

PORCH & ASSOCIATES LLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

VILLAGE OF MILAN, NEW MEXICO

Financial Statements, Supplementary Information
and
Independent Auditor's Report

June 30, 2019

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VILLAGE OF MILAN, NEW MEXICO

List of Principal Officials

June 30, 2019

Elected Officials

Felix O. Gonzales	Mayor
Helen M. Dayan	Mayor Pro-Tem
Vivian Brumbelow	Trustee
Christopher Archuleta	Trustee
Ellen Baca	Trustee

Administrative Officials

Sarah Austin	Village Manager
Denise M. Baca	Village Clerk

Independent Auditor's Report

Mr. Brian S. Colón, Esq., 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 were engaged to audit the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, and the budgetary comparison for the general fund of the Village of Milan, New Mexico (Village), as of and for the year ended June 30, 2019, 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 engaged to audit 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, 2019, 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. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an opinion.

Mr. Brian S. Colón, Esq., New Mexico State Auditor and
Mr. Felix O. Gonzales, Mayor and
The Village Board of Trustees
Village of Milan, New Mexico

Basis for Disclaimer of Opinion

The accounting records contained multiple material misstatements. The internal controls employed by the Village did not prevent or detect the misstatements. The oversight necessary to ensure that employees of the Village performed their internal control functions to prevent material misstatements was insufficient. As a result, the following material errors occurred:

- Grant receivable in the amount of \$90,455 and deferred inflows related to grants in the amount of \$130,111 were not recorded.
- Taxes receivable in the amount of \$324,881 were not recorded.
- Debt service activity was not recorded for accounts with the New Mexico Finance Authority.
- Utility billing revenue, accounts receivable, and deposits are not correct. It was not possible to determine the amount of the misstatement.
- Gross receipts tax payable related to utility revenue is \$225,724, which exceeds the utility accounts receivable of \$164,760.
- The Village accepted pledged collateral from a bank using a security that does not comply with the public money act. As a result, the Village's deposits were not properly collateralized in the amount of \$517,152.
- Capital assets per the enterprise financial statements are \$835,979 less than the capital asset listing. Capital assets for the governmental financial statements do not roll forward by \$(569,146).
- Accounts payable was understated by \$152,889 at year-end.
- The Village did not calculate or record GASB 68 retirement obligations or GASB 75 OPEB obligations.
- The Village did not maintain grant records sufficiently to allow the auditors to test grant compliance for all grants.
- Fund balance and fund net assets did not roll forward by \$95,331.
- Due To/Due From accounts do not balance by \$189,122, and transfers do not balance by \$22,066.

We have posted correcting entries for the items above if we were able to determine the correct balances. However, because of the significance of the issues above we were not able to determine if other material misstatements may exist and not be detected by normal auditing procedures. Therefore, we cannot give an opinion on the financial statements as a whole.

Mr. Brian S. Colón, Esq., New Mexico State Auditor and
Mr. Felix O. Gonzales, Mayor and
The Village Board of Trustees
Village of Milan, New Mexico

Disclaimer of Opinion

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

Other Matters

Required Supplementary Information

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.

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.

Mr. Brian S. Colón, Esq., New Mexico State Auditor and
Mr. Felix O. Gonzales, Mayor and
The Village Board of Trustees
Village of Milan, New Mexico

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. Because of the disclaimer of opinion above, we are unable to give an opinion on the schedules required by 2.2.2 NMAC.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2020 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
January 29, 2020

VILLAGE OF MILAN, NEW MEXICO
STATEMENT OF NET POSITION
June 30, 2019

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 2,061,101	871,741	2,932,842
Cash and cash equivalents - restricted	613	293,903	294,516
Receivables:			
Taxes:			
Gross receipts	308,326	2,016	310,342
Gasoline	12,001	-	12,001
Motor vehicle	1,354	-	1,354
Cibola Transit Authority	11,827	-	11,827
Property	8,337	-	8,337
Lodger's	511	-	511
Franchise	13,242	-	13,242
Grants	115,597	-	115,597
Returned checks	(110)	-	(110)
Due from other funds	-	309,812	309,812
Accounts receivable, net of allowance	-	164,761	164,761
Capital assets, not depreciated	1,682,914	3,222,704	4,905,618
Capital assets, net of accumulated depreciation	11,332,423	3,014,609	14,347,032
Total assets	15,548,136	7,879,546	23,427,682
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources related to pension	566,131	73,129	639,260
Deferred outflows of resources related to OPEB	42,832	2,709	45,541
Total deferred outflows of resources	608,963	75,838	684,801
LIABILITIES			
Accounts payable	66,442	267,950	334,392
Accrued compensation and benefits	81,930	8,526	90,456
Interest payable	-	4,274	4,274
Deposits payable	-	156,530	156,530
Sales tax payable	-	225,724	225,724
Escheatment payable	-	494	494
Due to other funds	-	121,608	121,608
Compensated absences, due in one year	42,024	13,443	55,467
Compensated absences, due in more than one year	14,007	-	14,007
Long-term liabilities, due in one year	79,702	151,605	231,307
Long-term liabilities, due in more than one year	565,541	480,871	1,046,412
Net pension liability	1,665,674	288,360	1,954,034
Net OPEB liability	1,138,107	202,926	1,341,033
Total liabilities	3,653,427	1,922,311	5,575,738
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to pensions	242,312	48,652	290,964
Deferred inflows of resources related to OPEB	298,249	48,250	346,499
	540,561	96,902	637,463
NET POSITION			
Net investment in capital assets	12,370,094	5,604,837	17,974,931
Restricted for capital projects	328,587	-	328,587
Restricted for debt service	18,477	-	18,477
Unrestricted	(754,047)	331,334	(422,713)
Total net position	\$ 11,963,111	5,936,171	17,899,282

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

VILLAGE OF MILAN, NEW MEXICO
STATEMENT OF ACTIVITIES
Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total
Primary government							
Governmental activities							
General government	\$ 843,489	53,113	201,393	-	(588,983)	-	(588,983)
Public safety	1,407,111	40,070	267,700	-	(1,099,341)	-	(1,099,341)
Highways and streets	1,164,625	-	272,945	347,644	(544,036)	-	(544,036)
Culture and recreation	467,797	-	-	-	(467,797)	-	(467,797)
Total governmental activities	<u>3,886,980</u>	<u>93,183</u>	<u>742,038</u>	<u>347,644</u>	<u>(2,704,115)</u>	<u>-</u>	<u>(2,704,115)</u>
Business-type activities							
Joint Utility	1,630,075	1,422,506	-	-	-	(207,569)	(207,569)
Total primary government	<u>\$ 5,517,055</u>	<u>1,515,689</u>	<u>742,038</u>	<u>347,644</u>	<u>(2,704,115)</u>	<u>(207,569)</u>	<u>(2,911,684)</u>
General Revenues:							
Gross receipts taxes					1,896,664	24,686	1,921,350
Gasoline taxes					136,572	-	136,572
Property taxes					281,542	-	281,542
Motor vehicle registrations					15,004	-	15,004
Lodger's taxes					3,458	-	3,458
Franchise taxes					77,919	-	77,919
Rentals					31,611	-	31,611
Interest					1,794	6,792	8,586
Other					138,504	327	138,831
Transfers					192,517	(214,583)	(22,066)
Total general revenues and transfers					<u>2,775,585</u>	<u>(182,778)</u>	<u>2,592,807</u>
Change in net position					<u>71,470</u>	<u>(390,347)</u>	<u>(318,877)</u>
Net position, beginning of year					11,848,859	6,326,518	18,175,377
Restatement					42,782	-	42,782
Net position, beginning of year, as restated					<u>11,891,641</u>	<u>6,326,518</u>	<u>18,218,159</u>
Net position, end of year					<u>\$ 11,963,111</u>	<u>5,936,171</u>	<u>17,899,282</u>

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

VILLAGE OF MILAN, NEW MEXICO
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2019

