Excess (deficiency) of revenues over expenditures before other financing sources	(1,279)	(80,451)	11
Other financing sources (uses)			
Proceeds from the issuance of debt	-	-	-
Operating transfers in	-	55,000	-
Total other financing sources (uses)	-	55,000	-
Net change in fund balances	(1,279)	(25,451)	11
Fund balance, beginning of year	23,605	28,529	22,035
Fund balance, end of year	\$ 22,326	3,078	22,046

**VILLAGE OF MILAN, NEW MEXICO
COMBINING STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND
BALANCES - NONMAJOR FUNDS
Year Ended June 30, 2018**

	Capital Outlay		
	CDBG	Debt Service	Total Non-major
Revenues			
Taxes	\$ -	451	134,007
Licenses, permits, fees, and fines	-	-	32,525
From non-federal sources:			
Grants	-	-	22,400
Intergovernmental	-	-	166,866
Interest	-	17	94
Other	-	-	8,714
Total revenues	-	468	364,606
Expenditures			
Current			
General government	-	-	4,210
Public safety	-	-	136,742
Highways and streets	-	-	211,149
Debt service - principal	-	-	33,691
Debt service - interest	-	-	3,041
Capital outlay	40,039	-	210,625
Total expenditures	40,039	-	599,458
Excess (deficiency) of revenues over expenditures before other financing sources	(40,039)	468	(234,852)
Other financing sources (uses)			
Proceeds from the issuance of debt	-	-	149,925
Operating transfers in	7,000	-	62,000
Total other financing sources (uses)	7,000	-	211,925
Net change in fund balances	(33,039)	468	(22,927)
Fund balance, beginning of year	113,788	22,425	353,398
Fund balance, end of year	\$ 80,749	22,893	330,471

VILLAGE OF MILAN, NEW MEXICO

**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*
June 30, 2018**

Municipal General Division

	2018	2017	2016	2015
Village's proportion of the net pension liability (asset)	0.0972%	0.1089%	0.1066%	0.1015%
Village's proportionate share of the net pension liability (asset)	\$ 1,335,610	\$ 1,739,856	1,086,879	791,809
Village's covered-employee payroll	\$ 1,179,974	\$ 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	113%	161%	105%	69%
Plan fiduciary net position as a percentage of the total plan liability	73.74%	69.18%	76.99%	81.29%

Municipal Police Division

	2018	2017	2016	2015
Village's proportion of the net pension liability (asset)	0.0689%	0.0648%	0.0556%	0.0512%
Village's proportionate share of the net pension liability (asset)	\$ 382,785	\$ 478,114	267,356	166,906
Village's covered-employee payroll	\$ 466,984	\$ 279,400	238,190	198,431
Village's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	82%	171%	112%	84%
Plan fiduciary net position as a percentage of the total plan liability	73.74%	69.18%	76.99%	81.29%

* The amounts presented were determined as of June 30, 2018. 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, 2018****Municipal General Division**

	2018	2017	2016	2015
Contractually required contributions	\$ 65,882	\$ 69,332	60,671	84,369
Contributions in relation to the contractually required contribution	65,882	69,332	60,671	84,369
Contribution deficiency (excess)	\$ -	\$ -	-	-
Village's covered-employee payroll	\$ 1,179,974	\$ 1,081,988	1,033,613	1,144,280
Contributions as a percentage of covered-employee payroll	5.6%	6.4%	5.9%	7.4%

Municipal Police Division

	2018	2017	2016	2015
Contractually required contributions	\$ 37,958	\$ 39,113	36,554	20,499
Contributions in relation to the contractually required contribution	37,958	39,113	36,554	20,499
Contribution deficiently (excess)	\$ -	\$ -	-	-
Village's covered-employee payroll	\$ 466,984	\$ 279,400	238,190	\$ 198,431
Contributions as a percentage of covered-employee payroll	8.1%	14.0%	15.3%	10.3%

* The amounts presented were determined as of June 30, 2018. 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 Proportionate Share of the Net OPEB Liability - Last 10 Fiscal Years *
June 30, 2018**

Village's proportion of the OPEB liability	<u>2018</u> 0.03045%
Village's proportionate share of the net OPEB liability	\$ 1,379,894
Village's covered-employee payroll	\$ 1,268,440
Village's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	108.79%
Plan fiduciary net position as a percentage of the total OPEB liability	11.34%

* The amounts presented were determined as of June 30, 2018. 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 OPEB Plan - Last 10 Fiscal Years*

June 30, 2018

	<u>2018</u>
Contractually required contributions	\$ 96,693
Contributions in relation to the contractually required contribution	<u>48,529</u>
Contribution deficiency (excess)	<u><u>\$ 48,164</u></u>
Village's covered-employee payroll	\$ 1,268,440
Contributions as a percentage of covered-employee payroll	3.83%

* The amounts presented were determined as of June 30, 2018. 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 REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2018

Public Employees Retirement Association’s Plan Information:

Changes in Benefit Terms – The PERA Fund COLA and retirement eligibility benefits changes in recent years are described in Note 1 of the PERA FY17 audit available at: <http://www.nmpera.org/assets/uploads/downloads/comprehensive-annual-financial-reports/CAFR2017.pdf>.

