STATE OF NEW MEXICO

TOWN OF KIRTLAND

FINANCIAL ANNUAL REPORT
AND
SUPPLEMENTAL INFORMATION
YEAR ENDED JUNE 30, 2017
WITH
REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

ACCOUNTING & FINANCIAL
SOLUTIONS
CERTIFIED PUBLIC ACCOUNTANTS

INTRODUCTORY SECTION

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STATE OF NEW MEXICO

TOWN OF KIRTLAND

OFFICIAL ROSTER

June 30, 2017

ELECTED OFFICIALS

Mark Duncan	Mayor
Larry Hathaway	Mayor Pro Tem, Councilor
Jason Heslop	Councilor
Pete Emery	Councilor
Tom Wethington	Councilor

ADMINISTRATIVE OFFICIALS

Gwen Warner	Clerk-Treasurer, CPO

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FINANCIAL SECTION

FISCAL YEAR 2017

JULY 1, 2016 THROUGH JUNE 30, 2017

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INDEPENDENT AUDITORS' REPORT

Wayne A Johnson, State Auditor
Members of the Town of Kirtland Councilors

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate remaining fund information, and the budgetary comparisons for the general fund of Town of Kirtland, as of and for the year ended June 30, 2017, and the related notes to the financial statements which collectively comprise Town of Kirtland'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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Town of Kirtland's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and the aggregate remaining fund information of Town of Kirtland, as of June 30, 2017, and the respective changes in financial position thereof and the respective budgetary comparisons for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Wayne A Johnson, State Auditor
Members of the Town of Kirtland Councilors

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on Town of Kirtland's financial statements. The other supplemental information such as the combining and individual financial statements and schedules required by 2.2.2.NMAC are presented for purposes of additional analysis and are not a required part of the basic financial statements

The combining and individual financial statements and schedules required by 2.2.2.NMAC are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the combining and individual financial statements and schedules required by 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 Town of Kirtland'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 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 Town of Kirtland's internal control over financial reporting and compliance.

Accounting & Financial Solutions, LLC
Farmington, New Mexico
December 12, 2017

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BASIC FINANCIAL STATEMENTS

STATE OF NEW MEXICO
TOWN OF KIRTLAND

STATEMENT OF NET POSITION
June 30, 2017

	Governmental Activities
Assets	
Cash and cash equivalents	$ 377,209
Due from other governments	57,229
Non-current:	
Non-depreciable assets	741,638
Depreciable capital assets, net	17,600
Total Assets	1,193,676
Deferred Outflows of Resources:	
Contributions to pension subsequent to the measurement date	917
Liabilities	
Accounts payable	135,838
Accrued salaries	1,285
Compensated absences	1,441
Total Liabilities	138,564
Net Position	
Net investment in capital assets	759,238
Restricted for:	
Capital projects	(72,888)
Unrestricted	369,679
Total Net Position	$ 1,056,029

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
TOWN OF KIRTLAND

STATEMENT OF ACTIVITIES
Year Ended June 30, 2017

		Program Revenues			Net (Expense) Revenue and Changes in Net Position
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contibutions	Governmental Activities
Primary government:					
Governmental activities:					
General goverenment	$ 160,286	$ 3,666	$ 105,843	$ 90,000	$ 39,223
Public safety	133,376	-	88,072	-	(45,304)
Culture and recreation	-	-	-	-	-
Public works	5,354	-	3,535	-	(1,819)
Total governmental activities	$ 299,016	$ 3,666	$ 197,450	$ 90,000	(7,900)
			General revenues:		
			Taxes:		
			Gross receipts		670,317
			Gasoline		98,999
			Miscellaneous income		52,500
			Total general revenues		821,816
			Change in net position		813,916
			Net position - beginning		242,114
			Net position - ending		$ 1,056,030

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
TOWN OF KIRTLAND

GOVERNMENTAL FUNDS
Balance Sheet
June 30, 2017

	General Fund	Capital Outlay Fund #300	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	$ 328,901	$ 48,308	$ -	$ 377,209
Due from other governments	57,229	-	-	57,229
Total assets	$ 386,130	$ 48,308	$ -	$ 434,438
Liabilities, deferred inflows, and fund balance				
Liabilities:				
Accounts payable	$ 14,642	$ 121,196	$ -	$ 135,838
Accrued salaries	1,285	-	-	1,285
Total liabilities	15,927	121,196	-	137,123
Fund balance:				
Restricted for:				
Capital projects funds	-	(72,888)	-	(72,888)
Unassigned	370,203	-	-	370,203
Total fund balance	370,203	(72,888)	-	297,315
Total liabilities and fund balance	$ 386,130	$ 48,308	$ -	$ 434,438