	General	Co-Op Street Improvements	Nonmajor Governmental Funds	Total
ASSETS				
Cash and cash equivalents	\$ 1,423,373	237,381	400,347	2,061,101
Cash and cash equivalents - restricted	-	-	613	613
Receivables:				
Taxes:				
Gross receipts	308,326	-	-	308,326
Gasoline	-	-	12,001	12,001
Motor vehicle	1,354	-	-	1,354
Lodger's	-	-	511	511
Property	8,278	-	59	8,337
Cibola Transit Authority	-	-	11,827	11,827
Franchise	13,242	-	-	13,242
Grants	-	91,103	24,494	115,597
Returned checks	(110)	-	-	(110)
Due from other funds	161,448	103	27,378	188,929
Total assets	\$ 1,915,911	328,587	477,230	2,721,728
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 33,021	-	33,421	66,442
Accrued compensation and benefits	78,541	-	3,389	81,930
Due to other funds	185,829	-	2,182	188,011
Total liabilities	297,391	-	38,992	336,383
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	32,733	-	-	32,733
FUND BALANCES				
Restricted for:				
Special revenue funds	-	-	419,761	419,761
Capital projects funds	-	328,587	-	328,587
Debt service funds	-	-	18,477	18,477
Unassigned	1,585,787	-	-	1,585,787
Total fund balances	1,585,787	328,587	438,238	2,352,612
Total liabilities and fund balances	\$ 1,915,911	328,587	477,230	2,721,728

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, 2019

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

Total fund balance - governmental funds	\$ 2,352,612
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	13,015,337
Accrued compensated absences not payable from current revenues.	(56,031)
Deferred revenue is recorded as income under the accrual method, and not the modified accrual method.	32,733
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.	(3,449,024)
The change in the difference in due to/due from accounts is expensed in the entity wide financial statements.	(918)
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.	608,963
Deferred inflows of resources related to pensions are not received in the current period and, therefore, are not reported in the governmental funds.	(242,312)
Deferred inflows of resources related to OPEB are not received in the current period and, therefore, are not reported in the governmental funds.	<u>(298,249)</u>
Net position - governmental activities	<u><u>\$ 11,963,111</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, 2019

	General	Co-Op Street Improvements	Nonmajor Governmental Funds	Total
Revenues				
Taxes	\$ 2,260,979	-	157,117	2,418,096
Licenses, permits, fees, and fines	53,113	-	40,070	93,183
From federal sources:				
Grants	-	-	12,695	12,695
From non-federal sources:				
Grants	-	465,060	24,800	489,860
Intergovernmental	201,393	-	515,845	717,238
Rental	31,611	-	-	31,611
Interest	1,270	321	203	1,794
Other	103,088	-	35,416	138,504
Total revenues	2,651,454	465,381	786,146	3,902,981
Expenditures				
Current				
General government	1,027,599	70,044	7,544	1,105,187
Public safety	1,028,336	-	198,224	1,226,560
Highways and streets	15,939	600,182	481,919	1,098,040
Culture and recreation	444,756	-	-	444,756
Debt service - principal	23,626	-	55,378	79,004
Debt service - interest	1,086	-	2,872	3,958
Capital outlay	-	-	25,404	25,404
Total expenditures	2,541,342	670,226	771,341	3,982,909
Excess (deficiency) of revenues over expenditures before other financings sources	110,112	(204,845)	14,805	(79,928)
Other Financing Sources (Uses)				
Operating transfers in	36,015	200,000	275,815	511,830
Operating transfers out	(93,678)	-	(225,635)	(319,313)
Total other financing sources (uses)	(57,663)	200,000	50,180	192,517
Net change in fund balances	52,449	(4,845)	64,985	112,589
Fund balance, beginning of year	1,533,338	333,432	330,471	2,197,241
Restatement	-	-	42,782	42,782
Fund balance, beginning of year, as restated	1,533,338	333,432	373,253	2,240,023
Fund balance, end of year	\$ 1,585,787	328,587	438,238	2,352,612

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, 2019

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

Net changes in fund balances - governmental funds	\$ 112,589
<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	(273,744)
Capital outlay	<u>326,100</u>
Excess of capital outlay over depreciation	52,356
<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>	
	79,004
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>	
	(137,048)
<p>The difference in due to/due from accounts is expensed in the entity wide financial statements.</p>	
	1,050
<p>Accrued compensated absences are expensed under the accrual method, and not the modified accrual method.</p>	
	(3,104)
<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.	(38,166)
Change in net OPEB liability and the related deferred inflows and deferred inflows of resources related to OPEB.	<u>4,789</u>
Change in net position - governmental activities	<u><u>\$ 71,470</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, 2019

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget- Positive (Negative)
Revenues				
Taxes	\$ 2,115,000	2,115,000	2,216,707	101,707
Licenses, permits, fees, and fines	40,575	40,575	53,113	12,538
Grants	235,000	-	9,212	9,212
Intergovernmental	100,000	100,000	201,393	101,393
Rental	32,000	32,000	31,611	(389)
Interest	1,000	1,000	1,270	270
Other	39,000	42,195	103,088	60,893
Total revenues	2,562,575	2,330,770	2,616,394	285,624
Expenditures				
General government	1,318,037	1,364,937	1,032,724	332,213
Public safety	895,736	897,931	1,028,336	(130,405)
Highways and streets	235,000	-	15,939	(15,939)
Culture and recreation	444,422	444,422	444,756	(334)
Debt service - principal	-	-	23,626	(23,626)
Debt service - interest	-	-	1,086	(1,086)
Capital outlay	19,000	19,000	-	19,000
Total expenditures	2,912,195	2,726,290	2,546,467	179,823
Deficiency of revenues over expenditures	(349,620)	(395,520)	69,927	465,447
Other financing sources (uses)				
Operating transfers in	-	-	36,015	36,015
Operating transfers out	(300,000)	(300,000)	(93,678)	206,322
Total other financing sources (uses)	(300,000)	(300,000)	(57,663)	242,337
Net change in fund balance	\$ (649,620)	(695,520)	12,264	707,784
Prior year cash appropriated	649,620	695,520		
	\$ -	-		
Budgetary revenues			\$ 2,616,394	
Change in taxes receivable			44,272	
Grants			(9,212)	
GAAP revenues			<u>\$ 2,651,454</u>	
Budgetary expenditures			\$ 2,546,467	
Changes in accounts payable			1,091	
Changes in accrued compensation and benefits			(6,216)	
GAAP expenditures			<u>\$ 2,541,342</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, 2019

ASSETS

Current Assets

Cash and cash equivalents	\$ 871,741
Accounts receivable, net of allowance	164,761
Taxes receivable	2,016
Due from other funds	309,812
Total current assets	<u>1,348,330</u>

Noncurrent Assets

Restricted cash and cash equivalents	293,903
Capital assets, net of accumulated depreciation	6,237,313
Total noncurrent assets	<u>6,531,216</u>
Total assets	<u>7,879,546</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources related to pensions	73,129
Deferred outflows of resources related to OPEB	2,709
Total deferred outflows	<u>75,838</u>

LIABILITIES

Current Liabilities

Accounts payable	267,950
Accrued compensation and benefits	8,526
Interest payable	4,274
Deposits payable	156,530
Sales tax payable	225,724
Escheatment payable	494
Due to other funds	121,608
Compensated absences	13,443
Long-term debt	151,605
Total current liabilities	<u>950,154</u>

Noncurrent Liabilities

Long-term debt, less current maturities	480,871
Net pension liability	288,360
Net OPEB liability	202,926
Total noncurrent liabilities	<u>972,157</u>
Total liabilities	<u>1,922,311</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources related to pensions	48,652
Deferred inflows of resources related to OPEB	48,250
Total deferred inflows of resources	<u>96,902</u>

NET POSITION

Net investments in capital assets	5,604,837
Unrestricted	331,334
Total net position	<u>\$ 5,936,171</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, 2019

Operating Revenues	
Charges for services	\$ 1,413,921
Late charges	8,585
Total operating revenues	<u>1,422,506</u>
Operating Expenses	
Operating expenses	1,388,238
Depreciation	211,458
Total operating expenses	<u>1,599,696</u>
Operating Loss	<u>(177,190)</u>
Nonoperating Revenues (Expenses)	
Interest income	6,792
Interest expense	(30,379)
Gross receipts tax	24,686
Other income (expense)	327
Transfers in	181,503
Transfers out	(396,086)
Total nonoperating revenues (expenses)	<u>(213,157)</u>
Change in net position	(390,347)
Net position, beginning of year	<u>6,326,518</u>
Net position, end of year	<u><u>\$ 5,936,171</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, 2019

Cash Flows From Operating Activities	
Cash received from customers	\$ 1,399,633
Cash payments to vendors and employees	(1,039,347)
Net cash provided by operating activities	<u>360,286</u>
Cash Flows From Noncapital and Related Financing Activities	
Gross receipts tax revenue	24,329
Other revenue	327
Net change in due to/due from balances	(182,354)
Operating transfers out	(214,583)
Net cash used by noncapital financing activities	<u>(372,281)</u>
Cash Flows From Capital and Related Financing Activities	
Principle payment on debt	(148,758)
Interest payment on debt	(31,326)
Net cash used by capital and related financing activities	<u>(180,084)</u>
Cash Flows From Investing Activities	
Interest income	<u>6,792</u>
Net change in cash and cash equivalents	(185,287)
Cash, beginning of year	<u>1,350,931</u>
Cash, end of year	<u><u>\$ 1,165,644</u></u>