Changes of Assumptions – PERA of New Mexico Annual Actuarial Valuation as of June 30, 2017 report is available at: <http://www.nmpera.org/assets/uploads/downloads/retirement-fund-valuation-reports/PERA-Valuation6-30-2017-FINAL.pdf>.

Retiree Health Care Authority’s Plan Information:

Changes in Benefit Terms – The Retiree Health Care Authority (RHCA) COLA and age eligibility benefits changes in recent years are described in the Notes to the RHCA FY18 audit available at <http://saonm.org/> using the Audit Search function for agency 343.

Changes of Assumptions – The Retiree Health Care Authority (RHCA) of New Mexico Biennial Actuarial Valuation as of June 30, 2017 report is available at <http://saonm.org/> using the Audit Search function for agency 343.

VILLAGE OF MILAN, NEW MEXICO
AGENCY FUNDS
June 30, 2018

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, 2018

	Balance			Balance
	June 30, 2017	Additions	Deductions	June 30, 2018
Police bonds	\$ 6,287	3	185	6,105

VILLAGE OF MILAN, NEW MEXICO
SCHEDULE OF DEPOSIT ACCOUNTS
June 30, 2018

Type	Depository	Account Name	Depository Balance	Reconciled Balance
Int bearing checking	Bank of New Mexico	General	\$ 287,914	265,046
Money market	US Bank	General	938,813	938,813
Int bearing checking	Bank of New Mexico	General	82,526	82,526
Non-Int bearing checking	US Bank	General Payroll	17,308	14,066
Int bearing checking	Bank of New Mexico	Corrections	120,833	104,005
Non-Int bearing checking	Bank of New Mexico	Fire Protection	92,131	83,771
Int bearing checking	Bank of New Mexico	Law Enforcement	7,157	3,809
Int bearing checking	Bank of New Mexico	Lodger's Tax	21,888	21,858
Int bearing checking	Bank of New Mexico	Street	5,255	4,102
Int bearing checking	Bank of New Mexico	Recreation	22,046	22,046
Non-Int bearing checking	Bank of New Mexico	CDBG	80,749	80,749
Int bearing checking	Bank of New Mexico	Co-Op Street	740,318	706,491
Int bearing checking	Bank of New Mexico	Debt Service	22,782	22,782
Non-Int bearing checking	US Bank	Joint Utility	902,569	871,553
Int bearing checking	Bank of New Mexico	Joint Utility Water Deposit	116,400	115,375
CD	US Bank	Joint Utility	62,056	61,915
Int bearing checking	US Bank	Joint Utility	6,979	6,979
Int bearing savings	US Bank	Joint Utility	6,969	6,969
Cash and cash equivalents - non-agency funds			3,534,693	3,412,855
	Petty cash	General	-	100
	Petty cash	Joint Utility	-	150
Total cash and cash equivalents - non-agency funds			\$ 3,534,693	3,413,105
Agency funds cash accounts:				
Non-Int bearing checking	US Bank	Municipal Court Pooled Cash	\$ 6,140	6,105
New Mexico Finance Authority				
Int bearing checking	NMFA	Trust - Joint Utility	103,027	103,027
Int bearing checking	NMFA	Trust - Joint Utility	184,963	184,963
Int bearing checking	NMFA	Trust - Fire Protection	322	322
Total funds with the New Mexico Finance Authority			\$ 288,312	288,312

VILLAGE OF MILAN, NEW MEXICO
SCHEDULE OF PLEDGED COLLATERAL
June 30, 2018

	US Bank	Bank of New Mexico	Total
Deposits at June 30, 2018	\$ 1,934,694	1,606,139	3,540,833
Less: FDIC coverage	250,000	250,000	500,000
Uninsured public funds	1,684,694	1,356,139	3,040,833
Pledged collateral held by the pledging bank's trust department or agent but not in the Village's name	1,600,000	601,497	2,201,497
Uninsured and uncollateralized	\$ 84,694	754,642	839,336
50% pledged collateral requirement per statute	\$ 842,347	678,070	1,520,417
Total pledged collateral	1,600,000	601,497	2,201,497
Pledged collateral (over) under the requirement	\$ (757,653)	76,573	(681,080)

Pledged collateral at June 30, 2018 consists of the following:

Security	CUSIP	Maturity	Fair Market Value	Fair Market Value	Total
Bloomfield NM Mun Sch Dist BQ	094077KN3	9/1/2019	\$ -	100,642	100,642
Gassden NM ISD BQ Call	362550KR5	8/15/2018	-	500,855	500,855
Federal Home Loan Bank of Cincinnati	522775	10/3/2017	1,600,000	-	1,600,000
			\$ 1,600,000	601,497	2,201,497

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, 2018**

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	\$ 6,344	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 \$34,526	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.	\$ 19,798	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.	\$ -	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	\$ 11,393	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	\$ 10,320	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. Felix O. Gonzales, 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, 2018, 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, 2018. 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. Felix O. Gonzales, 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 2017-003, 2017-004, and 2018-001.