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO

TOWN OF KIRTLAND

RECONCILIATION OF THE BALANCE SHEET - ALL GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION

June 30, 2017

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

Fund balances - total governmental funds	$	297,315
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Capital assets		761,014
Accumulated depreciation		(1,776)
Deferred outflow of resources are not financial resources, and therefore are not reported in the funds and include:		
Contributions to pension subsequent to the measurement date		917
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds		
Accrued vacation payable		(1,441)
Net position of governmental activities	$	1,056,029

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO

TOWN OF KIRTLAND

GOVERNMENTAL FUNDS

Statement of Revenues, Expenditures, and Changes in Fund Balance

Year Ended June 30, 2017

	General Fund	Capital Outlay Fund #300	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes:				
Gross receipts	$ 670,317	$ -	$ -	$ 670,317
Gasoline	98,999	-	-	98,999
Intergovernmental - state grants	177,449	90,000	20,000	287,449
Charges for services	3,666	-	-	3,666
Miscellaneous	52,500	-	-	52,500
Total revenues	1,002,931	90,000	20,000	1,112,931
Expenditures:				
Current:				
General goverenment	158,810	-	-	158,810
Public safety	131,960	-	624	132,584
Public works	5,322	-	-	5,322
Capital outlay	52,500	662,888	19,376	734,764
Total expenditures	348,592	662,888	20,000	1,031,480
Excess (deficiency) of revenues over expenditures	654,339	(572,888)	-	81,451
Other financing uses:				
Transfers In	-	500,000	-	500,000
Transfers out	(500,000)	-	-	(500,000)
Total other financing uses	(500,000)	500,000	-	-
Net change in fund balance	154,339	(72,888)	-	81,451
Fund balance at beginning of the year	215,864	-	-	215,864
Fund balance (deficit) at end of the year	$ 370,203	$ (72,888)	$ -	$ 297,315

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO

TOWN OF KIRTLAND

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES ALL GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

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

Net change in fund balance - total governmental funds	$	81,451
Govermental funds report capital outlays as expenditures. However, in the statement of activites the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital oulays exceeded depreciation in the current year		
Capital outlay		734,764
Depreciation		(1,776)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		
Compensated absences at:		
June 30, 2017		(1,441)
Deferred contributions to pension plan		917
Change in net position of governmental activities	$	813,915

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO

TOWN OF KIRTLAND

GENERAL FUND

Statement of Revenues, Expenditures, and

Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis)

Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive
	Original	Final	(Budgetary Basis)	(Negative)
Revenues:				
Taxes:				
Gross receipts	$ 375,001	$ 610,001	$ 620,321	$ 10,320
Gasoline	42,000	85,000	91,766	6,766
Intergovernmental - state grants	90,000	177,448	177,449	1
Charges for services	5,000	5,000	3,666	(1,334)
Miscellaneous	-	-	52,500	52,500
Total revenues	512,001	877,449	945,702	68,253
Expenditures:				
Current:				
General goverenment	301,215	161,663	144,168	17,495
Public safety	126,000	141,000	131,960	9,040
Public works	56,000	56,000	5,322	50,678
Total expenditures	483,215	358,663	281,450	77,213
Excess of revenues over expenditures	28,786	518,786	664,252	145,466
Other financing uses:				
Transfers out	(10,000)	(500,000)	(500,000)	-
Net change in fund balance	18,786	18,786	164,252	145,466
Beginning cash balance budgeted	(18,786)	(18,786)	-	18,786
Fund balance at beginning of the year	-	-	215,864	215,864
Fund balance at end of the year	$ -	$ -	380,116	$ 380,116
RECONCILIATION TO GAAP BASIS:				
Change in due from other governments			57,229	
Change in payables			(14,642)	
Change in donated capital assets			(52,500)	
Fund balance at end of the year (GAAP basis)			$ 370,203	

The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

I. SUMMARY OF ALL SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) applicable to governmental entities. A summary of the Town of Kirtland, New Mexico's significant accounting policies applied in the preparation of these financial statements follows.

