

STATE OF NEW MEXICO
VILLAGE OF RESERVE
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2017
INDEPENDENT AUDITORS' REPORT

STATE OF NEW MEXICO
 VILLAGE OF RESERVE
 FOR THE YEAR ENDED JUNE 30, 2017
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 VILLAGE OF RESERVE
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STATE OF NEW MEXICO
VILLAGE OF RESERVE
DIRECTORY OF OFFICIALS
JUNE 30, 2017

Village Council

NAME	TITLE
Hilda D Kellar	Mayor
Eddilu Brown	Mayor Pro Term
Wilford Estrada	Trustee
Clay J. Snyder	Trustee
Debbie Lee	Trustee

Village Officials

Andre Giron	Municipal Clerk
Amanda Cox	Deputy Clerk



Beasley, Mitchell & Co.

Certified Public Accountants

Donald A. Beasley, CPA, Partner
Christine Wright, CPA, Partner
Beth Fant, EA, Partner
Brad Beasley, CPA, Partner

INDEPENDENT AUDITORS' REPORT

Office of the State Auditor
and the Mayor and Village Council of the
Village of Reserve, New Mexico

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, aggregate remaining fund information, and the budgetary comparisons for the general fund, and major special revenue fund of Village of Reserve, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements as listed in the table of contents.

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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis which is required 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 management's discussion and analysis 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 on the financial statements the combining and individual fund financial statements, and the budgetary comparisons that collectively comprise the Village of Reserve's basic financial statements. The other schedules required by Section 2.2.2. NMAC and the schedule of vendors required by 2.2.2.10(A)(2)(g) NMAC are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other schedules required by Section 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 auditing standards generally accepted in the United States of America. In our opinion, the other schedules required by Section 2.2.2. NMAC are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2017 on our consideration of Village of Reserve'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 Village of Reserve's internal control over financial reporting and compliance.



Beasley, Mitchell & Co.
Las Cruces, New Mexico
December 12, 2017

GOVERNMENT - WIDE FINANCIAL STATEMENTS

STATE OF NEW MEXICO
VILLAGE OF RESERVE
STATEMENT OF NET POSITION
JUNE 30, 2017

	<u>Governmental Activities</u>	<u>Business- type Activities</u>	<u>Total</u>
ASSETS AND DEFERRED OUTFLOWS			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 395,659	\$ 100,047	\$ 495,706
Restricted cash	16,000	-	16,000
Taxes receivable	24,267	-	24,267
Accounts receivable	-	12,833	12,833
Due from business-type funds	17,197	-	17,197
Investments	<u>21,176</u>	<u>-</u>	<u>21,176</u>
Total current assets	474,299	112,880	587,179
NON-CURRENT ASSETS:			
Capital assets, net of accumulated depreciation	5,504,798	2,187,201	7,691,999
Restricted cash and cash equivalents	<u>-</u>	<u>31,704</u>	<u>31,704</u>
Total non-current assets	<u>5,504,798</u>	<u>2,218,905</u>	<u>7,723,703</u>
Total assets	5,979,097	2,331,785	8,310,882
DEFERRED OUTFLOWS:			
Deferred outflows	<u>31,543</u>	<u>34,327</u>	<u>65,870</u>
Total deferred outflows	<u>31,543</u>	<u>34,327</u>	<u>65,870</u>
Total assets and deferred outflows	<u>\$ 6,010,640</u>	<u>\$ 2,366,112</u>	<u>\$ 8,376,752</u>

See independent auditors' report and accompanying notes to financial statements

STATE OF NEW MEXICO
VILLAGE OF RESERVE
STATEMENT OF NET POSITION
JUNE 30, 2017

	<u>Governmental Activities</u>	<u>Business- type Activities</u>	<u>Total</u>
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION			
CURRENT LIABILITIES:			
Accounts payable	\$ 2,336	\$ 49,675	\$ 52,011
Due to governmental funds	-	17,197	17,197
Compensated absences	5,336	-	5,336
Customer deposits	-	19,220	19,220
Accrued expenses	1,350	880	2,230
Current portion of long-term debt	<u>41,622</u>	<u>567</u>	<u>42,189</u>
Total current liabilities	50,644	87,539	138,183
NON-CURRENT LIABILITIES:			
Net pension liability	91,809	99,911	191,720
Loans and notes payable, net of current	<u>508,105</u>	<u>8,505</u>	<u>516,610</u>
Total non-current liabilities	<u>599,914</u>	<u>108,416</u>	<u>708,330</u>
Total liabilities	650,558	195,955	846,513
DEFERRED INFLOWS:			
Deferred inflows	<u>18,698</u>	<u>20,348</u>	<u>39,046</u>
Total deferred inflows	<u>18,698</u>	<u>20,348</u>	<u>39,046</u>
Total liabilities and deferred inflows	669,256	216,303	885,559
NET POSITION:			
Net investment in capital assets	4,955,071	2,178,196	7,133,267
Restricted for:			
Special revenue funds	52,153	-	52,153
Capital project	64,000	-	64,000
Debit services	111,026	-	111,026
Unrestricted	<u>159,134</u>	<u>(28,387)</u>	<u>130,747</u>
Total net position	<u>5,341,384</u>	<u>2,149,809</u>	<u>7,491,193</u>
Total liabilities, deferred inflows, and net position	<u>\$ 6,010,640</u>	<u>\$ 2,366,112</u>	<u>\$ 8,376,752</u>

See independent auditors' report and accompanying notes to financial statements

STATE OF NEW MEXICO
VILLAGE OF RESERVE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

Functions/Programs:	Program Revenues				Net (Expense) Revenue and Change in Net Position		Total
	Expenses	Charges for Services	Program Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Primary government:							
Governmental activities:							
General government	\$ 201,629	\$ -	\$ -	\$ -	\$ (201,629)	\$ -	\$ (201,629)
Public safety	80,729	33,372	7,733	-	(39,624)	-	(39,624)
Public works	2,540	-	-	-	(2,540)	-	(2,540)
Misc. governmental	-	-	66,540	-	66,540	-	66,540
Unallocated depreciation	321,220	-	-	-	(321,220)	-	(321,220)
Total governmental activities	606,118	33,372	74,273	-	(498,473)	-	(498,473)
Business-type activities:							
Water and solid waste	307,322	159,599	-	-	-	(147,723)	(147,723)
Second well project	51,671	40,334	-	-	-	(11,337)	(11,337)
Total business-type activities	358,993	199,933	-	-	-	(159,060)	(159,060)
Total primary government	\$ 965,111	\$ 233,305	\$ 74,273	\$ -	(498,473)	(159,060)	(657,533)
General Revenues:							
Taxes:							
Property taxes					13,929	-	13,929
Gross receipts taxes					194,846	-	194,846
Motor vehicle and fuel taxes					12,492	-	12,492
License and fees					4,509	-	4,509
Small cities Assistance					90,000	-	90,000
Miscellaneous					122,835	-	122,835
Transfers between governmental and business-type					(238,965)	238,965	-
Total general revenues and transfers					199,646	238,965	438,611
Change in net position					(298,827)	79,905	(218,922)
Net position, beginning of year					5,760,211	2,069,904	7,830,115
Restatement					(120,000)	-	(120,000)
Net position, beginning of year as restated					5,640,211	2,069,904	7,710,115
Net position, end of year					\$ 5,341,384	\$ 2,149,809	\$ 7,491,193

See independent auditors' report and accompanying notes to financial statements

GOVERNMENTAL FUND STATEMENTS

STATE OF NEW MEXICO
VILLAGE OF RESERVE
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2017

	<u>General Fund</u>	<u>Fire Fund</u>	<u>Debt Service</u>	<u>Fire Protection Project Fund</u>	<u>Non-Major Governmental Fund</u>	<u>Total Governmental Funds</u>
ASSETS						
Cash and cash equivalents	\$ 191,602	\$ 23,514	\$ 111,026	\$ 64,000	\$ 5,517	\$ 395,659
Restricted cash	16,000	-	-	-	-	16,000
Taxes receivable	22,321	-	-	-	1,946	24,267
Due from other funds	17,197	-	-	-	-	17,197
Investments	-	21,176	-	-	-	21,176
	<u>247,120</u>	<u>44,690</u>	<u>111,026</u>	<u>64,000</u>	<u>7,463</u>	<u>474,299</u>
Total assets	<u>\$ 247,120</u>	<u>\$ 44,690</u>	<u>\$ 111,026</u>	<u>\$ 64,000</u>	<u>\$ 7,463</u>	<u>\$ 474,299</u>
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCE						
LIABILITIES:						
Current liabilities						
Accounts payable	\$ 2,336	\$ -	\$ -	\$ -	\$ -	\$ 2,336
Accrued expenses	1,350	-	-	-	-	1,350
	<u>3,686</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,686</u>
Total liabilities	3,686	-	-	-	-	3,686
FUND BALANCES:						
Restricted, reported in:						
Capital project	-	-	-	64,000	-	64,000
Special revenue funds	-	44,690	-	-	7,463	52,153
Debit services	-	-	111,026	-	-	111,026
Unassigned, reported in:						
General fund	243,434	-	-	-	-	243,434
	<u>243,434</u>	<u>44,690</u>	<u>111,026</u>	<u>64,000</u>	<u>7,463</u>	<u>470,613</u>
Total fund balances	<u>243,434</u>	<u>44,690</u>	<u>111,026</u>	<u>64,000</u>	<u>7,463</u>	<u>470,613</u>
Total liabilities, deferred inflows, and fund balances	<u>\$ 247,120</u>	<u>\$ 44,690</u>	<u>\$ 111,026</u>	<u>\$ 64,000</u>	<u>\$ 7,463</u>	<u>\$ 474,299</u>

See independent auditors' report and accompanying notes to financial statements

STATE OF NEW MEXICO
VILLAGE OF RESERVE
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2017

Total fund balances - governmental funds		\$ 470,613
Amount reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.		
The cost of capital assets	8,814,599	
Accumulated depreciation	<u>(3,309,801)</u>	5,504,798
Deferred outflows:		31,543
Deferred inflows due to actual non-investment experience that was better than expected and changes in benefits or assumption which result in a decrease to net pension liability.		(18,698)
Other long-term liabilities and certain other liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term and other liabilities at year end consist of:		
Note payable	(549,727)	
Net pension liability	(91,809)	
Compensated absences	<u>(5,336)</u>	<u>(646,872)</u>
Total net position - governmental activities		<u>\$ 5,341,384</u>