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

VILLAGE OF MILAN, NEW MEXICO
STATEMENT OF CASH FLOWS -
PROPRIETARY FUND - JOINT UTILITY (CONTINUED)
Year Ended June 30, 2019

Operating loss	\$ (177,190)
Adjustments to reconcile operating loss to net cash flows provided by operating activities:	
Depreciation expense	211,458
Changes in assets and liabilities:	
Accounts receivable	(22,873)
Deferred outflows of resources related to pensions	(8,209)
Deferred outflows of resources related to OPEB	832
Accounts payable	188,574
Accrued compensated and benefits	(508)
Deposits payable	(1,977)
Sales tax payable	107,331
Escheatment payable	(256)
Compensated absences	3,877
Net pension liability	22,770
Net OPEB liability	17,808
Deferred inflows of resources related to pensions	12,531
Deferred inflows of resources related to OPEB	6,118
Net cash provided by operating activities	<u><u>\$ 360,286</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, 2019

ASSETS

Current assets	
Cash and cash equivalents	\$ 6,335
Total assets	<u><u>\$ 6,335</u></u>

LIABILITIES

Current liabilities	
Due to other entities	\$ 6,335
Total liabilities	<u><u>\$ 6,335</u></u>

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

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

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, 2019

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, 2019

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 unavailable revenue on its combined balance sheet. Unavailable revenues arise when a potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Unavailable 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 unavailable 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, 2019

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, 2019

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 Management's 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, 2019

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, 2019**

**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, 2019

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, 2019

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, 2019

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, 2019

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, 2019.

P. Implementation of New Accounting Standards

During the year ended June 30, 2019, the Village adopted the following Government Accounting Standards Board Statements (GASB):

GASB No. 83 – *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The statement will not have a material impact on the Village’s financial statements.

GASB No. 88 – *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. 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, 2019

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, 2019, the Village's bank balance total of \$3,003,295 was exposed to credit risk in the amount of \$2,503,295 as follows:

Uninsured and collateral held by pledging bank's trust department not in the Village's name	<u>\$ 1,468,990</u>
Uninsured and uncollateralized	<u>\$ 1,034,305</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, 2019:

Accounts receivable	\$ 201,003
Allowance for uncollectible accounts	<u>(36,242)</u>
Accounts receivable, net of allowance	<u>\$ 164,761</u>

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 4 CAPITAL ASSETS

Governmental fund capital asset activity for the year ending June 30, 2019 was as follows:

	Beginning Balance	Additions	Adjustments/ Reclassifications	Ending Balance
Governmental Activities				
Capital assets, not depreciated				
Land	\$ 593,375	-	-	593,375
Construction in process	2,807,182	842,991	(2,560,634)	1,089,539
Total, not depreciated	\$ 3,400,557	842,991	(2,560,634)	1,682,914
Capital assets, depreciated				
Buildings and improvements	\$ 5,282,449	-	121,155	5,403,604
Land improvements	131,367	-	-	131,367
Infrastructure	7,537,049	52,255	1,853,421	9,442,725
Furniture and equipment	960,920	-	402,016	1,362,936
Vehicles	1,648,590	-	(385,104)	1,263,486
Total, depreciated	15,560,375	52,255	1,991,488	17,604,118
Accumulated depreciation for				
Buildings and improvements	2,774,745	107,202	(1,819)	2,880,128
Land improvements	19,092	4,379	367	23,838
Infrastructure	1,269,183	174,488	(2,270)	1,441,401
Furniture and equipment	544,143	12,312	390,634	947,089
Vehicles	1,390,788	31,897	(443,446)	979,239
Total accumulated depreciation	5,997,951	330,278	(56,534)	6,271,695
Total capital assets, depreciated, net	\$ 9,562,424	(278,023)	2,048,022	11,332,423
Total capital assets, net	\$ 12,962,981	564,968	(512,612)	13,015,337

The cause of the adjustments and reclassifications is unknown. We have disclaimed an opinion on the financial statements.

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

General government	\$ 80,641
Public safety	89,787
Highways and streets	71,654
Culture and recreation	<u>31,662</u>
Total depreciation expense	\$ <u>273,744</u>

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 4 CAPITAL ASSETS (CONTINUED)

Enterprise fund capital asset activity for the year ending June 30, 2019 was as follows:

	Beginning Balance	Additions	Adjustments/ Reclassifications	Ending Balance
Business-type Activities				
Capital assets, not depreciated:				
Land	\$ 695,250	-	247,415	942,665
Water rights	1,413,000	-	-	1,413,000
Construction in process	946,630	-	(79,591)	867,039
Total, not depreciated	\$ 3,054,880	-	167,824	3,222,704
Capital assets, depreciated:				
Buildings and improvements	\$ 181,844	-	(50,787)	131,057
Plant and system	9,107,490	-	754,904	9,862,394
Furniture and fixtures	1,089,196	-	(83,169)	1,006,027
Vehicles	26,795	-	47,208	74,003
Total, depreciated	10,405,325	-	668,156	11,073,481
Accumulated depreciation for:				
Buildings and improvements	83,001	3,190	(3,219)	82,972
Plant and system	5,944,363	173,124	12,141	6,129,628
Furniture and fixtures	958,641	29,785	(66,473)	921,953
Vehicles	25,429	5,359	38,696	69,484
Total accumulated depreciation	7,011,434	211,458	(18,855)	7,204,037
Total capital assets, depreciated, net	\$ 3,393,891	(211,458)	687,011	3,869,444
Total capital assets, net	\$ 6,448,771	(211,458)	854,835	7,092,148

Note that this schedule does not balance with the statement of net position for the Joint Utility Fund. The cause of the differences is unknown.

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 5 LONG-TERM OBLIGATIONS – GOVERNMENTAL FUNDS

During the year ended June 30, 2019, the following changes occurred:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Compensated absences	\$ 52,927	52,538	(49,434)	56,031	42,024
Notes	724,247	-	(79,004)	645,243	79,702
Net pension liability	1,452,806	212,868	-	1,665,674	-
Net OPEB liability	<u>1,194,776</u>	-	(56,669)	<u>1,138,107</u>	-
Total	<u>\$3,424,756</u>	<u>265,406</u>	<u>(185,107)</u>	<u>3,505,055</u>	<u>121,726</u>

Notes from Direct Borrowings:

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, 2019

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

The schedule principal and interest payments from direct borrowings are as follows:

Year Ending June 30	Principal	Interest	Total
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	45,398	832	46,230
2025 – 2029	142,010	3,068	145,078
2030 – 2034	122,027	1,532	123,559
2035 – 2037	49,239	185	49,424
	<u>\$ 645,243</u>	<u>14,164</u>	<u>659,407</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, 2019, the following changes occurred:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities					
Compensated absences	\$ 9,566	14,690	(10,813)	13,443	13,443
Notes	781,234	-	(148,758)	632,476	151,605
Net pension liability	265,590	22,770	-	288,360	-
Net OPEB liability	185,118	17,808	-	202,926	-
Total	<u>\$ 1,241,508</u>	<u>55,268</u>	<u>(159,571)</u>	<u>1,137,205</u>	<u>165,048</u>

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

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

Notes from Direct Borrowings:

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 from direct borrowings are as follows:

Year Ending June 30	Principal	Interest	Total
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>\$ 632,476</u>	<u>65,650</u>	<u>698,126</u>

NOTE 7 PROPERTY TAXES

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

NOTE 8 INTERFUND OPERATING TRANSFERS

Interfund operating transfers do not balance by \$22,066.

The Joint Utility fund transferred \$200,000 to the Co-Op Street Improvement fund, and \$196,086 to nonmajor funds, and received transfers in the amount of \$181,503 from the debt service fund. during the year ended June 30, 2019. The money was used to meet matching requirements for grants and grant payments.

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 8 INTERFUND OPERATING TRANSFERS (CONTINUED)

The General fund transferred \$93,676 to nonmajor funds, and received transfers in the amount of \$36,015 from nonmajor funds. The funds were for operating costs.

NOTE 9 DUE TO AND DUE FROM OTHER FUNDS

The due to and due from accounts do not balance by \$189,122.