A. Reporting Entity

Town of Kirtland, New Mexico (Town) was incorporated under provisions of Chapter 3, Article 2, NMSA 1978, and it is administered by a Mayor-Council form of government. The reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the primary governments is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the Town's financial statements to be misleading or incomplete. The Town provides the usual municipal services with the exception of education, which is administered by other governmental agencies.

The Town's financial statements include all entities over which the Board of Councilors exercises oversight responsibility. Oversight responsibility includes such aspects as appointment of governing body members, designation of management, the ability to significantly influence operations, and accountability for fiscal matters. Based upon the application of these criteria, no component units or fiduciary units were included in the financial statements.

Generally Accepted Accounting Principles (GAAP) requires that financial statements present the Town (primary government) and its component units. The Town has no component units that are required to be presented in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39*, Determining Whether Certain Organizations Are Component Units, an amendment of GASB Statement No. 14*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*.

Blended Component Units

Legally separate component units for which the Town is financially accountable are blended with the primary government because they are, in substance, part of the government's operations. Blended means the data from these units are combined with data of the primary government. The Town had no blended component units during the fiscal year ended June 30, 2016.

Discretely Presented Component Units

The financial data of component units are reported in separate columns to emphasize that they are legally separate from the Town. The Town had no discrete component units during the fiscal year ended June 30, 2016.

Related Organizations

The Town appoints members to the boards, but the Town's accountability for the organizations does not extend beyond making these appointments and there is no fiscal dependency of these organizations on the Town.

B. Implementation of New Accounting Principle

During fiscal year 2017, Town of Kirtland adopted the following GASB Statements:

- **GASB Statement No. 7**4, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, This Statement replaces Statements No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, as amended, Statement 43, and Statement No. 50, Pension Disclosures. This Statement will be effective for the year ended June 30, 2017.
- **GASB Statement No. 77**, Tax Abatement Disclosures, financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as inter-period equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

B. Implementation of New Accounting Principle (cont'd)

This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients
- The gross dollar amount of taxes abated during the period
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

Governments should organize those disclosures by major tax abatement program and may disclose information for individual tax abatement agreements within those programs.

Tax abatement agreements of other governments should be organized by the government that entered into the tax abatement agreement and the specific tax being abated. Governments may disclose information for individual tax abatement agreements of other governments within the specific tax being abated. For those tax abatement agreements, a reporting government should disclose:

- The names of the governments that entered into the agreements
- The specific taxes being abated
- The gross dollar amount of taxes abated during the period.

➢ **GASB Statement No. 78**, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, the objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, Accounting and Financial Reporting for Pensions. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions.

Prior to the issuance of this Statement, the requirements of Statement 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that Statement.

This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

➢ **GASB Statement No. 80**, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*, the objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, The Financial Reporting Entity, as amended.

This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, Determining Whether Certain Organizations Are Component Units.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

B. Implementation of New Accounting Principle (cont'd)

Other accounting standards that Town of Kirtland is currently reviewing for applicability and potential impact on the financial statements include:

- **GASB Statement No. 75**, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, this Statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB. Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, establishes new accounting and financial reporting requirements for OPEB plans. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. This Statement will be effective for the year ended June 30, 2018.

- **GASB Statement No. 81**, *Irrevocable Split-Interest Agreements,* the objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

  Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts—or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements—in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate.

  This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

  The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016 (FYE June 30, 2018), and should be applied retroactively. Earlier application is encouraged.

- **GASB Statement No. 82**, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73, t*he objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016 (FYE June 30, 2017), except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017 (FYE June 30, 2018). Earlier application is encouraged.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

B. Implementation of New Accounting Principle (cont'd)

- **GASB Statement No. 83**, *Certain Asset Retirement Obligations* - This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

  This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

  This Statement requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. The best estimate should include probability weighting of all potential outcomes, when such information is available or can be obtained at reasonable cost. If probability weighting is not feasible at reasonable cost, the most likely amount should be used. This Statement requires that a deferred outflow of resources associated with an ARO be measured at the amount of the corresponding liability upon initial measurement.