See independent auditors' report and accompanying notes to financial statements

STATE OF NEW MEXICO
VILLAGE OF RESERVE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	<u>General Fund</u>	<u>Fire Fund</u>	<u>Debt Service</u>	<u>Fire Protection Project Fund</u>	<u>Non-Major Governmental Fund</u>	<u>Total Governmental Funds</u>
REVENUES						
Taxes	\$ 217,082	\$ -	\$ -	\$ -	\$ 4,185	\$ 221,267
Charges for services	33,372	-	-	-	-	33,372
Licenses and fees	4,509	-	-	-	-	4,509
Small Cities Assistance	90,000	-	-	-	-	90,000
State grant	7,733	-	-	66,540	-	74,273
Miscellaneous	20,575	80,314	-	-	21,946	122,835
Total revenues	<u>373,271</u>	<u>80,314</u>	<u>-</u>	<u>66,540</u>	<u>26,131</u>	<u>546,256</u>
EXPENDITURES						
General government	172,317	-	-	-	-	172,317
Public safety	-	60,729	-	-	20,000	80,729
Public works	-	-	-	2,540	-	2,540
Debt service:						
Principal	-	-	41,623	-	-	41,623
Interest	-	-	10,177	-	-	10,177
Total expenditures	<u>172,317</u>	<u>60,729</u>	<u>51,800</u>	<u>2,540</u>	<u>20,000</u>	<u>307,386</u>
Excess (deficiency) of revenues over expenditures	<u>200,954</u>	<u>19,585</u>	<u>(51,800)</u>	<u>64,000</u>	<u>6,131</u>	<u>238,870</u>

See independent auditors' report and accompanying notes to financial statements

STATE OF NEW MEXICO
VILLAGE OF RESERVE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	<u>General Fund</u>	<u>Fire Fund</u>	<u>Debt Service</u>	<u>Fire Protection Project Fund</u>	<u>Non-Major Governmental Fund</u>	<u>Total Governmental Funds</u>
OTHER FINANCING SOURCES (USES):						
Transfer in	20,233	-	162,390	-	4,713	187,336
Transfer out	<u>(378,117)</u>	<u>(20,264)</u>	<u>-</u>	<u>(27,775)</u>	<u>(145)</u>	<u>(426,301)</u>
Total other sources (uses)	<u>(357,884)</u>	<u>(20,264)</u>	<u>162,390</u>	<u>(27,775)</u>	<u>4,568</u>	<u>(238,965)</u>
Net change in fund balance	(156,930)	(679)	110,590	36,225	10,699	(95)
Fund balance at beginning of year	<u>400,364</u>	<u>45,369</u>	<u>436</u>	<u>27,775</u>	<u>(3,236)</u>	<u>589,312</u>
Fund balance at end of year	<u>\$ 243,434</u>	<u>\$ 44,690</u>	<u>\$ 111,026</u>	<u>\$ 64,000</u>	<u>\$ 7,463</u>	<u>\$ 470,613</u>

See independent auditors' report and accompanying notes to financial statements

STATE OF NEW MEXICO
VILLAGE OF RESERVE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

Net change in fund balances - total governmental funds	\$	(95)
Amount reported for governmental activities in the Statement of Activities are different because:		
Change in deferred outflows		27,773
Governmental funds report capital outlays 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:		
Depreciation expense	(321,220)	(321,220)
Governmental funds report loan payments as debt service expenditures. However, in the statement of activities, these payments are not recognized as expenditures		41,623
Net change in deferred inflows		(10,596)
Change in net pension liability reported in the government wide financial statements		(34,648)
In the Statement of Activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amount paid).		
		(1,664)
Change in net position of governmental activities	\$	(298,827)

See independent auditors' report and accompanying notes to financial statements

STATE OF NEW MEXICO
VILLAGE OF RESERVE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance with Final Budget Positive (Negative)
REVENUES:				
Taxes	\$ 151,850	\$ 151,850	\$ 187,730	\$ 35,880
Licenses and fees	1,300	1,300	4,509	3,209
Charges for services	14,800	14,800	33,372	18,572
Small cities assistance	90,000	90,000	90,000	-
State grants	7,000	7,000	7,733	733
Miscellaneous revenue	<u>3,000</u>	<u>3,000</u>	<u>20,575</u>	<u>17,575</u>
Total revenues	267,950	267,950	343,919	75,969
EXPENDITURES:				
General government	<u>191,900</u>	<u>211,900</u>	<u>162,060</u>	<u>49,840</u>
Total expenditures	<u>191,900</u>	<u>211,900</u>	<u>162,060</u>	<u>49,840</u>
Deficiency of revenues over expenditures	76,050	56,050	181,859	125,809
OTHER FINANCING SOURCES (USES)				
Transfers in	-	20,232	20,233	1
Transfers out	<u>(109,650)</u>	<u>(363,108)</u>	<u>(378,117)</u>	<u>(15,009)</u>
Total other financing uses	<u>(109,650)</u>	<u>(342,876)</u>	<u>(357,884)</u>	<u>(15,008)</u>
Net changes in fund balance	(33,600)	(286,826)	(176,025)	110,801
Fund balance - beginning of the year	<u>400,364</u>	<u>400,364</u>	<u>400,364</u>	<u>-</u>
Fund balance - end of the year	<u>\$ 366,764</u>	<u>\$ 113,538</u>	<u>\$ 224,339</u>	<u>\$ 110,801</u>
Reconciliation of budgetary basis to GAAP basis:				
Net change in fund balance budgetary basis			\$ (176,025)	
Net revenue accruals			29,352	
Net expenditure accruals			<u>(10,257)</u>	
Net change in fund balance GAAP basis			<u>\$ (156,930)</u>	

See independent auditors' report and accompanying notes to financial statements

STATE OF NEW MEXICO
VILLAGE OF RESERVE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE - BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
SPECIAL REVENUE FUND - FIRE FUND
FOR THE YEAR ENDED JUNE 30, 2017

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance with Final Budget Positive (Negative)
REVENUES:				
State-Fire Marshall Allotment	\$ 77,876	\$ 77,876	\$ 80,314	\$ 2,438
Total revenues	77,876	77,876	80,314	2,438
EXPENDITURES:				
Public safety	77,876	77,876	60,729	17,147
Total expenditures	77,876	77,876	60,729	17,147
Transfers out	(18,300)	(20,264)	(20,264)	-
Total other financing sources	(18,300)	(20,264)	(20,264)	-
Net changes in fund balance	(18,300)	(20,264)	(679)	19,585
Fund balance - beginning of the year	45,369	45,369	45,369	-
Fund balance - end of the year	\$ 27,069	\$ 25,105	\$ 44,690	\$ 19,585
Reconciliation of budgetary basis to GAAP basis:				
Net change in fund balance budgetary basis			\$ (679)	
Net change in fund balance GAAP basis			\$ (679)	

See independent auditors' report and accompanying notes to financial statements

STATE OF NEW MEXICO
VILLAGE OF RESERVE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE - BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
SPECIAL REVENUE FUND - FIRE PROTECTION PROJECT FUND
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:				
State grants	\$ 130,351	\$ 130,351	\$ 66,540	\$ (63,811)
Total revenues	130,351	130,351	66,540	(63,811)
EXPENDITURES:				
Public works	<u>223,801</u>	<u>223,801</u>	<u>2,540</u>	<u>221,261</u>
Total expenditures	<u>223,801</u>	<u>223,801</u>	<u>2,540</u>	<u>221,261</u>
Excess of revenues over expenditures	(93,450)	(93,450)	64,000	157,450
OTHER FINANCING SOURCES (USES)				
Transfers in	54,450	54,450	-	(54,450)
Transfers out	<u>-</u>	<u>-</u>	<u>(27,775)</u>	<u>(27,775)</u>
Total other financing sources (uses)	<u>54,450</u>	<u>54,450</u>	<u>(27,775)</u>	<u>(82,225)</u>
Net changes in fund balance	(39,000)	(39,000)	36,225	75,225
Fund balance - beginning of the year	<u>27,775</u>	<u>27,775</u>	<u>27,775</u>	<u>-</u>
Fund balance - end of the year	<u>\$ (11,225)</u>	<u>\$ (11,225)</u>	<u>\$ 64,000</u>	<u>\$ 75,225</u>
Reconciliation of budgetary basis to GAAP basis:				
Net change in fund balance budgetary basis			<u>\$ 36,225</u>	
Net change in fund balance GAAP basis			<u>\$ 36,225</u>	

See independent auditors' report and accompanying notes to financial statements

PROPRIETARY FUNDS

STATE OF NEW MEXICO
VILLAGE OF RESERVE
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2017

	<u>Water & Sewer</u>	<u>Second Well Project</u>	<u>Total</u>
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 100,047	\$ -	\$ 100,047
Accounts receivable	<u>12,833</u>	<u>-</u>	<u>12,833</u>
Total current assets	112,880	-	112,880
NON-CURRENT ASSETS:			
Capital assets, net of accumulated depreciation	1,007,457	1,179,744	2,187,201
Restricted cash and cash equivalents	<u>31,637</u>	<u>67</u>	<u>31,704</u>
Total non-current assets	<u>1,039,094</u>	<u>1,179,811</u>	<u>2,218,905</u>
Total assets	1,151,974	1,179,811	2,331,785
DEFERRED OUTFLOWS:			
Deferred outflows	<u>34,327</u>	<u>-</u>	<u>34,327</u>
Total assets and deferred outflows	<u>\$ 1,186,301</u>	<u>\$ 1,179,811</u>	<u>\$ 2,366,112</u>

See independent auditors' report and accompanying notes to financial statements

STATE OF NEW MEXICO
VILLAGE OF RESERVE
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2017