A summary of the due from and due to other funds at June 30, 2019 is as follows:

	Due From Other Funds	Due To Other Funds
Governmental Funds		
Major Funds:		
General	\$ 161,448	185,829
Co-Op Street Improvements	103	-
Non-major Funds:		
Corrections	-	11
Fire Protection	-	1,087
Municipal Streets	-	1,084
Transit Authority	27,378	-
Proprietary Funds		
Joint Utility	309,812	121,608
Total	<u>\$ 498,741</u>	<u>309,619</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, 2019

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, 2019, 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, 2019

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, 2019

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 – At June 30, 2019, the Village reported a liability of \$1,954,034 (\$1,344,054 for municipal general and \$609,980 for municipal police) for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017. The total pension liability was rolled-forward from the valuation date to the plan year ending June 30, 2018 using generally accepted actuarial principles. Therefore, the Village's portion was established as of the measurement date of June 30, 2018. There were no significant events or changes in benefit provision that required an adjustment to the roll-forward liabilities as of June 30, 2018. The Village's proportion of the net pension liability was based on a projection of the Village's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2018, the Villages proportion for municipal general was 0.0843%, which was a decrease of 0.0129% from its proportion measured as of June 30, 2017. At June 30, 2018, the Villages proportion for municipal police was 0.0894%, which was an increase of 0.0205% from its proportion measured as of June 30, 2017.

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 11 PERA PENSION PLAN (CONTINUED)

PERA Municipal General Division

For the year ended June 30, 2019, the Village recognized PERA Municipal General Division pension expense of \$65,259. At June 30, 2019, the Village reported PERA General Fund Division deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 38,845	35,288
Change of assumption	121,858	7,728
Net difference between projected and actual earnings on pension plan investments	99,682	-
Change in proportion	9,423	183,754
Village contributions subsequent to the measurement date	71,048	-
	<u>\$ 340,856</u>	<u>226,770</u>

\$71,048 reported as deferred outflows of resources related to pensions resulting from the Village contributions subsequent to the measurement date June 30, 2018, will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows and deferred inflows related to pensions will be recognized in pension expense as follows:

2020	\$ 77,543
2021	(12,700)
2022	(26,409)
2023	4,604
2024	-
	<u>\$ 43,038</u>

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 11 PERA PENSION PLAN (CONTINUED)

PERA Municipal Police Division

For the year ended June 30, 2019, the Village recognized PERA Municipal Police Division pension expense of \$90,764. At June 30, 2019, the Village reported PERA Municipal Police Division deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 29,862	60,465
Change of assumption	69,600	3,729
Net difference between projected and actual earnings on pension plan investments	41,975	-
Change in proportion	109,436	-
Village contributions subsequent to the measurement date	47,531	-
	<u>\$ 298,404</u>	<u>64,194</u>

\$47,531 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, 2020. Other amounts reported as deferred outflows and deferred inflows related to pensions will be recognized in pension expense as follows:

2020	\$ 95,684
2021	45,621
2022	42,894
2023	2,480
2024	-
	<u>\$ 186,679</u>

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 11 PERA PENSION PLAN (CONTINUED)

Actuarial assumptions – The total pension liability in the June 30, 2018 actuarial valuation was determined using the following significant actuarial assumptions, applied to all periods included in the measurement:

Actuarial valuation date	June 30, 2017
Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay
Amortization period	Solved for based on statutory rates
Asset valuation method	4-year smoothed market value
Actuarial assumptions:	
– Investment rate of return	7.25% annual rate, net of investment expense
– Projected benefit payment	100 years
– Payroll growth	3%
– Projected salary increases	3.25% to 13.50% annual rate
– Included inflation at	2.50%, 2.75% all other years
– Mortality assumption	RP-2000 Mortality Tables (Combined table for healthy post-retirements, Employee table for active members, and Disabled table for disabled retirees before retirement age) with projections to 2019 using Scale AA.
– Experience study dates	July 1, 2008 to June 30, 2017 (demographic) and July 1, 2010 through June 20, 2018 (economic)

The total pension liability, net pension liability, and certain sensitivity information are based on an actuarial valuation performed as of June 30, 2017. The total pension liability was rolled-forward from the valuation date to the plan year ended June 30, 2018. These assumptions were adopted by the Board use in the June 30, 2017 actuarial valuation.

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

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 11 PERA PENSION PLAN (CONTINUED)

The target asset allocation and most recent best estimates of arithmetic real times of return for each major asset class are summarized in the following table:

All Funds – Asset Class	Target Allocation	Long-Term Expected Rate of Return
Global Equity	43.5 %	7.48 %
Risk Reduction & Mitigation	21.5	2.37
Credit Oriented Fixed Income	15.0	5.47
Real Assets to include Real Estate Equity	20.0	6.48
Total	100.0 %	

Discount Rate – A single discount rate of 7.25% was used to measure the total pension liability as of June 30, 2018. This single discount rate was based on a long-term expected rate of return on pension plan investments of 7.25%, compounded annually, net of expense. Based on the stated assumptions and the projection of cash flows, the plan’s fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability.

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

Sensitivity of the Village’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 7.25%, 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 (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
PERA Municipal General Division			
Village’s proportionate share of the net pension liability	\$ 2,071,097	1,344,054	743,037

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
PERA Municipal Police Division			
Village’s proportionate share of the net pension liability	\$ 937,899	609,980	342,648

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 11 PERA PENSION PLAN (CONTINUED)

Pension plan fiduciary net position – Detailed information about the pension’s fiduciary net position is available in the separately issued PERA financial reports. The reports are 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.

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.

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 12 OTHER POST-EMPLOYMENT BENEFITS (OPEB) CONTINUED

Employees covered by benefit terms. At June 30, 2018, the Fund’s measurement date, the following employees were covered by the benefit terms (number of participants):

Plan membership	
Current retirees and surviving spouses	51,205
Inactive and eligible for deferred benefit	11,471
Current active members	<u>93,349</u>
	<u>156,025</u>
Active membership	
State general	19,593
State police and corrections	1,886
Municipal general	17,004
Municipal police	3,820
Municipal FTRE	2,290
Educational Retirement Board	<u>48,756</u>
	<u>93,349</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 \$27,638 for the year ended June 30, 2019.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB. At June 30, 2019, the Village reported a liability of \$1,341,033 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, 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, 2018. At June 30, 2018, the Village’s proportion was 0.03084%.

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 12 OTHER POST-EMPLOYMENT BENEFITS (OPEB) CONTINUED

For the year ended June 30, 2019, the Village recognized OPEB expense of \$29,547. At June 30, 2019 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	\$ -	79,398
Difference between actual and projected earnings on OPEB plan investments	-	16,736
Change of assumptions	-	250,365
Change in proportion	17,903	-
Village contributions subsequent to the measurement date	27,638	-
	<u>\$ 45,541</u>	<u>346,499</u>

Deferred outflows of resources totaling \$27,638 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

2020	\$ (84,245)
2021	(84,245)
2022	(84,245)
2023	(64,194)
2024	<u>(11,667)</u>
	<u>\$ (328,596)</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, 2019

NOTE 12 OTHER POST-EMPLOYMENT BENEFITS (OPEB) CONTINUED

Actuarial assumptions:

– Inflation	2.5% for ERB; 2.25% for PERA
– Projected payroll increases	3.25% to 12.5%, based on years of service, including inflation
– 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
– Mortality	ERB members: RP-2000 Combined Health Mortality Table with White Collar Adjustment (males) and GRS Southwest Region Teacher Mortality Table (females) PERA members: RP-2000 Combined Health Mortality

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	2.1 %
U.S. equity – large cap	7.1
Non U.S. – emerging markets	10.2
Non U.S. – developed equities	7.8
Private equity	11.8
Credit and structured finance	5.3
Real estate	4.9
Absolute return	4.1
U.S. equity – small/mid cap	7.1

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 12 OTHER POST-EMPLOYMENT BENEFITS (OPEB) CONTINUED

Discount Rate. The discount rate used to measure the Fund's total OPEB liability is 4.08% as of June 30, 2018. 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, 2029. 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, 4.08% 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 (3.08 percent) or 1-percentage-point higher (5.08 percent) than the current discount rate:

	1% Decrease (3.08%)	Current Discount Rate (4.08%)	1% Increase (5.08%)
Village's proportionate share of the OPEB liability	\$ 1,622,965	1,341,033	1,118,807

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	\$ 1,133,643	1,341,033	1,503,631

OPEB plan fiduciary net position. Detailed information about the OPEB plan's fiduciary net position is available in NMRHCA's audited financial statements for the year ended June 30, 2018.