  This Statement requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually. In addition, it requires a government to evaluate all relevant factors at least annually to determine whether the effects of one or more of the factors are expected to significantly change the estimated asset retirement outlays. A government should remeasure an ARO only when the result of the evaluation indicates there is a significant change in the estimated outlays. The deferred outflows of resources should be reduced and recognized as outflows of resources (for example, as an expense) in a systematic and rational manner over the estimated useful life of the tangible capital asset.

  A government may have a minority share (less than 50 percent) of ownership interest in a jointly owned tangible capital asset in which a nongovernmental entity is the majority owner and reports its ARO in accordance with the guidance of another recognized accounting standards setter. Additionally, a government may have a minority share of ownership interest in a jointly owned tangible capital asset in which no joint owner has a majority ownership, and a nongovernmental joint owner that has operational responsibility for the jointly owned tangible capital asset reports the associated ARO in accordance with the guidance of another recognized accounting standards setter. In both situations, the government's minority share of an ARO should be reported using the measurement produced by the nongovernmental majority owner or the nongovernmental minority owner that has operational responsibility, without adjustment to conform to the liability measurement and recognition requirements of this Statement.

  In some cases, governments are legally required to provide funding or other financial assurance for their performance of asset retirement activities. This Statement requires disclosure of how those funding and assurance requirements are being met by a government, as well as the amount of any assets restricted for payment of the government's AROs, if not separately displayed in the financial statements. This Statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. If an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government is required to disclose that fact and the reasons therefor. This Statement requires similar disclosures for a government's minority shares of AROs.

  The requirements of this Statement are effective for reporting periods beginning after June 15, 2018 (FYE June 30, 2019). Earlier application is encouraged.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

B. Implementation of New Accounting Principle (cont'd)

- **GASB Statement No. 84**, Fiduciary Activities – This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. A fiduciary component unit, when reported in the fiduciary fund financial statements of a primary government, should combine its information with its component units that are fiduciary component units and aggregate that combined information with the primary government's fiduciary funds. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

  The requirements of this Statement are effective for reporting periods beginning after December 15, 2018 (FYE June 30, 2020). Earlier application is encouraged. Changes adopted to conform to the provisions of this Statement should be applied retroactively by restating financial statements, if practicable, for all prior periods presented. If restatement for prior periods is not practicable, the cumulative effect, if any, of applying this Statement should be reported as a restatement of beginning net position (or fund balance or fund net position, as applicable) for the earliest period restated. In the first period that this Statement is applied, the notes to the financial statements should disclose the nature of the restatement and its effect. Also, the reason for not restating prior periods presented should be disclosed.

- **GASB Statement No. 85**, Omnibus 2017 – The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).

  Specifically, this Statement addresses the following topics:

  Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation

  Reporting amounts previously reported as goodwill and "negative" goodwill • Classifying real estate held by insurance entities

  Measuring certain money market investments and participating interest earning investment contracts at amortized cost

  Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus

  Recognizing on-behalf payments for pensions or OPEB in employer financial statements

  Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB

  Classifying employer-paid member contributions for OPEB

  Simplifying certain aspects of the alternative measurement method for OPEB

  Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

  The requirements of this Statement are effective for reporting periods beginning after June 15, 2017 (FYE June 30, 2018). Earlier application is encouraged

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

B. Implementation of New Accounting Principle (cont'd)

- **GASB Statement No. 86**, Certain Debt Extinguishment Issues – The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

  In-Substance Defeasance of Debt Using Only Existing Resources Statement No. 7, Advance Refundings Resulting in Defeasance of Debt, requires that debt be considered defeased in substance when the debtor irrevocably places cash or other monetary assets acquired with refunding debt proceeds in a trust to be used solely for satisfying scheduled payments of both principal and interest of the defeased debt. The trust also is required to meet certain conditions for the transaction to qualify as an in-substance defeasance. This Statement establishes essentially the same requirements for when a government places cash and other monetary assets acquired with only existing resources in an irrevocable trust to extinguish the debt. However, in financial statements using the economic resources measurement focus, governments should recognize any difference between the reacquisition price (the amount required to be placed in the trust) and the net carrying amount of the debt defeased in substance using only existing resources as a separately identified gain or loss in the period of the defeasance. Governments that defease debt using only existing resources should provide a general description of the transaction in the notes to financial statements in the period of the defeasance. In all periods following an in-substance defeasance of debt using only existing resources, the amount of that debt that remains outstanding at period-end should be disclosed.