	<u>Water & Sewer</u>	<u>Second Well Project</u>	<u>Total</u>
LIABILITIES AND NET POSITION			
CURRENT LIABILITIES:			
Accounts payable	\$ 2,735	\$ 46,940	\$ 49,675
Payroll liabilities	880	-	880
Due to other fund	17,197	-	17,197
Customer meter deposits	19,220	-	19,220
Current portion of long-term debt	<u>567</u>	<u>-</u>	<u>567</u>
Total current liabilities	40,599	46,940	87,539
NON-CURRENT LIABILITIES:			
Net pension liability	99,911	-	99,911
Notes payable, net of current	<u>8,505</u>	<u>-</u>	<u>8,505</u>
Total non-current liabilities	<u>108,416</u>	<u>-</u>	<u>8,505</u>
Total liabilities	149,015	46,940	195,955
DEFERRED INFLOWS:			
Deferred inflows	<u>20,348</u>	<u>-</u>	<u>20,348</u>
Total liabilities and deferred inflows	169,363	46,940	216,303
NET POSITION			
Net investment in capital assets	998,385	1,179,811	2,178,196
Unrestricted	<u>18,553</u>	<u>(46,940)</u>	<u>(28,387)</u>
Total net position	<u>1,016,938</u>	<u>1,132,871</u>	<u>2,149,809</u>
Total liabilities, deferred inflows and net position	<u>\$ 1,186,301</u>	<u>\$ 1,179,811</u>	<u>\$ 2,366,112</u>

See independent auditors' report and accompanying notes to financial statements

STATE OF NEW MEXICO
VILLAGE OF RESERVE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Water & Sewer</u>	<u>Second Well Project</u>	<u>Total</u>
OPERATING REVENUE:			
Charges for services	\$ 159,599	\$ 40,334	\$ 199,933
Total operating revenue	159,599	40,334	199,933
OPERATING EXPENSES:			
Maintenance and materials	176,171	-	176,171
Miscellaneous	-	457	457
Utilities	26,713	-	26,713
Depreciation	104,438	51,214	155,652
Total operating expenses	307,322	51,671	358,993
Operating loss	(147,723)	(11,337)	(159,060)
NON-OPERATING REVENUES:			
Transfers in	265,269	-	265,269
Transfers out	(26,304)	-	(26,304)
Total transfers	238,965	-	238,965
Change in net position	91,242	(11,337)	79,905
Net position, beginning of year	925,696	1,144,208	2,069,904
Net position, end of year	\$ 1,016,938	\$ 1,132,871	\$ 2,149,809

See independent auditors' report and accompanying notes to financial statements

STATE OF NEW MEXICO
VILLAGE OF RESERVE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Water & Sewer</u>	<u>Second Well Project</u>	<u>Total</u>
Cash flows from operating activities:			
Cash received from customers	\$ 152,069	\$ 40,334	\$ 192,403
Cash paid to suppliers and employees	(12,717)	-	(12,717)
Cash paid to suppliers and employees	<u>(200,217)</u>	<u>46,483</u>	<u>(153,734)</u>
Net cash provided by operating activities	(60,865)	86,817	25,952
Cash flows from non-capital financing activities:			
Miscellaneous income	<u>238,965</u>	<u>-</u>	<u>238,965</u>
Net cash provided by non-capital financing activities	238,965	-	238,965
Cash flows from capital and related financing activities:			
Interest expense	(134,963)	-	(134,963)
Change in capital assets	15,250	(86,850)	(71,600)
Principal payments on debt	<u>(567)</u>	<u>-</u>	<u>(567)</u>
Net cash used in capital and related financing activities	<u>(120,280)</u>	<u>(86,850)</u>	<u>(207,130)</u>
Net decrease in cash and cash equivalents	57,820	(33)	57,787
Cash and cash equivalents - beginning	<u>73,864</u>	<u>100</u>	<u>73,964</u>
Cash and cash equivalents - ending	<u>\$ 131,684</u>	<u>\$ 67</u>	<u>\$ 131,751</u>
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	\$ (147,723)	\$ (11,337)	\$ (159,060)
Adjustments to operating loss to net cash used in operating activities:			
Depreciation	104,438	51,214	155,652
Changes in net position and liabilities:			
Accounts receivable	(9,500)	-	(9,500)
Other assets	(28,279)	-	(28,279)
Accounts payable	2,667	46,940	49,607
Customer deposits	1,970	-	1,970
Other liabilities	<u>15,562</u>	<u>-</u>	<u>15,562</u>
Net cash provided by operating activities	<u>\$ (60,865)</u>	<u>\$ 86,817</u>	<u>\$ 25,952</u>

See independent auditors' report and accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

STATE OF NEW MEXICO
VILLAGE OF RESERVE
NOTES TO BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Village of Reserve (the "Village") have been prepared in accordance with general accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989 that do not conflict with or contradict GASB pronouncements. The more significant of the Village's accounting policies are described below.

A. Reporting Entity

The Village of Reserve was incorporated under the laws of the State of New Mexico during 1974. The Village operates under a Council-Mayor form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, sanitation and water, culture-recreation, health and social services, public improvements, planning and zoning, and general administrative service matters.

GASB Statement No. 14 established criteria for determining the governmental reporting entity and component units that should be included within the reporting entity. Under provisions of this Statement, the Village is considered a primary government, since it is a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. As used in GASB Statement No. 14, fiscally independent means that the Village may, without the approval or consent of another governmental entity, determine or modify its own budget, set rates or charges and issue bonded debt.

The Village has no component units, defined by GASB Statement No. 14 as other legally separate organizations for which the elected Village members are financially accountable. There are no other primary governments with which the Village Council Members are financially accountable. There are no other primary governments with which the Village has a significant relationship.

The accounts of the Village are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

STATE OF NEW MEXICO
VILLAGE OF RESERVE
NOTES TO BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

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

B. Basis of Presentation

Government-Wide Financial Statements (GWFS) - The government-wide financial statements (the statement of net position and the statement of changes in net position) report information on all of the activities of the Village. Fiduciary funds are not included in the GWFS. Fiduciary Funds are reported only in the Statement of Fiduciary Net Position at the fund financial statement level. The Village has no Fiduciary Funds. The effect of interfund activity, within the governmental and business-type activities columns, 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 program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include: 1) Charges for services is the term used for a broad category of program revenues that arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services. Revenues in this category include fees charged for specific services, such as water use or garbage collection; licenses and permits, such as businesses licenses, liquor licenses, and building permits; operating special assessments, such as for street cleaning or special street lighting; and any other amounts charged to service recipients. Fines and forfeitures are also included in this category because they result from direct charges to those who are otherwise directly affected by a program or service, even though specific grants and contributions (operating and capital) include revenues arising from mandatory and voluntary nonexchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program. Some grants and contributions consist of capital assets or resources that are restricted for capital purposes to purchase, construct, or renovate capital assets associated with a specific program. These should be reported separately from grants and contributions that may be used either for operating expenses or for capital expenditures of the program at the discretion of the reporting government. These categories of program revenue are specifically attributable to a program and reduce the net expense of that program to the reporting government.

The Village segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

STATE OF NEW MEXICO
VILLAGE OF RESERVE
NOTES TO BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

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

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The Village has presented the following major governmental funds:

General Fund - The General Fund is the general operating fund of the Village and accounts for all revenues and expenditures of the Village not encompassed within other funds.

SPECIAL REVENUE FUNDS

Fire Fund - To account for the operation and maintenance of the Village Fire Department. Financing is primarily from State grants. The fund was created by the authority of state grant provisions (NMSA 59A-53-1).

DEBIT SERVICE FUND

Debt Service Fund - To account for the management and payments of long term debt

CAPITAL PROJECTS FUNDS

Fire protection Project Fund - To account for resources received to design the fire building within the Village limits. Funding is a grant.

Enterprise Funds

Proprietary Funds - To account for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Position. The Village has presented the following major proprietary funds:

Water and Sewer Fund - To account for the provision of water service and for the disposal of solid waste to the residents of the Village. Activities include administration, operations and maintenance of the water system and billing and collection activities. The funds also account for the accumulation of resources for, and the payment of, long-term debt principal and interest for water debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

Second Well Project Fund - To account for the Second Well Project, of which will assist the Village in obtaining safe drinking water and adequate waste facilities. The capital project is funded by the Water and Waste Disposal Systems for Rural Communities.

STATE OF NEW MEXICO
VILLAGE OF RESERVE
NOTES TO BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government wide and proprietary financial statements are reported using the economic resources measurement focus. The government wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Village gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Derived tax revenue, such as franchise and sales tax revenue, is recognized when the underlying exchange transaction occurs.

Program revenues included in the Statement of Activities derive directly from the program itself or from parties outside the Village's taxpayer or citizenry, as a whole; program revenues reduced the cost of the function to be financed from the Village's general revenues. Program revenues include charges for services or applicants who purchase, use, or directly benefit from the goods or services provided by the given function.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e. when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Village considers property taxes as available if they are collected within 30 days after year end. Expenditures are recorded when the related fund liability is incurred.

STATE OF NEW MEXICO
VILLAGE OF RESERVE
NOTES TO BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting (continued)

However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due. The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for service, interest income and intergovernmental revenues. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received.

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position

Cash and Cash Equivalents - The Village's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The Village is authorized under the provisions of Chapter 6, Article 10, paragraph 10, NMSA 1978, to deposit its money in banks, savings and loan associations and/or credit unions whose accounts are insured by an agency of the United States.

Investments - All money not immediately necessary for the public uses of the Village may be invested in:

(a) bonds or negotiable securities of the United States, the state or any county, municipality or Village which has a taxable valuation of real property for the last preceding year of at least one million dollars (\$1,000,000) and has not defaulted in the payment of any interest or sinking fund obligation or failed to meet any bonds at maturity at any time within five years last preceding; or

(b) securities that are issued by the United States government or by its agencies or instrumentalities and that are either direct obligations of the United States or are backed by the full faith and credit of the United States government or agencies guaranteed by the United States government; or

(c) in contracts with banks, savings and loan associations or credit unions for the present purchase and resale at a specified time in the future of specific securities at specified prices at a price differential representing the interest income to be earned by the investor. The contract shall be shown on the books of the financial institution as being the property of the investor and the designation shall be contemporaneous with the investment. The contract shall be fully secured by obligations of the United States having a market value of at least one hundred two percent of the contract. The collateral required for investment in the contracts provided for in this subsection shall be shown on the books of the financial institution as being the property of the investor and the designation shall be contemporaneous with investment.