Payable Changes in the Net OPEB Liability. At June 30, 2019, the Village reported a payable of \$1,514 for outstanding contributions due to NMRHCA for the year ended June 30, 2019.

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

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, 2019, no unpaid claims have been filed which exceed the policy limits and to the best of management's knowledge and belief all known and unknown claims will be covered by insurance. No major lawsuits have been filed against the Village.

NOTE 14 COMMITMENTS AND CONTINGENCIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Village expects such amount, if any, to be immaterial.

The Village is involved in various claims and lawsuits arising in the normal course of business. The Village is insured through the New Mexico Self-Insurer's Fund. In the opinion of management, the outcome of these matters will not have a material effect on the financial position of the Village.

The Village is in two lawsuits. Both management and the Village's attorneys do not have an estimate of any potential loss. They also have not formed an opinion regarding if the Village will prevail in the lawsuits. Therefore, no amount has been accrued for a potential loss. The Village is insured through the New Mexico Self-Insurer's Fund for these two lawsuits.

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 15 SUBSEQUENT EVENTS

The Village has evaluated subsequent events through January 29, 2020, the date the financial statements were available to be issued. Subsequent to June 30, 2019, the Village had no material subsequent events.

NOTE 16 DEFICIT FUND BALANCE

The recreation fund has a deficit fund balance in the amount of \$22,066. The deficit balance was caused by accounting errors which will be fixed in the next fiscal year.

NOTE 17 RESTATEMENT OF NET POSITION

During the year ended June 30, 2019, the Village restated the opening fund balance in the Capital Outlay fund by \$42,782 for grant activity that should have been recorded in the year-ending June 30, 2018.

VILLAGE OF MILAN, NEW MEXICO
NONMAJOR FUNDS
June 30, 2019

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.

Transit Authority. To account for funds used to provide transit services. Funding is provided by transit fees. Expenditures are restricted to the provision of transit services. Authority is a Memorandum of Agreement between the Village and the New Mexico Department of Transportation.

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, 2019**

	Special Revenue		
	Corrections	Fire Protection	Law Enforcement Protection
ASSETS			
Cash and cash equivalents	\$ 118,309	84,632	10
Cash and cash equivalents - restricted	-	613	-
Receivables:			
Taxes:			
Gasoline	-	-	-
Lodger's	-	-	-
Property	-	-	-
Cibola Transit Authority	-	-	-
Grants	-	-	-
Due from other funds	-	-	-
	<hr/>		
Total assets	\$ 118,309	85,245	10
<hr/>			
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ -	-	-
Accrued compensation and benefits	-	-	-
Due to other funds	11	1,087	-
Total liabilities	11	1,087	-
<hr/>			
FUND BALANCES			
Restricted for:			
Special revenue funds	118,298	84,158	10
Debt service funds	-	-	-
Total fund balances	118,298	84,158	10
<hr/>			
Total liabilities and fund balances	\$ 118,309	85,245	10
<hr/>			

**VILLAGE OF MILAN, NEW MEXICO
COMBINING BALANCE SHEET
NONMAJOR FUNDS
June 30, 2019**

	Special Revenue		
	Lodger's Tax Reserve	Municipal Streets	Recreation
ASSETS			
Cash and cash equivalents	\$ 20,063	13,853	-
Cash and cash equivalents - restricted	-	-	-
Receivables:			
Taxes:			
Gasoline	-	12,001	-
Lodger's	511	-	-
Property	-	-	-
Cibola Transit Authority	-	-	-
Grants	-	-	-
Due from other funds	-	-	-
	<hr/>		
Total assets	\$ 20,574	25,854	-
<hr/> <hr/>			
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ -	5,297	22,066
Accrued compensation and benefits	-	3,215	-
Due to other funds	-	1,084	-
Total liabilities	-	9,596	22,066
<hr/> <hr/>			
FUND BALANCES			
Restricted for:			
Special revenue funds	20,574	16,258	(22,066)
Debt service funds	-	-	-
Total fund balances	20,574	16,258	(22,066)
<hr/> <hr/>			
Total liabilities and fund balances	\$ 20,574	25,854	-
<hr/> <hr/>			

**VILLAGE OF MILAN, NEW MEXICO
COMBINING BALANCE SHEET
NONMAJOR FUNDS
June 30, 2019**

	Special Revenue	Capital Outlay	
	Transit Authority	CDBG	Debt Service
ASSETS			
Cash and cash equivalents	\$ 30,028	115,034	18,418
Cash and cash equivalents - restricted	-	-	-
Receivables:			
Taxes:			
Gasoline	-	-	-
Lodger's	-	-	-
Property	-	-	59
Cibola Transit Authority	11,827	-	-
Grants	11,799	12,695	-
Due from other funds	27,378	-	-
	<hr/>	<hr/>	<hr/>
Total assets	\$ 81,032	127,729	18,477
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 6,058	-	-
Accrued compensation and benefits	174	-	-
Due to other funds	-	-	-
	<hr/>	<hr/>	<hr/>
Total liabilities	6,232	-	-
FUND BALANCES			
Restricted for:			
Special revenue funds	74,800	127,729	-
Debt service funds	-	-	18,477
	<hr/>	<hr/>	<hr/>
Total fund balances	74,800	127,729	18,477
	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances	\$ 81,032	127,729	18,477

VILLAGE OF MILAN, NEW MEXICO
COMBINING BALANCE SHEET
NONMAJOR FUNDS
June 30, 2019

	Total Nonmajor
ASSETS	
Cash and cash equivalents	\$ 400,347
Cash and cash equivalents - restricted	613
Receivables:	
Taxes:	
Gasoline	12,001
Lodger's	511
Property	59
Cibola Transit Authority	11,827
Grants	24,494
Due from other funds	<u>27,378</u>
Total assets	<u><u>\$ 477,230</u></u>
LIABILITIES AND FUND BALANCES	
LIABILITIES	
Accounts payable	\$ 33,421
Accrued compensation and benefits	3,389
Due to other funds	<u>2,182</u>
Total liabilities	<u><u>38,992</u></u>
FUND BALANCES	
Restricted for:	
Special revenue funds	419,761
Debt service funds	<u>18,477</u>
Total fund balances	<u><u>438,238</u></u>
Total liabilities and fund balances	<u><u>\$ 477,230</u></u>

VILLAGE OF MILAN, NEW MEXICO
COMBINING STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND
BALANCES - NONMAJOR FUNDS
Year Ended June 30, 2019

	Special Revenue		
	Corrections	Fire Protection	Law Enforcement Protection
Revenues			
Taxes	\$ -	-	-
Licenses, permits, fees, and fines	40,070	-	-
From federal sources			
Grants	-	-	-
From non-federal sources:			
Grants	-	-	24,800
Intergovernmental	-	242,900	-
Interest	100	-	-
Other	-	290	(3,195)
Total revenues	40,170	243,190	21,605
Expenditures			
Current			
General government	-	-	-
Public safety	21,463	176,761	-
Highways and streets	-	-	-
Debt service - principal	-	55,378	-
Debt service - interest	-	2,872	-
Capital outlay	-	-	25,404
Total expenditures	21,463	235,011	25,404
Excess (deficiency) of revenues over expenditures before other financing sources	18,707	8,179	(3,799)
Other financing sources (uses)			
Operating transfers in	-	-	-
Operating transfers out	-	-	-
Total other financing sources (uses)	-	-	-
Net change in fund balances	18,707	8,179	(3,799)
Fund balance, beginning of year	99,591	75,979	3,809
Restatement	-	-	-
Fund balance, beginning of year, as restated	99,591	75,979	3,809
Fund balance, end of year	\$ 118,298	84,158	10

VILLAGE OF MILAN, NEW MEXICO
COMBINING STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND
BALANCES - NONMAJOR FUNDS
Year Ended June 30, 2019

	Special Revenue		
	Lodger's Tax Reserve	Municipal Streets	Recreation
Revenues			
Taxes	\$ 3,458	136,572	-
Licenses, permits, fees, and fines	-	-	-
From federal sources			
Grants	-	-	-
From non-federal sources:			
Grants	-	-	-
Intergovernmental	-	-	-
Interest	18	13	20
Other	-	(55)	-
Total revenues	3,476	136,530	20
Expenditures			
Current			
General government	5,228	2,270	-
Public safety	-	-	-
Highways and streets	-	225,217	-
Debt service - principal	-	-	-
Debt service - interest	-	-	-
Capital outlay	-	-	-
Total expenditures	5,228	227,487	-
Excess (deficiency) of revenues over expenditures before other financing sources	(1,752)	(90,957)	20
Other financing sources (uses)			
Operating transfers in	-	104,137	-
Operating transfers out	-	-	(44,132)
Total other financing sources (uses)	-	104,137	(44,132)
Net change in fund balances	(1,752)	13,180	(44,112)
Fund balance, beginning of year	22,326	3,078	22,046
Restatement	-	-	-
Fund balance, beginning of year, as restated	22,326	3,078	22,046
Fund balance, end of year	\$ 20,574	16,258	(22,066)