  Prepaid Insurance Related to Extinguished Debt – For governments that extinguish debt, whether through a legal extinguishment or through an in-substance defeasance, this Statement requires that any remaining prepaid insurance related to the extinguished debt be included in the net carrying amount of that debt for the purpose of calculating the difference between the reacquisition price and the net carrying amount of the debt.

  Additional Disclosure for All In-Substance Defeasance Transactions – One of the criteria for determining an in-substance defeasance is that the trust hold only monetary assets that are essentially risk-free. If the substitution of essentially risk-free monetary assets with monetary assets that are not essentially risk-free is not prohibited, governments should disclose that fact in the period in which the debt is defeased in substance. In subsequent periods, governments should disclose the amount of debt defeased in substance that remains outstanding for which that risk of substitution exists.

  The requirements of this Statement are effective for reporting periods beginning after June 15, 2017 (FYE June 30, 2018). Earlier application is encouraged.

- **GASB Statement No. 87**, *Leases* - The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

  Definition of a Lease - A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this Statement.

  The provisions of this Statement are effective for reporting periods beginning after December 15, 2019 (FYE June 30, 2021).

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

C. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the Town. For the most part, the effect of inter-fund activity has been removed from these statements. Exceptions to this practice include payments and other charges between the Town's enterprise funds and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions affected.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues.*

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The emphasis of fund financial statements is on major governmental funds, and enterprise funds, each reported as a separate column. All remaining governmental funds and enterprise funds are aggregated and reported as non-major funds.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they are measurable and available. Available means collectible within the current period, or soon enough thereafter, to pay liabilities of the current period. The Town considers all revenue as available, if collected within 60 days after year-end. Property taxes, sales and use taxes, franchise taxes, occupational privilege taxes, interest revenue, grant revenue, and charges for services are susceptible to accrual. Other receipts, fines, licenses, and permits revenues become measurable and available when cash is received by the Town and are recognized as revenue at that time. Grant revenue is considered available if expected to be collected within one year and all eligibility requirements are met. Expenditures are recorded when the related liability is incurred, except for debt service expenditures, and certain compensated absences and claims and judgments which are recognized when the payment is due.

The government reports the following major governmental funds:

- GENERAL FUND

  Town's primary operating fund. It accounts for all financial resources of the general government, except those required to be reported in another fund.

- CAPITAL PROJECTS REVENUE FUND

  It is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (cont'd)

Additionally, the government reports the following fund types:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources – which are legally restricted to expenditures for specified purposes.

The effect of inter-fund activity generally has been eliminated from the government-wide financial statements. Exceptions to this practice include payments and other charges between the Town's enterprise funds and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions affected.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

E. Assets, Liabilities, and Net Position or Equity

1. *Deposits and investments*

The government'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.

State statutes authorize the investment of the Town's funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, and money market accounts. The Town is also allowed to invest in United States Government obligations. All funds for the Town must follow the above investment policies.

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

Excess of funds may be temporarily invested 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.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

E. Assets, Liabilities, and Net Position or Equity (cont'd)

2. *Receivables and payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due from/to other funds" (i.e., the current portion of inter-fund loans) or "advances to/from other funds" (i.e., the non-current portion of inter-fund loans). All other outstanding balances between funds are reported as "due from/to other funds."

Under GASB Statement 33, property taxes are impressed non-exchange revenue. Assets from impressed non-exchange transactions are reported when the Town has an enforceable legal claim to the asset. The enforceable legal claim date for property taxes is the assessment date. Taxes are payable in two equal installments on November 10 and April 10th following the levy and become delinquent after 30 days. Therefore, the Town has recorded a delinquent tax receivable and revenue for taxes received within the sixty days following year-end. Receivable and deferred inflows revenue have been recorded for uncollected delinquent taxes. On the government-wide financial statements, the Town has recorded delinquent property taxes receivable and revenue for taxes assessed as of year-end that have not be collected, as prescribed in GASB 34. An allowance for refunds and uncollectible amounts has not been recorded.