STATE OF NEW MEXICO
VILLAGE OF RESERVE
NOTES TO BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

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

Receivables and Payables - Receivables include property taxes, interfund loans that are expected to be paid back and amount due from state government agencies related to various grant agreements. Payables represent routine monthly bills for services rendered and products purchased and accrued salaries and benefits.

Deferred Outflows - In the government-wide fund financial statements, deferred outflows are contributions to a pension plan after the measurement date, and the change in assumption.

Property Taxes - The County collects the Village's share of property taxes assessed. Property taxes attach an enforceable lien on property as of January 1st. Tax notices are sent by the County treasurer to property owners by November 1st of each year to be paid in whole or in two installments by November 10th and April 10th of each year. The County collects such taxes and distributes them to the Village on a monthly basis. The Village accounts for its share of property taxes in the General Fund. Only those collections received are recorded as revenues for the budget presentation.

Restricted Funds - Restricted assets for the Village include utility customer deposits reflected in the business-type funds. These assets may only be expended for the specific purposes as noted, due to externally imposed provisions of the agreements with utility customers.

Capital Assets - Capital assets, which include property, buildings, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. Capital assets are recorded at historical costs and depreciated over their estimated useful lives (with no salvage value). 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. Donated capital assets are recorded at their estimated fair market value on the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The construction period interest is not capitalized in the proprietary funds.

STATE OF NEW MEXICO
VILLAGE OF RESERVE
NOTES TO BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**
Capital Assets (Continued)

Estimated useful life is management's estimate of how long the asset is expected to meet service demands. Straight line depreciation is used based on the following estimated useful lives:

Assets	Years
Buildings	40 - 50
Building improvements	40
Public domain infrastructure	12 - 20
System infrastructure	20 - 30
Equipment	10 - 12
Vehicles	3 - 5
Computer equipment	5

Use of Restricted Funds - When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

Revenue - The policy for defining the proprietary fund's operating revenues and expenses is how individual transactions would be categorized for purposes of preparing a statement of cash flows. Transactions for which cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities normally are not reported as components of operating income.

Pensions - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the New Mexico Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, on the economic resources measurement focus and accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

STATE OF NEW MEXICO
VILLAGE OF RESERVE
NOTES TO BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

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

Compensated Absences - Village employees are entitled to certain compensated absences based on their employment classification and length of employment. With minor exceptions, the Village allows 40 hour week employees to accumulate unused sick leave. Accumulated unused sick leave, however, is not paid upon termination from employment or retirement, but will be paid only upon illness while in the employment of the Village. Accordingly, no provision for accumulated unused sick leave has been made in the accompanying financial statements.

Full-time, permanent employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with the Village. Accumulated unused vacation is payable upon retirement or termination from employment. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Deferred Inflows - Within the governmental funds, revenues must be available in order to be recognized. Revenues such as real estate taxes that are not available are recorded as deferred inflows and reflected within the balance sheet.

Net Position - The government-wide and business-type activities fund financial statements utilize a net position presentation. When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, and then unrestricted resources as needed.

Net Investment in Capital Assets - This category reflects the portion of net position that are associated with capital assets less outstanding capital asset related debt.

Unrestricted Net Position - This category reflects net position of the Village, not restricted for any project or other purpose.

Fund Balance - In the fund financial statements, governmental fund balances are classified as follows:

Nonspendable - fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts. It also includes amounts to be held in perpetuity.

STATE OF NEW MEXICO
VILLAGE OF RESERVE
NOTES TO BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

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

Restricted - Fund balance should be reported when constraints placed on the use of resources are either:

- a. Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or
- b. Imposed by law through constitutional provisions or enabling legislation. Enabling legislation, as the term is used in this Statement, authorizes the government to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that a government can be compelled by an external party-such as citizens, public interest groups, or the judiciary-to use resources created by enabling legislation only for the purposes specified by the legislation.

Unassigned - fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

The Village's policy is to apply restricted resources first, committed sources second, assigned resources third, and unassigned resources last when an expense is incurred for purposes for which all or any fund balance classification is available.

Inter-Fund Transactions - Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund from 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. All other inter-fund transactions, except quasi-external transactions and reimbursements are reported as transfers. All other inter-fund transfers are reported as operating transfers.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

STATE OF NEW MEXICO
VILLAGE OF RESERVE
NOTES TO BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
Implementation of New Accounting Standards (continued)

In 2015, the GASB issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The Village is analyzing the effect that this statement will have on its financial statements, and currently believes it will have no significant effect on the financial statements for the upcoming year.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets for the Village are prepared prior to June 1 and must be approved by the Council Members and the New Mexico Department of Finance and Administration. Once the budget has been formally approved, the Village Council Members and the Department of Finance and Administration must also approve any amendments. A separate budget is prepared for each fund. Line items within each budget may be over-expended; however, it is not legally permissible to over-expend any budget in total.

These budgets are prepared on the Non-GAAP cash basis, excluding encumbrances, and secure appropriation of funds for only one year. Carryover funds must be re-appropriated in the budget of the subsequent fiscal year.

The budgetary information presented in these financial statements has been amended in accordance with the above procedures.

Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, and Proprietary Funds.

The Village is required to balance its budgets each year. Accordingly, amounts that are excess or deficient are presented as changes in cash designated for expenditures, not as an excess or deficiency of revenues over expenditures. The accompanying Statements of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAP Budgetary Basis) and Actual present comparisons of the legally adopted budget with actual data on a budgetary basis.

STATE OF NEW MEXICO
VILLAGE OF RESERVE
NOTES TO BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

Since accounting principals applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principals, a reconciliation of resultant basis, perspective, equity and timing differences in the excess (deficiency) of revenues and other sources of financial resources for the year-ended June 30, 2017 is presented.

Budgetary Control

1. Prior to June 1, the Village's Clerk-Treasurer submits the budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them. Public hearings are conducted in May and June to obtain taxpayers comments.
2. Prior to July 1, the budget is legally enacted through passage of an ordinance and then must be approved by Local Government Division of the State Department of Finance and Administration.
3. The Village Council is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the State Department of Finance and Administration.
4. Formal budgetary integration is employed as a management control device during the year for all funds.
5. The level of budget authority is at the fund level.

STATE OF NEW MEXICO
VILLAGE OF RESERVE
NOTES TO BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

3. CASH AND DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

New Mexico State Statutes provide authoritative guidance regarding the deposit of cash and idle cash.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more bank or savings and loan associations within the geographical boundaries of the Village. Deposits may be made to the extent that they are insured by an agency of the United States of America or by collateral deposited as security or by bond given by the financial institution. The rate of interest in no case shall the rate of interest be less than one hundred percent of the asked price on United States treasury bills of the same maturity on the day of deposit.

Idle cash may be invested in a wide variety of instruments, including money market accounts, certificates of deposit, the New Mexico State Treasurer's investment pool, or in securities which are issued by the state or by the United States government, or by their departments or agencies, and which are either direct obligations of the state or the United States, or are backed by the full faith and credit of those governments.

Cash Deposited with Financial Institutions

The Village maintains cash in one financial institution within Reserve, New Mexico. The Village's deposits are carried at cost.

As of June 30, 2017, the amount of cash reported on the financial statements differs from the amount on deposit with the financial institution because of transactions in transit and outstanding checks. A summary of the reconciliation is as follows:

	<u>Amount Per</u> <u>Bank</u>	<u>Plus DIT</u>	<u>Outstanding</u> <u>Checks</u>	<u>Balance</u> <u>Per</u> <u>Books</u>
Operating account	\$ 286,700	\$ -	\$ 6,152	\$ 280,548
Fire fund account	29,571	-	6,057	23,514
2nd Well account	67	-	-	67
USDA water	6,104	-	-	6,104
NMFA	111,026	-	-	111,026
CD	16,000	-	-	16,000
USDA water Reserve	6,104	-	-	6,104
Replacement Reserve	<u>100,047</u>	<u>-</u>	<u>-</u>	<u>100,047</u>
Total	<u>\$ 555,619</u>	<u>\$ -</u>	<u>\$ 12,209</u>	<u>\$ 543,410</u>

STATE OF NEW MEXICO
VILLAGE OF RESERVE
NOTES TO BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

3. CASH AND DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (CONTINUED)

Statement of Net Position:

Cash	\$ 495,706
CD	16,000
Restricted cash	<u>31,704</u>
Total Cash	543,410
Investments	<u>21,176</u>
Total	<u>\$ 564,586</u>

Except for items in transit, the carrying value of deposits by the respective depositories equated to the carrying value by the Village. All deposits are collateralized with eligible securities, as described by New Mexico State Statute, in amounts equal to at least 50% of the Village carrying value of the deposits (demand and certificates of deposit). Such collateral, as permitted by the state statutes is held in each respective depository bank's collateral pool at a Federal Reserve Bank, or member bank other than the depository bank, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds with the exception of deposit insurance provided by the Federal Deposit Insurance Corporation.

	<u>First State Bank</u>
Amount held in bank June 30, 2017	\$ 555,619
Less NMFA reserve	111,026
Less FDIC Insurance	<u>250,000</u>
Uninsured Public Funds	<u>194,593</u>
50% Collateral Requirements (Section 6-10-17 NMSA-1978)	97,297
Pledged Securities	<u>910,226</u>
Over (Under) Collateralized	<u>\$ 812,929</u>

A detailed listing of the pledged collateral is contained in the supplemental financial information section of this report. According to the Federal Deposit Insurance Corporation, public unit deposits are owned by the public unit. Demand, time deposits, savings deposits and interest bearing money market accounts at a public unit in an institution in the same state will be insured up to \$250,000 in aggregate.

Custodial Credit Risk - Deposits - Custodial Credit Risk is the risk that in the event of bank failure, the Village's deposits may not be returned to it. The Village does not have a deposit policy for custodial credit risk. As of June 30, 2017, none of the Village's bank balance of \$555,619 was exposed to custodial credit risk.