**VILLAGE OF MILAN, NEW MEXICO
COMBINING STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND
BALANCES - NONMAJOR FUNDS
Year Ended June 30, 2019**

	Special Revenue	Capital Outlay	
	Transit Authority	CDBG	Debt Service
Revenues			
Taxes	\$ -	-	17,087
Licenses, permits, fees, and fines	-	-	-
From federal sources			
Grants	-	12,695	-
From non-federal sources:			
Grants	-	-	-
Intergovernmental	272,945	-	-
Interest	6	-	46
Other	38,376	-	-
Total revenues	311,327	12,695	17,133
Expenditures			
Current			
General government	-	-	46
Public safety	-	-	-
Highways and streets	248,205	8,497	-
Debt service - principal	-	-	-
Debt service - interest	-	-	-
Capital outlay	-	-	-
Total expenditures	248,205	8,497	46
Excess (deficiency) of revenues over expenditures before other financing sources	63,122	4,198	17,087
Other financing sources (uses)			
Operating transfers in	11,678	-	160,000
Operating transfers out	-	-	(181,503)
Total other financing sources (uses)	11,678	-	(21,503)
Net change in fund balances	74,800	4,198	(4,416)
Fund balance, beginning of year	-	80,749	22,893
Restatement	-	42,782	-
Fund balance, beginning of year, as restated	-	123,531	22,893
Fund balance, end of year	\$ 74,800	127,729	18,477

**VILLAGE OF MILAN, NEW MEXICO
COMBINING STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND
BALANCES - NONMAJOR FUNDS
Year Ended June 30, 2019**

	Total Non-major
Revenues	
Taxes	\$ 157,117
Licenses, permits, fees, and fines	40,070
From federal sources	
Grants	12,695
From non-federal sources:	
Grants	24,800
Intergovernmental	515,845
Interest	203
Other	35,416
	<hr/>
Total revenues	786,146
	<hr/>
Expenditures	
Current	
General government	7,544
Public safety	198,224
Highways and streets	481,919
Debt service - principal	55,378
Debt service - interest	2,872
Capital outlay	25,404
	<hr/>
Total expenditures	771,341
	<hr/>
Excess (deficiency) of revenues over expenditures before other financing sources	14,805
	<hr/>
Other financing sources (uses)	
Operating transfers in	275,815
Operating transfers out	(225,635)
	<hr/>
Total other financing sources (uses)	50,180
	<hr/>
Net change in fund balances	64,985
	<hr/>
Fund balance, beginning of year	330,471
Restatement	42,782
	<hr/>
Fund balance, beginning of year, as restated	373,253
	<hr/>
Fund balance, end of year	\$ 438,238
	<hr/> <hr/>

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, 2019

Municipal General Division

	2019	2018	2017	2016	2015
Village's proportion of the net pension liability (asset)	0.8430%	0.0972%	0.1089%	0.1066%	0.1015%
Village's proportionate share of the net pension liability (asset)	\$ 1,344,054	1,335,610	1,739,856	1,086,879	791,809
Village's covered-employee payroll	\$ 861,165	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	156%	113%	161%	105%	69%
Plan fiduciary net position as a percentage of the total plan liability	71.13%	73.74%	69.18%	76.99%	81.29%

Municipal Police Division

	2019	2018	2017	2016	2015
Village's proportion of the net pension liability (asset)	0.0894%	0.0689%	0.0648%	0.0556%	0.0512%
Village's proportionate share of the net pension liability (asset)	\$ 609,980	382,785	478,114	267,356	166,906
Village's covered-employee payroll	\$ 576,324	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	106%	82%	171%	112%	84%
Plan fiduciary net position as a percentage of the total plan liability	71.13%	73.74%	69.18%	76.99%	81.29%

* The amounts presented were determined as of June 30, 2019. 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, 2019

Municipal General Division

	2019	2018	2017	2016	2015
Contractually required contributions	\$ 70,184	65,882	69,332	60,671	84,369
Contributions in relation to the contractually required contribution	70,184	65,882	69,332	60,671	84,369
Contribution deficiency (excess)	\$ -	-	-	-	-
Village's covered-employee payroll	\$ 861,165	1,179,974	1,081,988	1,033,613	1,144,280
Contributions as a percentage of covered-employee payroll	8.1%	5.6%	6.4%	5.9%	7.4%

Municipal Police Division

	2019	2018	2017	2016	2015
Contractually required contributions	\$ 47,531	37,958	39,113	36,554	20,499
Contributions in relation to the contractually required contribution	47,531	37,958	39,113	36,554	20,499
Contribution deficiently (excess)	\$ -	-	-	-	-
Village's covered-employee payroll	\$ 576,324	466,984	279,400	238,190	198,431
Contributions as a percentage of covered-employee payroll	8.2%	8.1%	14.0%	15.3%	10.3%

* The amounts presented were determined as of June 30, 2019. 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, 2019

	<u>2019</u>	<u>2018</u>
Village's proportion of the OPEB liability	0.03084%	0.03045%
Village's proportionate share of the net OPEB liability	\$ 1,341,033	1,379,894
Village's covered-employee payroll	\$ 1,323,226	1,268,440
Village's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	101.35%	108.79%
Plan fiduciary net position as a percentage of the total OPEB liability	13.14%	11.34%

* The amounts presented were determined as of June 30, 2019. 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, 2019

	2019	2018
Contractually required contributions	\$ 48,193	96,693
Contributions in relation to the contractually required contribution	47,604	48,529
Contribution deficiency (excess)	\$ 589	48,164
Village's covered-employee payroll	\$ 1,323,226	1,268,440
Contributions as a percentage of covered-employee payroll	3.60%	3.83%

* The amounts presented were determined as of June 30, 2019. 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, 2019

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 PERA's CAFR. The report is available at: <http://www.saonm.org/>

Changes of Assumptions – The Public Employ Retirement Association of New Mexico Annual Actuarial Valuations as of June 2018 report is available at: <http://www.nmpera.org/>

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 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 report is available at <http://saonm.org/> using the Audit Search function for agency 343.

VILLAGE OF MILAN, NEW MEXICO
AGENCY FUNDS
June 30, 2019

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, 2019

	Balance			Balance
	June 30, 2018	Additions	Deductions	June 30, 2019
Police bonds	\$ 6,105	412	182	6,335

VILLAGE OF MILAN, NEW MEXICO
SCHEDULE OF DEPOSIT ACCOUNTS
June 30, 2019

Type	Depository	Account Name	Depository Balance	Reconciled Balance
Int bearing checking	TBK Bank	General	\$ 431,961	460,554
Money market	US Bank	General	914,742	914,742
Int bearing checking	TBK Bank	General	35,554	35,554
Non-Int bearing checking	US Bank	General Payroll	65,245	12,423
Int bearing checking	TBK Bank	Corrections	118,354	118,309
Non-Int bearing checking	TBK Bank	Fire Protection	84,829	84,632
Int bearing checking	TBK Bank	Law Enforcement	10	10
Int bearing checking	TBK Bank	Lodger's Tax	20,063	20,063
Int bearing checking	TBK Bank	Street	15,552	13,853
Int bearing checking	TBK Bank	Recreation	22,066	-
Non-Int bearing checking	TBK Bank	CDBG	115,034	115,034
Int bearing checking	TBK Bank	Co-Op Street	237,381	237,381
Int bearing checking	TBK Bank	Debt Service	18,418	18,418
Int bearing checking	TBK Bank	Cibola Transit Authority	30,253	30,028
Non-Int bearing checking	US Bank	Joint Utility	725,053	723,096
Int bearing checking	TBK Bank	Joint Utility Water Deposit	148,495	148,495
Int bearing checking	US Bank	Joint Utility	6,980	-
Int bearing savings	US Bank	Joint Utility	6,970	-
Cash and cash equivalents - non-agency funds			2,996,960	2,932,592
	Petty cash	General	-	100
	Petty cash	Joint Utility	-	150
Total cash and cash equivalents - non-agency funds			\$ 2,996,960	2,932,842
Agency funds cash accounts:				
Non-Int bearing checking	TBK Bank	Municipal Court Pooled Cash	\$ 6,335	6,335
New Mexico Finance Authority				
Int bearing checking	NMFA	Trust - Joint Utility	\$ 187,976	187,976
Int bearing checking	NMFA	Trust - Joint Utility	105,927	105,927
Int bearing checking	NMFA	Trust - Fire Protection	613	613
Total funds with the New Mexico Finance Authority			\$ 294,516	294,516