The Village's Response to the Findings

The Village's response to the findings identified in our audit are 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, 2018

**VILLAGE OF MILAN, NEW MEXICO
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2018**

Findings from Year Ended June 30, 2017:

Current Status:

2017-001 Internal Control Over Utility Billing and
Related Accounts

Repeated and updated

2017-002 Internal Controls Over Cash Accepted at the Pool
and Public Money Act

Resolved

2017-003 Due To/Due From Balances

Repeated and updated

2017-004 Processing of Unclaimed Property

Repeated and updated

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, 2018

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. The five bills were for residential accounts. The details of the recalculations are as follows:

- One bill recalculated at \$35.96, but was billed \$43.99, an overbilling of \$8.03.
- One bill recalculated at \$40.12, but was billed \$40.03, an underbilling of \$0.08.
- One bill recalculated at \$54.14, but was billed \$53.90, an underbilling of \$0.24.
- One bill recalculated at \$94.54, but was billed \$93.74, an underbilling of \$0.80.
- One bill recalculated at \$53.95, but was billed \$48.46, an underbilling of \$5.49.

In researching these differences, we found that the rate tables in the utility billing system did not match the rate ordinance. For three of the five bills, it was not possible to determine why there was a difference.

In addition, sales tax payable at year-end is \$118,393. The related accounts receivable is \$141,888. This implies a sales tax rate of 83.77%. 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.

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.

**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, 2018**

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

Progress Made on Clearing the Finding Since the Last Audit: The Village's employees have reviewed the rate ordinance and its implementation in the billing system. However, the work is not complete. In addition, the Village's employees have worked on correcting the water deposit liability account, but the work is not complete.

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

1. Utility billing reports are correct and the postings to the utility accounting system are entered correctly, reviewed, and approved.
2. The accounts receivable reports are printed each month and then reconciled to the trial balance.
3. The Village should consider testing a sample of bills each month to ensure the system is calculating based on the rate ordinance.
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.

Management's Response:

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: January 31, 2018.

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.

**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, 2018**

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 \$7,818.

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 \$7,818.

Progress Made on Clearing the Finding Since the Last Audit: The Village has not made progress on clearing this finding.

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 January 31, 2018.

**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, 2018**

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

Condition: The Village has on the statement of net position – proprietary fund – joint utility \$750 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.

Progress Made on Clearing the Finding Since the Last Audit: The Village has implemented a policy to correctly report and process unclaimed property. However, the process was not fully implemented by year-end.

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 January 31, 2018.

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, 2018

2018-001 Insufficient Pledged Collateral on Public Deposits (Compliance and Other Matter)

Condition: The Village has deposits at a financial institution which require pledged collateral. However, the financial institution has not pledged the minimum statutory required collateral. As a result, the Village is under collateralized by \$76,573.

Criteria: The Public Money Act (6-10-1 to 6-10-63, NMSA 1978) (Act) section 6-10-10-A requires deposits to be insured by an agency of the United States. Section 6-10-16-1 of the Act requires public money to be secured by pledged collateral as defined in Section 6-10-16 of the Act in amounts required by Section 6-10-15 of the Act. As applied to the Village, these two sections of the Act mean that 50% of the balance of deposits not covered by FDIC insurance should have pledged collateral provided by the financial institution.

Effect: The Village has uninsured and uncollateralized public funds. The Village could sustain a loss in the event of the failure of the financial institution.

Cause: The Village does not have an internal control in place to ensure compliance with the Act.

Recommendations: The Village should implement an internal control that ensures compliance with the Act.

Management's Response:

Corrective Action(s): The Village does have a process to reconcile cash each month. The Village will make reviewing pledged collateral levels part of the monthly cash reconciliation process.

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

Timeline of corrective action: Immediately.

**VILLAGE OF MILAN, NEW MEXICO
EXIT CONFERENCE
Year Ended June 30, 2018**

An exit conference was held on December 11, 2018, and attended by the following:

Village of Milan, New Mexico

Vivian Brumbelow, Trustee
Paul Pena, Village Manager
Esther Barnes, Payroll/Finance
Barbara Duran, Utility Billing 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.