STATE OF NEW MEXICO
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NOTES TO BASIC FINANCIAL STATEMENTS
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4. ACCOUNTS AND TAXES RECEIVABLES

Receivables as of June 30, 2017, were as follows:

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>
Taxes:		
Property taxes	\$ 1,235	\$ -
Gasoline taxes	1,734	-
Gross receipts taxes	16,862	-
Lodger's taxes	1,946	-
Motor vehicle taxes	2,490	-
Other receivables:		
Other receivable	-	4,338
Services	-	8,495
	<u>\$ 24,267</u>	<u>\$ 12,833</u>

Taxes receivable for the governmental funds consists primarily of taxes collected by the collection agency in the current year but not remitted to the Village until after year-end. All governmental fund receivables are considered collectible.

STATE OF NEW MEXICO
VILLAGE OF RESERVE
NOTES TO BASIC FINANCIAL STATEMENTS
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5. CAPITAL ASSETS

Capital asset activity for the Village's primary government for the year ended June 30, 2017, was as follows:

	<u>Beginning Balance</u>	<u>Adjustments</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Government activities:					
Capital assets not being depreciated:					
Land	\$ <u>61,242</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>61,242</u>
Total capital assets not being depreciated	<u>61,242</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>61,242</u>
Capital Assets, being depreciated					
Buildings and improvements	1,206,057	-	-	-	1,206,057
Infrastructure	6,094,169	-	-	-	6,094,169
Vehicles	496,899	-	-	-	496,899
Furniture & Fixtures	30,246	-	-	-	30,246
Equipment	<u>925,986</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>925,986</u>
Total capital assets, being depreciated	<u>8,753,357</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,753,357</u>
Total capital assets	<u>8,814,599</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,814,599</u>
Less accumulated depreciation for:					
Buildings and improvements	(489,911)	-	(39,138)	-	(529,049)
Infrastructure	(1,371,617)	-	(243,766)	-	(1,615,383)
Vehicles	(494,720)	-	(1,089)	-	(495,809)
Furniture & Fixtures	(246)	-	(3,025)	-	(3,271)
Equipment	<u>(632,087)</u>	<u>-</u>	<u>(34,202)</u>	<u>-</u>	<u>(666,289)</u>
Total accumulated depreciation	<u>(2,988,581)</u>	<u>-</u>	<u>(321,220)</u>	<u>-</u>	<u>(3,309,801)</u>
Total other capital assets, net	<u>\$ 5,826,018</u>	<u>\$ -</u>	<u>\$ (321,220)</u>	<u>\$ -</u>	<u>\$ 5,504,798</u>

Depreciation expense was charged to governmental activities as follows:

Unallocated	\$ <u>321,220</u>
Total depreciation expense	<u>\$ 321,220</u>

STATE OF NEW MEXICO
VILLAGE OF RESERVE
NOTES TO BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

5. CAPITAL ASSETS (CONTINUED)

	<u>Beginning Balance</u>	<u>Adjustments</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities: Capital assets not being depreciated:					
Land - Water	\$ 165,039	\$ -	\$ 7,000	\$ -	\$ 172,039
Total capital assets not depreciated	<u>165,039</u>	<u>-</u>	<u>7,000</u>	<u>-</u>	<u>172,039</u>
Other Capital Assets					
Building - Water	91,666	-	-	-	91,666
Equipment	60,422	-	-	(15,250)	45,172
Vehicles	64,856	-	-	-	64,856
Plant	3,384,526	-	-	-	3,384,526
Construction in progress	-	-	39,516	-	39,516
Infrastructure	<u>1,260,189</u>	<u>-</u>	<u>40,334</u>	<u>-</u>	<u>1,300,523</u>
Total capital assets at historical cost	<u>4,861,659</u>	<u>-</u>	<u>79,850</u>	<u>(15,250)</u>	<u>4,926,259</u>
Total capital assets	<u>5,026,698</u>	<u>-</u>	<u>86,850</u>	<u>(15,250)</u>	<u>5,098,298</u>
Less accumulated depreciation					
Accumulated depreciation	(2,639,364)	-	(104,438)	-	(2,743,802)
Infrastructure	<u>(116,081)</u>	<u>-</u>	<u>(51,214)</u>	<u>-</u>	<u>(167,295)</u>
Total capital assets depreciated	<u>(2,755,445)</u>	<u>-</u>	<u>(155,652)</u>	<u>-</u>	<u>(2,911,097)</u>
Business-type capital assets, net	<u>\$ 2,271,253</u>	<u>\$ -</u>	<u>\$ (68,802)</u>	<u>\$ (15,250)</u>	<u>\$ 2,187,201</u>

Depreciation expense for business-type activities for the year ended June 30, 2017 was \$155,652.

STATE OF NEW MEXICO
VILLAGE OF RESERVE
NOTES TO BASIC FINANCIAL STATEMENTS
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6. NOTES PAYABLE AND COMPENSATED ABSENCES

A summary of activity of compensated absences is as follows:

	<u>Balance</u> <u>6/30/16</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>06/30/17</u>	<u>Amount</u> <u>Due Within</u> <u>One Year</u>
Notes payable - Gov	\$ 591,350	\$ -	\$ 41,623	\$ 549,727	\$ 41,622
Notes payable - Bus	<u>9,639</u>	<u>-</u>	<u>567</u>	<u>9,072</u>	<u>567</u>
Total notes payable	600,989	-	42,190	558,799	42,189
Compensated absences - Gov	<u>3,674</u>	<u>4,846</u>	<u>3,184</u>	<u>5,336</u>	<u>5,336</u>
Total	<u>\$ 604,663</u>	<u>\$ 4,846</u>	<u>\$ 45,374</u>	<u>\$ 564,135</u>	<u>\$ 47,525</u>

The Village obtained their loans from the United States Department of Agriculture. The loans requires variable annual payments and fixed interest from 3.25% and matures June 2054. Loan debt service requirements to maturity are as follows:

<u>GOVERNMENTAL</u> <u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 2,000	\$ 3,835	\$ 5,835
2019	2,000	3,770	5,770
2020	2,000	3,705	5,705
2021	2,000	3,640	5,640
2022-2054	<u>110,000</u>	<u>71,890</u>	<u>181,890</u>
	<u>\$ 118,000</u>	<u>\$ 86,840</u>	<u>\$ 204,840</u>

The Village obtained their loans from the New Mexico Finance Authority. The loans requires variable annual payments and variable interest from 0.30% to 3.36% and matures June 2035. Loan debt service requirements to maturity are as follows:

<u>GOVERNMENTAL</u> <u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 39,622	\$ 4,515	\$ 44,137
2019	39,622	4,519	44,141
2020	39,622	3,746	43,368
2021	39,622	3,357	42,979
2022-2035	<u>273,239</u>	<u>12,616</u>	<u>285,855</u>
	<u>\$ 431,727</u>	<u>\$ 28,753</u>	<u>\$ 460,480</u>

STATE OF NEW MEXICO
VILLAGE OF RESERVE
NOTES TO BASIC FINANCIAL STATEMENTS
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6. NOTES PAYABLE AND COMPENSATED ABSENCES (CONTINUED)

Business-Type Years Ending June 30,	Principal	Interest	Total
2018	\$ 567	\$ -	\$ 567
2019	567	-	567
2020	567	-	567
2021	567	-	567
2022-2025	<u>6,804</u>	<u>-</u>	<u>6,804</u>
	<u>\$ 9,072</u>	<u>\$ -</u>	<u>\$ 9,072</u>

7. PROPERTY TAXES

Union County collects the Village's share of property taxes assessed. Property taxes attach an enforceable lien on property as of January 1st. Tax notices are sent by the County treasurer to property owners by November 1st of each year to be paid in whole or in two installments by November 10th and April 10th of each year. The County collects such taxes and distributes them to the Village on a monthly basis. The Village accounts for its share of property taxes in the General Fund. Only those collections received are recorded as revenues for the budget presentation.

8. PENSION PLAN PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

General Information about the Pension Plan

Plan description.

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

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NOTES TO BASIC FINANCIAL STATEMENTS
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8. PENSION PLAN PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (CONTINUED)

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

Benefits provided.

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

<http://www.nmpera.org/assets/uploads/downloads/comprehensive-annual-financial-reports/CAFR-2016.pdf>.

Contributions.

The contribution requirements of defined benefit plan members and the (name of employer) are established in state statute under Chapter 10, Article 11, NMSA 1978. The contribution requirements may be amended by acts of the legislature. For the employer and employee contribution rates in effect for FY16 for the various PERA coverage options, for both Tier I and Tier II, see the tables available in the note disclosures on pages 29 through 31 of the PERA FY16 annual audit report at http://osanm.org/media/audits/366_Public_Employees_Retirement_Association_2014.pdf. The PERA coverage options that apply to the Village is Municipal General Division. Statutorily required contributions to the pension plan from the Village were \$5,791 and employer paid member benefits that were "picked up" by the employer were \$0 for the year ended June 30, 2016.

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

The PERA pension liability amounts, net pension liability amounts, and sensitivity information were based on an annual actuarial valuation performed as of June 30, 2016. The PERA pension liability amounts for each division were rolled forward from the valuation date to the Plan year ending June 30, 2016, using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date June 30, 2016.

The assets of the PERA fund are held in one trust, but there are six distinct membership groups (municipal general members, municipal police members, municipal fire members, state general members, state police members and legislative members) for whom separate contribution rates are determined each year pursuant to chapter 10, Article 11 NMSA 1978. Therefore, the calculations of the net pension liability, pension expense and deferred Inflows and Outflows were performed separately for each of the membership groups: municipal general

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8. PENSION PLAN PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (CONTINUED)

members; municipal police members; municipal fire members; state general members; state police members and legislative members. The Village's proportion of the net pension liability for each membership group that the employer participates in is based on the employer contributing entity's percentage of that membership group's total employer contributions for the fiscal year ended June 30, 2015. Only employer contributions for the pay period end dates that fell within the period of July 1, 2015 to June 30, 2016 were included in the total contributions for a specific employer. Regular and any adjustment contributions that applied to FY 2016 are included in the total contribution amounts.

In the event that an employer is behind in reporting to PERA its required contributions, an estimate (receivable) was used to project the unremitted employer contributions. This allowed for fair and consistent measurement of the contributions with the total population. This methodology was used to maintain consistent measurement each year in determining the percentages to be allocated among all the participating employers.