VILLAGE OF MILAN, NEW MEXICO
SCHEDULE OF PLEDGED COLLATERAL
June 30, 2019

	TBK Bank	US Bank	Total
Deposits at June 30, 2019	\$ 1,284,305	1,718,990	3,003,295
Less: FDIC coverage	250,000	250,000	500,000
Uninsured public funds	1,034,305	1,468,990	2,503,295
Pledged collateral held by the pledging bank's trust department or agent but not in the Village's name	-	1,600,000	2,099,331
Uninsured and uncollateralized	\$ 1,034,305	(131,010)	403,964
50% pledged collateral requirement per statute	\$ 517,153	678,070	1,195,223
Total pledged collateral	-	1,600,000	2,099,331
Pledged collateral (over) under the requirement	\$ 517,153	(921,930)	(904,109)

Pledged collateral at June 30, 2019 consists of the following:

Security	CUSIP	Maturity	Fair Market Value	Fair Market Value	Total
Southwest Airlines Bond BBB+ A3	844741BA5	11/6/2019	\$ 499,331	-	499,331
FHLB of Cincinnati Letter of Credit	526602	10/3/2019	-	1,600,000	1,600,000
			\$ 499,331	1,600,000	2,099,331

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.

Note on TBK Bank's Pledged Security: Per Subsection A of Section 6-10-16 NMSA, 1978, deposits of public money may be collateralized by revenue bonds that are underwritten by a member of the financial industry regulatory authority (known as FINRA), and are rated BAA or above by a nationally recognized bond rating service. TBK's pledged security does not meet the rating requirements in order to be valid pledged collateral.

**VILLAGE OF MILAN, NEW MEXICO
SCHEDULE OF JOINT POWERS AGREEMENTS
June 30, 2019**

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	\$ 6,802	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 \$102,381	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.	\$ 22,952	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	\$ 13,495	Village of Milan	Village of Milan
Senior Citizens Center	Village of Milan City of Grants	City of Grants	Establishment of a senior citizens center.	Indefinite	Cost sharing	\$ 4,400	City of Grants	City of Grants
Mosquito Control	Village of Milan Cibola County Vector	Cibola County Vector	Provides mosquito control in and around the Village.	05/83 to Indefinite	The Village will pay the County \$350 per year	\$ 12,900	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. Brian S. Colón, Esq., New Mexico State Auditor and
Mr. Felix O. Gonzales, Mayor and
The Village Board of Trustees
Village of Milan, New Mexico

We were engaged to audit, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, 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, 2019, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements and have issued our report thereon dated January 29, 2020. We also engaged to audit 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, 2019, as listed in the table of contents. Our report disclaims an opinion on such financial statements because the accounting records contained multiple material misstatements. The internal controls employed by the Village did not prevent or detect the misstatements. The oversight necessary to ensure that employees of the Village performed their internal control functions to prevent material misstatements was insufficient. As a result, the following material errors occurred:

- Grant receivable in the amount of \$90,455 and deferred inflows related to grants in the amount of \$130,111 were not recorded.
- Taxes receivable in the amount of \$324,881 were not recorded.
- Debt service activity was not recorded for accounts with the New Mexico Finance Authority.
- Utility billing revenue, accounts receivable, and deposits are not correct. It was not possible to determine the amount of the misstatement.
- Gross receipts tax payable related to utility revenue is \$225,724, which exceeds the utility accounts receivable of \$164,760.
- The Village accepted pledged collateral from a bank using a security that does not comply with the public money act. As a result, the Village's deposits were not properly collateralized in the amount of \$517,152.

Mr. Brian S. Colón, Esq., New Mexico State Auditor and
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The Village Board of Trustees
Village of Milan, New Mexico

- Capital assets per the enterprise financial statements are \$835,979 less than the capital asset listing. Capital assets for the governmental financial statements do not roll forward by \$(569,146).
- Accounts payable was understated by \$152,889 at year-end.
- The Village did not calculate or record GASB 68 retirement obligations or GASB 75 OPEB obligations.
- The Village did not maintain grant records sufficiently to allow the auditors to test grant compliance for all grants.
- Fund balance and fund net assets did not roll forward by \$95,331.
- Due To/Due From accounts do not balance by \$189,122, and transfers do not balance by \$22,066.

Because of the significance of the issues above we were not able to determine if other material misstatements may exist and not be detected by normal auditing procedures.

Internal Control Over Financial Reporting

In connection with our engagement to audit the financial statements of the Village, 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned 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. We consider the following deficiencies described in the accompanying schedule of findings and responses to be material weaknesses: 2019-001, 2019-002, 2019-003, 2019-004. Additionally, if the scope of our work had been sufficient to enable us to express opinions

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Village of Milan, New Mexico

on the basic financial statements, other instances of material weaknesses may have been identified and reported herein.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies: 2019-005. Additionally, if the scope of our work had been sufficient to enable us to express opinions on the basic financial statements, other instances of significant deficiencies may have been identified and reported herein.

Compliance and Other Matters

In connection with our engagement to audit the financial statements of the Village, 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 items 2019-001, 2019-002, 2019-006, 2019-007, and 2019-008.

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
January 29, 2020

**VILLAGE OF MILAN, NEW MEXICO
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2019**

Findings from Year Ended June 30, 2018:

Current Status:

2017-001 Internal Control Over Utility Billing and
Related Accounts

Repeated
as finding 2019-004

2017-003 Due To/Due From Balances

Repeated
as finding 2019-005

2017-004 Processing of Unclaimed Property

Repeated
as finding 2019-006

2018-001 Insufficient Pledged Collateral on Public Deposits

Repeated
as finding 2019-007

**VILLAGE OF MILAN, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2019**

Summary of Audit Results

Type of auditor’s report issues	Disclaimer of Opinion
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes
• Significant deficiency(ies) identified that are not considered to be material weakness?	Yes
Noncompliance material to financial statements noted?	Yes

Current Year Findings

2019-001 Late Audit Report (Material Weakness Non-Compliance)

Condition: The audit report for the Village’s fiscal year ended June 30, 2019 was not submitted by the due date required OSA Rule 2.2.2.9 (A). The audit report was submitted January 31, 2019.

Criteria: OSA Rule 2.2.2.9 (A) establishes a due date for submission of this audit report to the Office of the State Auditor. The due date was December 15th, 2019

Effect: Without the audit report being delivered on time, regulatory agencies as well as legislative committees do not have the financial data available to make funding decisions. The Village may not be able to obtain grants or loans.

Cause: Insufficient oversight of the accounting functions. Insufficient review of reconciliations and reports.

Auditor’s Recommendations: We recommend the Village hire an outside firm to perform monthly closes. We further recommend that Village staff receive training on their areas in order to improve their abilities.

Management’s Response:

Corrective action(s): The Village has hired a consultant to assist with monthly closeouts and proper training.

Responsible person(s): The new Village Manager.

Timeline of corrective action: June 30, 2020.

**VILLAGE OF MILAN, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2019**

2019-002 Insufficient Internal Controls over Capital Assets and Construction in Progress (Material Weakness Non-Compliance)

Condition: During our capital asset testing we found that the Village's capital asset listing was \$835,979 more than the balances on the financial statements for enterprise funds, and that the governmental capital asset listing did not roll forward by \$(596,146).

Criteria: The Audit Act (Section 12-6-10 NMSA 1978) requires agencies to conduct an annual inventory of movable chattels and equipment costing more than \$5,000 and under the control of the governing authority. The inventory shall list the chattels and equipment and the date and cost of acquisition. The inventory shall be certified by the governing authority as to correctness. Each agency shall maintain one copy in its files. Governmental Accounting Standards Board Statement 34 requires the recording and disclosing of all capital assets and related policies material to the governmental entity.

Effect: The capital asset balances are materially misstated.

Cause: The Village was not able to determine why the differences exist.

Auditor's Recommendation: The Village should perform a full capital asset audit based on the capital asset listings to determine which assets really exist. They should correct their records based on the audit.

Management's Response:

Corrective action(s): The new Village Manager with the assistance of the Asset Management employee will perform an audit now, and then reconcile assets monthly.

Responsible person(s): The new Village Manager, and the Asset Management employee.