For PERA Fund Division Municipal General, at June 30, 2016, the Village reported a liability of \$191,720 for its proportionate share of the net pension liability. At June 30, 2016, the Village's proportion was 0.0120%, which was unchanged from its proportion measured as of June 30, 2016, due to the insignificance of the difference.

For the year ended June 30, 2016, the Village recognized PERA Fund Division Municipal General pension expense of \$112,642 . At June 30, 2016, the Village reported PERA Fund Division Municipal General deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

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NOTES TO BASIC FINANCIAL STATEMENTS
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8. PENSION PLAN PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (CONTINUED)

	Deferred Outflows of Resources	Deferred inflows of Resources
Differences between expected and actual experience	\$ 9,579	\$ 1,871
Changes of assumptions	11,242	32
Net difference between projected and actual earnings on pension plan investments	35,276	-
Changes in proportion and differences between Village of Roy contributions and proportionate share of contributions	-	37,143
Village of Roy contributions subsequent to the measurement date	9,773	-
Total	\$ 65,870	\$ 39,046

In June 30, 2016 \$9,773, deferred outflows - contributions made after measurement date, will be recognized as a reduction of net pension liability. Other deferred amounts to be recognized in fiscal years following the reporting date are below:

Year Ended June 30:

2016	\$ (2,275)
2017	\$ (2,275)
2018	\$ 13,274
2019	\$ 8,327

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

STATE OF NEW MEXICO
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NOTES TO BASIC FINANCIAL STATEMENTS
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8. PENSION PLAN PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (CONTINUED)

Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay
Amortization period	Solved for based on statutory rates
Asset valuation method	Fair value
Actuarial assumptions:	
- Investment rate of return	7.75% annual rate, net of investment expense
Projected benefit payment	100 years
-Payroll growth	3.50% annual rate
-Projected salary increases	3.50% to 14.25% annual rate
-Includes inflation at	3.00% annual rate
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 projection to 2018 using Scale AA.
Experience study dates	July 1, 2008 to June 30, 2013

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

ALL FUNDS - Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	4.5 %	7.39 %
Risk Reduction & Mitigation	21.5	1.79
Credit Oriented Fixed Income	15.0	5.77
Real Assets	<u>20.0</u>	7.35
Total	100.0 %	

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8. PENSION PLAN PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (CONTINUED)

Discount rate: The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that future contributions will be made in accordance with statutory rates. On this basis, the pension plan's fiduciary net position together with the expected future contributions are sufficient to provide all projected future benefit payments of current plan members as determined in accordance with GASBS 67. Therefore, the 7.75 percent assumed long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate:

The following table shows the sensitivity of the net pension liability to changes in the discount rate. In particular, the tables present Village of Roy's net pension liability in each PERA Fund Division that Village of Roy participates in, under the current single rate assumption, as if it were calculated using a discount rate one percentage point lower (6.75%) or one percentage point higher (8.75%) than the single discount rate.

	1% Decrease 6.75%	Current 7.75%	1% Increase 8.75%
Net Pension Liability	\$ 285,837	\$ 191,720	\$ 113,654

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

Payables to the pension plan. Employers should disclose the amount of payables to the Plan with a description of what gave rise to the payable per GASBS 68, paragraphs 122 and 124.

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

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

STATE OF NEW MEXICO
VILLAGE OF RESERVE
NOTES TO BASIC FINANCIAL STATEMENTS
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9. POST-EMPLOYMENT BENEFITS - STATE RETIREE HEALTH CARE PLAN (CONTINUED)

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

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

Funding Policy - The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at www.nmrhca.state.nm.us. The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that choose to become participating employers after January 1, 1998, are required to make contributions to the RHCA fund in the amount determined to be appropriate by the board.

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2017, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2013, the statute required each participating employer

STATE OF NEW MEXICO
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NOTES TO BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

9. POST-EMPLOYMENT BENEFITS - STATE RETIREE HEALTH CARE PLAN (CONTINUED)

to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act. The Village of Reserve' contributions to the RHCA for the years ended June 30, 2017, 2016 and 2015 were \$4,289, \$2,308, and \$2,296, respectively, which equal the required contributions for each year.

10. RISK MANAGEMENT

The Village is exposed to various risks of loss related to torts, theft of or damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters. To manage these risks the Village participates as a member of the New Mexico Self Insurer's Fund, a pooled joint powers Insurance Authority. The Authority is administered by the New Mexico Municipal League, a nonprofit, comprised of 103 public entities. The Authority is organized under joint powers agreements as provided by Section 11-1-1 et. Seq, NMSA, 1978. The purpose of the Authority is to arrange and administer programs for pooling of self-insured losses, to purchase excess insurance or reinsurance, and to arrange for group-purchased insurance for property and other coverage. Each member government participates in the election of Board of Directors, who appoints the Insurance Board of Trustees. Insurance premiums paid to the Authority for fiscal year 2016 amounted to \$9,291.

Tort claims are generally limited by the Tort Claims Act, Section 41-4-1 et. Seq, NMSA, 1978. The Village retains some risk for coverage which may be less than the tort claims limitation. Certain claims relating to certain public construction, operation of motor vehicles, building maintenance and certain health care activities are exempt from the Act.

General Liability Insurance: The policy provides an annual aggregate coverage of \$4,000,000 with \$400,000 per person for bodily injury and \$750,000 per occurrence. Property damage coverage is for \$100,000 per occurrence.

Workers' Compensation Insurance: The policy limits provides coverage of \$1,050,000 per occurrence and \$1,050,000 annual aggregate coverage.

Property Insurance: Property insurance insures Village buildings for an aggregate of \$1,396,033, including contents, with separate electronic data processing equipment of \$9,000. Deductibles are \$250 per occurrence. Automobile comprehensive is included with a deductible of \$250.

Fidelity Bond: Blanket fidelity bond coverage in the amount of \$500,000 with deductible

STATE OF NEW MEXICO
VILLAGE OF RESERVE
NOTES TO BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

10. RISK MANAGEMENT (CONTINUED)

of \$10,000 is provided.

The New Mexico Self Insurer's Fund assesses a premium to the Village to cover expenses of the fund which includes claims, reinsurance expenses, administration and other costs.

Risk management activities are reported primarily in the General Fund. Other funds may reimburse the General Fund for certain coverage. The Village has not significantly reduced Insurance coverage from the prior year. Settlements have not exceeded Insurance coverage for the past three years. Management is not aware of any outstanding claims.

11. INTERFUND TRANSFERS

Interfund transfers during the year ended June 30, 2017 consisted the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 20,233	\$ (378,117)
Fire Fund	-	(20,264)
DWI Fund	4,713	-
Debt services	162,390	-
TPE Fund	-	(27,775)
Los Jovenes Fund	-	(145)
Water Fund	265,269	(26,304)
	<u>\$ 452,605</u>	<u>\$ (452,605)</u>

12. EXCESS EXPENDITURES OVER APPROPRIATIONS

New Mexico State Statutes restricts all officials and governing authorities from approving claims in excess of the approved budget. The Village exceeded its authorized budget by \$43,409 as follows:

Fund	Budget Expenses	Actual Expenses	Difference
General Fund - Transfer out	\$ 363,108	\$ 378,117	\$ 15,009
Fire Protection Fund - Transfer out	-	27,775	27,775
DWI Fund - Transfer out	4,088	4,713	625
Totals	<u>\$ 367,196</u>	<u>\$ 410,605</u>	<u>\$ 43,409</u>

STATE OF NEW MEXICO
VILLAGE OF RESERVE
NOTES TO BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

13. SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 12, 2017 the date the financial statements were available to be issued.

14. RESTATEMENT

A prior year adjustment of \$120,000 was recorded for during the fiscal year ended June 30, 2017. The restatement was made to adjust cash in the books to balance to the reconciled bank balance, to adjust the long term debt balance that had balances that were not representative of the Village liabilities, as follows:

	<u>Government wide</u>
Debt	<u>\$ 120,000</u>
Total prior year adjustment	<u>\$ 120,000</u>

REQUIRED SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO VILLAGE OF RESERVE
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
PERA MUNICIPAL GENERAL DIVISION
LAST 10 FISCAL YEARS*
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) PLAN
FOR THE YEAR ENDED JUNE 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
The State of New Mexico Village of Reserve's proportion of the net pension liability	\$ 191,720	\$ 148,860	\$ 136,519
The State of New Mexico Village of Reserve's proportionate share of the net pension liability	0.0120%	0.0146%	0.0175%
The State of New Mexico Village of Reserve's covered-employee payroll	\$ 132,075	\$ 70,615	\$ 155,923
The State of New Mexico Village of Reserve's proportionate share of the net pension liability as a percentage of its covered-employee payroll	145.16 %	210.81 %	87.56 %
Plan fiduciary net position as a percentage of the total pension liability	76.99 %	81.29 %	81.29 %

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

STATE OF NEW MEXICO VILLAGE OF RESERVE
SCHEDULE OF CONTRIBUTIONS
PERA MUNICIPAL GENERAL DIVISION
LAST 10 FISCAL YEARS*
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) PLAN
FOR THE YEAR ENDED JUNE 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 9,773	\$ 9,818	\$ 11,480
Contributions in relation to the contractually required contribution	<u>9,773</u>	<u>9,818</u>	<u>11,480</u>
Contribution deficiency (excess)	-	-	-
The State of New Mexico Village of Reserve' covered-employee payroll	<u>\$ 132,075</u>	<u>\$ 70,615</u>	<u>\$ 155,923</u>
Contributions as a percentage of covered-employee payroll	<u>7.40 %</u>	<u>13.90 %</u>	<u>7.36 %</u>

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, The State of New Mexico Village of Reserve will present information for those years for which information is available.

STATE OF NEW MEXICO VILLAGE OF RESERVE
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2017

Changes of benefit terms- The PERA Fund COLA and retirement eligibility benefits changes in recent years are described in Note 1 on pages 40-42 of the PERA FY16 audit available at http://osanm.org/media/audits/366_Public_Employees_Retirement_Association_FY2016.pdf.

Changes of assumptions- The Public Employees Retirement Association (PERA) of the NEW Mexico Annual Actuarial Valuation as of June 30, 2016 is available at <http://www.nmpera.org/assets/uploads/downloads/retirement-fund-valuation-reports/6-30-2016-PERA-Valuation-Report-FINAL.pdf>. See Appendix B on pages 53 - 61 of the report which summarizes actuarial assumptions and methods effective with the June 30, 2014 valuation.

Changes in assumptions resulted in a decrease of \$91.8 million to the total pension liability for the PERA Fund and an increase of 0.42% to the funded ratio for the year ended June 30, 2016. See more details of actuarial methods and assumptions on Note 2 on page 34 of PERA's Schedule of Employer Allocations and Pension amounts at http://osanm.org/media/audits/366-B_PERA_Schedule_of_Employer_Allocations_FY2016.pdf.

SUPPLEMENTAL INFORMATION

SPECIAL REVENUE FUNDS

Lodgers Tax Fund - To account for the administration of the Village promotional effort. Funds are derived from a lodger's tax imposed on motel rentals. (Authority is NMSA 3-38-13).

DWI Fund - To account for resources received to pay salaries, travel and minor equipment to provide DWI program activities. Funding is from State grants provided by the State of New Mexico.

LEP Fund - Annual state distribution to all qualified New Mexico police departments. LEP distribution from the state is \$20,000.

Los Jovenes Fund - To account for resources received from donations and fundraiser's to support programs for the Youth of the Village. Authority is the Village Council.

STATE OF NEW MEXICO
VILLAGE OF RESERVE
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS
JUNE 30, 2017

	<u>Special Revenue</u>				<u>Total Nonmajor Fund</u>
	<u>Lodgers Tax Fund</u>	<u>DWI Fund</u>	<u>LEP Fund</u>	<u>Los Jovenes Fund</u>	
ASSETS					
Cash and cash equivalents	\$ 5,517	\$ -	\$ -	\$ -	\$ 5,517
Accounts receivable	<u>1,946</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,946</u>
Total assets	<u>\$ 7,463</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,463</u>
LIABILITIES AND FUND BALANCE					
Fund balance:					
Restricted, reported in:					
Special revenue funds	<u>\$ 7,463</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,463</u>
Total liabilities and fund balance	<u>\$ 7,463</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,463</u>

See independent auditors' report and accompanying notes to financial statements

STATE OF NEW MEXICO
VILLAGE OF RESERVE
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - NON-MAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Special Revenue</u>				<u>Total Nonmajor Funds</u>
	<u>Lodgers Tax Funds</u>	<u>DWI Funds</u>	<u>LEP Funds</u>	<u>Los Jovenes Funds</u>	
REVENUES					
Taxes	\$ 4,185	\$ -	\$ -	\$ -	\$ 4,185
Miscellaneous income	<u>1,946</u>	<u>-</u>	<u>20,000</u>	<u>-</u>	<u>21,946</u>
Total revenues	6,131	-	20,000	-	26,131
EXPENDITURES					
Public safety	<u>-</u>	<u>-</u>	<u>20,000</u>	<u>-</u>	<u>20,000</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>20,000</u>	<u>-</u>	<u>20,000</u>
Excess (deficiency) of revenues over expenditures	<u>6,131</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,131</u>
OTHER FINANCING USES:					
Operating transfers in	-	4,713	-	-	(4,713)
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>(145)</u>	<u>(145)</u>
Total other financing uses	<u>-</u>	<u>4,713</u>	<u>-</u>	<u>(145)</u>	<u>4,568</u>
Net change in fund balance	6,131	4,713	-	(145)	10,699
Fund balance, beginning of year	<u>1,332</u>	<u>(4,713)</u>	<u>-</u>	<u>145</u>	<u>(3,236)</u>
Fund balance, end of year	<u>\$ 7,463</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,463</u>

See independent auditors' report and accompanying notes to financial statements

STATE OF NEW MEXICO
 VILLAGE OF RESERVE
 SCHEDULE OF VENDOR INFORMATION FOR PURCHASES EXCEEDING \$60,000 (EXCLUDING GRT)
 FOR THE YEAR ENDED JUNE 30, 2017
 PREPARED BY: ANDRE GIRON, CLERK/TREASURER DATE: DECEMBER 12, 2017

RFB#/RFP#	Type of Procurement	Awarded Vendor	Date Contract Signed	\$ Amount of Awarded Contract	\$ Amount of Amended Contract	Name and Physical Address per the Procurement Documentation of ALL Vendor(s) that Responded	In-State/Out-of-State Vendor (Y or N) (Based on Statutory Definition)	Was the Vendor In-State and Chose Veteran's Preference (Y or N) For Federal Funds Answer N/A	Brief Description of the Scope of Work
RVFD 03-2017	Competitive (RFP or RFB)	Testudo Engineering	06/12/2017	\$74,796	\$74,796	4015 Carlisle Blvd, Suite E, Albuquerque, NM 87107	Y	N/A	Fire Vehicle Bay Station Design Work

See independent auditors' report and accompanying notes to financial statements

STATE OF NEW MEXICO
VILLAGE OF RESERVE
SCHEDULE OF DEPOSITORIES
AS OF JUNE 30, 2017

	<u>Type</u>	<u>Amount Per Bank</u>	<u>Plus DIT</u>	<u>Outstanding Checks</u>	<u>Balance Per Books</u>
First State Bank					
Operating account	CK	\$ 286,700	\$ -	\$ (6,152)	\$ 280,548
Fire Fund	CK	29,571	-	(6,057)	23,514
2nd Well account	CK	67	-	-	67
USDA Water	CK	6,104	-	-	6,104
USDA Water Reserve	CK	6,104	-	-	6,104
Replacement Reserve	CK	100,047	-	-	100,047
NMFA	NMFA	111,026	-	-	111,026
Certificate of Deposit	CD	<u>16,000</u>	<u>-</u>	<u>-</u>	<u>16,000</u>
Total		<u>\$ 555,619</u>	<u>\$ -</u>	<u>\$ (12,209)</u>	<u>\$ 543,410</u>

Type:

CK= Checking

SV= Savings

CD= Certificate of Deposit

First State Bank

Amount held in bank June 30, 2017	\$ 555,619
Less NMFA reserve	111,026
Less FDIC Insurance	<u>250,000</u>
Uninsured Public Funds	<u>194,593</u>
50% Collateral Requirements (Section 6-10-17 NMSA-1978)	97,297
Pledged Securities	<u>910,226</u>
Over (Under) Collateralized	<u>\$ 812,929</u>

See independent auditors' report and accompanying notes to financial statements

STATE OF NEW MEXICO
 VILLAGE OF RESERVE
 SCHEDULE OF COLLATERAL PLEDGED BY DEPOSITORY FOR PUBLIC FUNDS
 AS OF JUNE 30, 2017

<u>Description of Pledged Collateral</u>	<u>Amount</u>	<u>Name and Location of Safekeeper</u>
FFCB, CUSIP#3133EEB33, Maturing 8/22/2019	\$ 293,789	Federal Home Loan Bank of Dallas
FFCB, CUSIP#31331VKU9, Maturing 4/16/2025	<u>616,437</u>	Federal Home Loan Bank of Dallas
Total pledged securities	<u>\$ 910,226</u>	

See independent auditors' report and accompanying notes to financial statements

COMPLIANCE SECTION



Beasley, Mitchell & Co.

Certified Public Accountants

Donald A. Beasley, CPA, Partner
Christine Wright, CPA, Partner
Beth Fant, EA, Partner
Brad Beasley, CPA, Partner

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

INDEPENDENT AUDITORS' REPORT

Office of the State Auditor
and the Mayor and Village Council of the
Village of Reserve

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, the budgetary comparisons of the general fund and major special revenue funds of Village of Reserve, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Village of Reserves's basic financial statements, and the combining and individual funds of the Village, presented as supplemental information, and have issued our report thereon dated December 12, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Village of Reserve'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 Village of Reserve's internal control. Accordingly, we do not express an opinion on the effectiveness of Village of Reserve's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. (2013-001 and 2016-002)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Village of Reserve's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2011-002, 2013-002, 2014-001, 2016-003, 2017-001, and 2017-002.

Village of Reserve's Response to Findings

Village of Reserve's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. Village of Reserve'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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village of Reserve internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Beasley, Mitchell & Co.
Las Cruces, New Mexico
December 12, 2017

STATE OF NEW MEXICO
 VILLAGE OF RESERVE
 SCHEDULE OF FINDINGS AND RESPONSES
 FOR THE YEAR ENDED JUNE 30, 2017

PRIOR YEAR FINDINGS:

2011-002	DFA Quarterly Reports Incorrect	Repeated
2013-001	Meter Deposit Bank Account	Repeated
2013-002	Water Meter Deposits	Repeated
2013-006	Receipt Books	Resolved
2013-029	Fire Chief Contract	Resolved
2013-031	Payments to Board Members	Resolved
2014-001	Incorrect W-3 Filed	Repeated
2014-003	Reserves Required	Resolved
2014-005	Payroll/Payable in system not being cleared out	Resolved
2015-014	Enterprise fund indebted to general fund	Resolved
2016-001	Lack of procurement officer - Significant Deficiency	Resolved
2016-002	Per Diem - Significant Deficiency	Repeated
2016-003	Expenditures in Excess of Budget	Repeated

CURRENT YEAR FINDINGS:

2017-001	Journal Entries Approval	New
2017-002	Loan from USDA	New

VILLAGE OF RESERVE
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2017

DFA Quarterly Reports Incorrect (2011-002) - Non- Compliance Matter

CONDITION	The Quarterly DFA reports submitted could not be reconciled to the books of record. A DFA Specialist had to come to the Village and help prepare those reports. Village was working with DFA to correct the reports; however, the correction process was not completed by the end of the year.
CRITERIA	Village Management should be knowledgeable and capable of preparing all required reports necessary to the Village's day to day operations.
CAUSE	Management at the time did not possess the knowledge and capabilities to prepare the quarterly reports.
EFFECT	DFA regulations/requirements were not followed.
RECOMMENDATION	Current Management is obtaining the required knowledge to prepare these reports.
RESPONSE	Village is working with DFA to correct reports.