Timeline of corrective action: June 30, 2020.

VILLAGE OF MILAN, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2019

2019-003 Insufficient Internal Controls over Trial Balance, Recording of Financial Transactions, and Financial Reconciliations (Material Weakness)

Condition: The trial balance provided by the Village contained material misstatements and some source documents could not be provided. We noted the following:

- Grant receivable in the amount of \$90,455 and deferred inflows related to grants in the amount of \$130,111 were not recorded.
- Taxes receivable in the amount of \$324,881 were not recorded.
- Debt service activity was not recorded for accounts with the New Mexico Finance Authority.
- Utility billing revenue, accounts receivable, and deposits are not correct. It was not possible to determine the amount of the misstatement.
- Gross receipts tax payable related to utility revenue is \$225,724, which exceeds the utility accounts receivable of \$164,760.
- The Village accepted pledged collateral from a bank using a security that does not comply with the public money act. As a result, the Village's deposits were not properly collateralized in the amount of \$517,152.
- Capital assets per the enterprise financial statements are \$835,979 less than the capital asset listing. Capital assets for the governmental financial statements do not roll forward by \$(569,146).
- Accounts payable was understated by \$152,889 at year-end.
- The Village did not calculate or record GASB 68 retirement obligations or GASB 75 OPEB obligations.
- The Village did not maintain grant records sufficiently to allow the auditors to test grant compliance for all grants.
- Fund balance and fund net assets did not roll forward by \$95,331.
- Due To/Due From accounts do not balance by \$189,122, and transfers do not balance by \$22,066.

Criteria: Good accounting practices require financial statement line items to be reconciled prior to the onset of the audit engagement. Some of the key underlying concepts of AU-C Section 325 include:

- The auditor cannot be part of a client's internal control because becoming part of a client's internal control impairs auditor independence;
- The auditor's work is independent of the client's internal control over financial reporting, and the auditor cannot be a compensating control for the client; and

VILLAGE OF MILAN, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2019

2019-003 Insufficient Internal Controls over Trial Balance, Recording of Financial Transactions, and Financial Reconciliations (Material Weakness) (Continued)

- A system of internal control over the financial reporting does not stop at the general ledger or internal financial statements – it includes controls over the presentation of the financial statements. All accounts should be reconciled, and reconciliations should be sufficiently reviewed to ensure that they are correct and approved.

Effect: An internal control weakness in financial reporting exists because material adjustments were identified by the auditor's procedures and not by the Village. As a result, there is the risk that financial statements and disclosures may be materially inaccurate. Insufficient controls over the preparation of financial statements and related disclosures limits the ability to prevent or detect a misstatement in its year-end financial statements.

Adjustments were required to correct balances prior to and during the course of the audit to reflect accruals in the financial statements. The Village did not adhere to Generally Accepted Accounting Principles (GAAP) or Governmental Accounting Standards Board Statements (GASBS).

Cause: The Village's internal controls over the accounting, reporting, review, and oversight process were insufficient to prevent material misstatements. There was a lack of oversight that should have been performed to detect and prevent the material misstatements.

Auditor's Recommendation: We recommend that the Village reconcile each balance sheet account each month, and that the reconciliations be reviewed and approved by someone with sufficient accounting skill to ensure the work is correct. We recommend that Village staff receive training on the monthly close procedures.

Management's Response:

Corrective action(s): The new Village Manager has already started reviewing and approving reconciliations, and will continue the process. The new Village Manager will also receive monthly close training from the consultant the Village has hired.

Responsible person(s): The new Village Manager, and the employee in charge of Human Resources and Finance.

Timeline of corrective action: June 30, 2020.

VILLAGE OF MILAN, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2019

2019-004 Internal Control Over Utility Billing and Related Accounts (Initially reported as finding 2017-001) (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 three of the recalculated bills did not match the amounts billed to the customer. The three bills were for residential accounts. The details of the recalculations are as follows:

- One bill recalculated at \$66.93, but was billed \$66.35, an underbilling of \$0.58.
- One bill recalculated at \$16.87, but was billed \$27.34, an overbilling of \$10.47.
- One bill recalculated at \$43.04, but was billed \$42.81, an underbilling of \$0.23.

In researching these differences, we found that one of the accounts was being charged for a 1.0-inch line instead of a 0.75-inch line. For two of the three bills, it was not possible to determine why there was a difference.

In addition, sales tax payable at year-end is \$225,724. The related accounts receivable is \$164,760. This implies a sales tax rate of 137%. 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.

Progress Made on Clearing the Finding Since the Last Audit: None.

**VILLAGE OF MILAN, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2019**

2019-004 Internal Control Over Utility Billing and Related Accounts (Initially reported as finding 2017-001) (Material Weakness)

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:

Corrective action(s): The new Village Manager will do a monthly reconciliation on all utility billing and related accounts to ensure proper procedures and accountability.

Responsible person(s): The new Village Manager, and the Utility Billing Department employee.

Timeline of corrective action: June 30, 2020.

VILLAGE OF MILAN, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2019

2019-005 Due To/Due From Balances and Operating Transfers (Initially reported as finding 2017-003) (Significant Deficiency)

Condition: The due to/due from balances do not agree by \$189,122, and operating transfers do not agree by \$22,066.

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

Cause: Unknown.

Effect: The difference between the due to/due from and operating transfer accounts should either be an income or expense. Therefore, income or expenses are misstated by the amounts noted above.

Progress Made on Clearing the Finding Since the Last Audit: None.

Auditor's Recommendation: Management should reconcile the due to/due from and operating transfer 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): The new Village Manager will conduct a monthly reconciliation of the due to/due from and transfer accounts.

Responsible person(s): The new Village Manager, and the Finance Department employee.

Timeline of corrective action: June 30, 2020.

**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, 2019**

**2019-006 Processing of Unclaimed Property (Initially reported as finding 2017-004)
(Compliance and Other Matter)**

Condition: The Village has on the statement of net position – proprietary fund – joint utility \$494 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 complied with.

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): The new Village Manager will work to develop a process to reconcile and review unclaimed property.

Responsible person(s): The new Village Manager.

Timeline of corrective action: June 30, 2020.

**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, 2019**

2019-007 Insufficient Pledged Collateral on Public Deposits (Initially reported as finding 2018-001) (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. In addition, the financial institution pledged a security that does not meet the state's minimum requirements for valid pledged collateral. As a result, the Village is under collateralized by \$517,152.

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.

In addition, per Subsection A of Section 6-10-16 NMSA, 1978, deposits of public money may be collateralized by revenue bonds that are underwritten by a member of the financial industry regulatory authority (known as FINRA), and are rated BAA or above by a nationally recognized bond rating service.

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.

Progress Made on Clearing the Finding Since the Last Audit: None.

Recommendations: The Village should implement an internal control that ensures compliance with the Act. The pledging reports should be reviewed each month.

Management's Response:

Corrective Action(s): The new Village Manager will work to develop a process to conduct monthly reviews and develop internal control processes.

Responsible person(s): The new Village Manager.

Timeline of corrective action: June 30, 2020.

**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, 2019**

**2019-008 Insufficient Internal Controls over Travel and Per Diem Expenses
(Material Weakness Non-Compliance)**

Condition: As part of our testing of the internal controls over travel and per diem disbursements we selected a sample of 15 disbursements for testwork. We found that six of the 15 disbursements paid mileage at an incorrect rate. As a result, the Village overpaid mileage by approximately \$36.

Criteria: The Village's travel and per diem policy requires mileage to be reimbursed at 80% of the IRS mileage rate in effect in the prior fiscal year.

Effect: The Village is not in compliance with its travel and per diem policy.

Cause: There was a lack of oversight over travel and per diem disbursements.

Auditor's Recommendation: The Village should train its staff on the travel and per diem policy. The Village should consider designating one person as the travel and per diem expert and have that person review and approve all travel and per diem disbursements.

Management's Response:

Corrective Action(s): The new Village Manager will ensure that training staff on per diem policies will occur as changes occur.

Responsible person(s): The new Village Manager, and the Accounts Payable employee.

Timeline of corrective action: June 30, 2019.

**VILLAGE OF MILAN, NEW MEXICO
EXIT CONFERENCE
Year Ended June 30, 2019**

An exit conference was held on January 31, 2020, and attended by the following:

Village of Milan, New Mexico

Vivian Brumbelow, Trustee
Sarah Austin, Village Manager
Marcella Sandoval, Consultant
Jolene Colburn, Human Resources and Finance
Michael Gonzalez, Information Technology Director

Porch & Associates LLC

Thad Porch, Managing Principal

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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.