EXPECTED COMPLETION DATE: June 30, 2018

EMPLOYEE RESPONSIBLE: Village Clerk

VILLAGE OF RESERVE
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2017

Meter Deposit Bank Account (2013-001) - Significant Deficiency

CONDITION	The Village is including meter deposit receipts in the General Fund cash balance which is owed to Village residents. This balance is being budgeted for in the yearly budget by DFA. No progress was implemented; however, Implementation is expected early in FY 18.
CRITERIA	All meter deposits are owed to the residents that paid that deposit. These amounts should be kept separate to ensure the funds are available to be paid and not budgeted for.
CAUSE	Management was not aware of this requirements.
EFFECT	The internal control structure of the government is at risk, in part, due to a lack of written policies and procedures.
RECOMMENDATION	Management should move these monies into a separate account to ensure the funds are available for payment and not budgeted for.
RESPONSE	Clerk has developed a plan to reconcile water service deposits. This plan involves investigating each utility account individually and will be a lengthy procedure. Implementation is expected early in FY 18

EXPECTED COMPLETION DATE: June 30, 2018

EMPLOYEE RESPONSIBLE: Village Clerk

VILLAGE OF RESERVE
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2017

Water Meter Deposits (2013-002) - Other Matter

CONDITION	The Village is not reconciling their monthly water meter deposit each month. No progress was implemented; however, Implementation is expected early in FY 18.
CRITERIA	The monthly meter deposit list should be reconciled each month. This complies with good accounting practices.
CAUSE	Management is aware of this situation but has not completed an accurate meter deposit.
EFFECT	Errors or omissions could occur since an accurate list is not being prepared monthly.
RECOMMENDATION	Management should designate an employee to perform this duty each month, identify differences and resolve those differences.
RESPONSE	Clerk has developed a plan to reconcile water service deposits. This plan involves investigating each utility account individually and will be a lengthy procedure. Implementation is expected early in FY 18. A spreadsheet list will be created. The Village Assistant Clerk has been designated to reconcile this list monthly.

EXPECTED COMPLETION DATE: June 30, 2018

EMPLOYEE RESPONSIBLE: Village Clerk

VILLAGE OF RESERVE
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2017

Incorrect W-3 Filed (2014-001) - Non-Compliance Matter

CONDITION	The W-3 (and W-2's) filed for the 2014 calendar year did not agree to the taxes to the taxes reported on the 941 (IRS) reports. (Off by \$4,891). No progress was implemented; however, Implementation is expected in FY 18.
CRITERIA	The W-3 (and W-2s) should be reconciled and agree to the four 941 (IRS) reports before being submitted to the Social Security Administration
CAUSE	Management did not ensure that this procedure was completed before the W-3 (and W-2s) were submitted to the Social Security Administration.
EFFECT	The Village will be receiving notices from the IRS for underpayment of the taxes.
RECOMMENDATION	The 941's or W-3 (W-2s) should be amended immediately and resubmitted to ensure the Village limits the amount of penalties and interest charged.
RESPONSE	The Village Clerk amended the 941 to reflect the correct amount on December 4, 2017.

EXPECTED COMPLETION DATE: June 30, 2018

EMPLOYEE RESPONSIBLE: Village Clerk

STATE OF NEW MEXICO
VILLAGE OF RESERVE
FINANCIAL STATEMENT PREPARATION
FOR THE YEAR ENDED JUNE 30, 2017

Per Diem (2016-002) - Significant Deficiency

CONDITION	During our NM Compliance testwork, it was noted that the Village paid off 100% of per diem in advance and no there was no approval from the Mayor in 2 out of 6 samples.
CRITERIA	Section 2.42.2.10 of NMSA 1978 requires that Upon written request accompanied by a travel voucher, agency heads and governing boards of local public bodies or their authorized designees may approve a public officer's or employee's request to be advanced up to 80 percent of per diem rates and mileage cost or for the actual cost of lodging and meals pursuant to 2.42.2.8 NMAC and 2.42.2.9 NMAC and for other travel expenses that may be reimbursed under 2.42.2.12 NMAC. Requests for travel advances shall not be submitted to the financial control division of the department of finance and administration more than two weeks prior to travel unless, by processing the request earlier, significant savings can be realized for travel by common carrier or for registration fees for seminars and conferences.
CAUSE	The Village is non-compliance with Section 2.42.2.10 of NMSA 1978.
EFFECT	Non-compliance with the state of New Mexico Travel and Per Diem Act subjects officials and employees to penalties as required by the state statutes.
RECOMMENDATION	The village should follow the rules in Section 2.42.2.10 of NMSA 1978 and should not pay over 80% in advance.
RESPONSE	Village plans to set policy in place to pay only 80% in advance.

EXPECTED COMPLETION DATE: June 30, 2018

EMPLOYEE RESPONSIBLE: Village Clerk

STATE OF NEW MEXICO
VILLAGE OF RESERVE
FINANCIAL STATEMENT PREPARATION
FOR THE YEAR ENDED JUNE 30, 2017

"Expenses in Excess of Budget " (2016-003) - Other Matter

CONDITION

Section 6-6-6 of the New Mexico state statutes restricts all officials and governing authorities from approving claims in excess of the approved budget. Additionally, Section 6-6-6 prohibits any payments in excess of the approved budget.
During the fiscal year ended June 30, 2017 the Village remitted payments for goods and services in excess of the adopted budget as follows:

Fund	Budget Expenses	Actual Expenses	Difference
General Fund - Transfer out	\$ 363,108	\$ 378,117	\$ 15,009
TPE Fund - Transfer out	-	27,775	27,775
DWI Fund - Transfer out	<u>4,088</u>	<u>4,713</u>	<u>625</u>
Totals	<u>\$ 367,196</u>	<u>\$ 410,605</u>	<u>\$ 43,409</u>

Excess expenditures for the fiscal year ended June 30, 2016 were noted in seven funds, and totaled over \$94,414. The Village did approve several budget amendment during the fiscal year ended June 30, 2016, however, close to the 2016 fiscal year end Village staff failed to note that these funds expenditures were over budgeted amounts until it was too late to process a timely budget amendment.

CRITERIA

New Mexico State Statutes Section 6-6-6 states that all approved budgets shall bind all officials and governing authorities and no official can pay an claims in excess of the approved budget.

CAUSE

The Village did not have controls in place to ensure that it is not expending funds in excess of approved budget amounts.

EFFECT

Non-compliance with New Mexico state statutes subjects Village officials and personnel to punishment as defined by state statutes.

RECOMMENDATION

Accounting personnel should closely monitor expenditures and budget restrictions, if a change is needed to the budget, accounting personnel should ensure that such changes are presented to the Villages Board of Trustees's and the New Mexico Department of Finance and Administration (DFA). If no changes in the budget are deemed necessary, then no payments should be remitted that would cause the total expenditures to exceed the legal budget.

RESPONSE

The Village will review the budgeted amounts before purchase is authorized.

EXPECTED COMPLETION DATE: June 30, 2018

EMPLOYEE RESPONSIBLE: Village Clerk

STATE OF NEW MEXICO
VILLAGE OF RESERVE
FINANCIAL STATEMENT PREPARATION
FOR THE YEAR ENDED JUNE 30, 2017

Journal Entries Approval (2017-001) - Other Matter

CONDITION	Ten out of ten journal entry samples judgementally selected did not have a review and approval signature.
CRITERIA	Section 6-5-2, NMSA 1978, requires that the authority shall implement internal control accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters.
CAUSE	The Village was unaware of this requirement.
EFFECT	There may be unauthorized adjustments made, leaving room for error and management override.
RECOMMENDATION	The Village should implement a review process for all transactions to mitigate risk of error, or manipulation.
RESPONSE	The Village will implement a process of authorizing journal entries that involves signed approval from the Mayor.

EXPECTED COMPLETION DATE: June 30, 2018

EMPLOYEE RESPONSIBLE: Village Clerk

STATE OF NEW MEXICO
VILLAGE OF RESERVE
FINANCIAL STATEMENT PREPARATION
FOR THE YEAR ENDED JUNE 30, 2017

Loan from USDA (2017-002) - Significant Deficiency

CONDITION	During the long term debt testing, it was noted that the Village has a loan from USDA of \$122,000 received on 10/01/2014. This loan was not presented in the government wide for prior years. The current balance as of June 30, 2017 is \$118,000.
CRITERIA	Per Section 6-6-3 NMSA 1978, every local public body shall, keep all the books, records and accounts in their respective offices in the form prescribed by the local government division, make all reports as may be required by the local government division, and conform to the rules and regulations adopted by the local government division.
CAUSE	The Village was unaware of this requirement.
EFFECT	This issue may lead to mislead the readers of financial statements.
RECOMMENDATION	The Village should book the loan in the government wide to present the financial statements fairly.
RESPONSE	The Village will book the loan from USDA immediately.
EXPECTED COMPLETION DATE: June 30, 2018	EMPLOYEE RESPONSIBLE: Village Clerk

STATE OF NEW MEXICO
VILLAGE OF RESERVE
FINANCIAL STATEMENT PREPARATION
FOR THE YEAR ENDED JUNE 30, 2017

The financial statements of the Village of Reserve as of, and for the year ended, June 30, 2017 were prepared by Beasley, Mitchell & Co., LLP, with the aid of responsible Village personnel. Official responsible personnel agree that the presentations are made with their knowledge and agreement.

STATE OF NEW MEXICO
VILLAGE OF RESERVE
ENTRANCE AND EXIT CONFERENCE
FOR THE YEAR ENDED JUNE 30, 2017

An entrance conference was conducted September 18, 2017 in a closed meeting of the Village of Reserve pursuant to Section 12-6-5 NMSA, 1978 with the following individuals in attendance:

Village of Reserve

Hilda Kellar
Eddilu Brown
Andre Giron
Amanda Cox

Mayor
Council, Mayor Assistant
Municipal Clerk
Deputy Clerk

Beasley, Mitchell & Co., LLP

Amr Sakka, CPA

Audit Staff II

An exit conference was conducted November 30, 2017 in a closed meeting of the Village of Reserve pursuant to Section 12-6-5 NMSA, 1978 with the following individuals in attendance:

Village of Reserve

Hilda Kellar
Eddilu Brown
Andre Giron
Amanda Cox

Mayor
Council, Mayor Assistant
Municipal Clerk
Deputy Clerk

Beasley, Mitchell & Co., LLP

Amr Sakka, CPA

Audit Staff II