Due from other governments includes amounts due from grantors for grants for specific programs and capital projects. Program and capital grants for capital assets are recorded as receivables and revenues when all eligibility requirements are met. Revenues received in advance of project costs being incurred or for which eligibility requirements have not been met are deferred inflows. In the governmental funds, revenue recognition depends on the timing of cash collections (availability).

The Town has reviewed its customer base for concentrations of credit risk and has determined that no individual customer or group of customers engaged in similar activities represent a material concentration of credit risk to the Town.

3. *Prepaid Items*

Payments made to vendors for services representing costs applicable to future accounting periods are recorded as prepaid items.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

E. Assets, Liabilities, and Net Position or Equity (cont'd)

4. *Capital assets*

Capital assets, which include land, collections, construction in progress, buildings, equipment (software), and infrastructure assets are reported in the applicable governmental or business-type activities columns of the government-wide financial statements. Beginning July 1, 2005, the threshold for defining Capital assets by the government was raised from $1,000 to assets with an initial, individual cost of more than $5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets' lives are not capitalized. Interest incurred during the construction phase of capital assets of business-type activities is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period. Software costs have been included with the cost of computer equipment and are capitalized with that equipment. The Town does not develop software for internal use or any other use.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest on construction projects has not been capitalized.

Such assets are recorded at cost or estimated cost if purchased or constructed. Donated capital assets are recorded at their estimated fair value at the date of donation. The capitalization threshold of the Town is $5,000.

Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Improvements other than buildings	10 to 50
Buildings and improvements	10 to 50
Motor vehicles and motorized equipment	5 to 30
Furniture, machinery, equipment, and software	5 to 30
Infrastructure	10 to 50

No depreciation is recorded for assets held for disposition. Library books and software are depreciated if the single individual cost is $5,000 or more.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest on construction projects has not been capitalized.

5. *Compensated absences*

It is the Town's policy to permit employees to accumulate earned but unused vacation, which will be paid to employees upon retirement from the Town's service. The amount for liability has been reported in the government-wide financial statements.

Accumulated sick leave is not payable upon termination and is recorded as expenditures when it is paid.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

E. Assets, Liabilities, and Net Position or Equity (cont'd)

6. *Pensions*

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employee 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. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The Town has elected to start participate in PERA as of March of 2017.

7. *Deferred Outflows of Resources and Deferred Inflows of Resources*

A deferred inflow of resources is an acquisition of net position by the Town that is applicable to a future reporting period and a deferred outflow of resources is a consumption of net position by the Town that is applicable to a future reporting period. Both deferred inflows and outflows are reported in the Statement of Net Position, but are not recognized in the financial statements as revenues and expenses until the period(s) to which they relate.

Under the modified accrual basis of accounting, revenue and other fund financial resources are recognized in the period in which they become both measurable and available. Assets recorded in the fund financial statements for which the revenues are not available are reported as a deferred inflow of resources.

For governmental funds, deferred inflows of resources are comprised of various taxes receivable amounts and special assessments. For proprietary funds, deferred inflows of resources are comprised of unavailable fuel hedge revenues. All revenues related to these deferred inflows of resources have been recognized as revenue in the government-wide statements. Deferred outflows of resources consist of deferred gains or losses on refunded debt. These costs are amortized over the remaining maturity period of the related bond issues under a method that approximates the level interest rate method.

8. *Fund balance*

   a. Non-Spendable

   The non-spendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts.

   b. Restricted

   Fund balance is reported as restricted when constraints placed on the use of resources are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

E. Assets, Liabilities, and Net Position or Equity (cont'd)

c. Committed

Amounts that can only be used for specific purposes pursuant to constraints imposed by the formal action of the Town's Council should be reported as committed fund balance. The committed amounts cannot be used for any other purpose unless the Town's Council removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. The Town did not have committed fund balances for the year ended June 30, 2017.

d. Assigned

Assigned fund balance includes (a) all remaining amounts, except for negative balances, that are reported in governmental funds, other than the general fund, (b) that are not classified as non-spendable and are neither restricted nor committed and (c) amounts in the general fund that are constrained by the Town's intent to be used for specific purposes, but are neither restricted nor committed. Intent, and removal of, is expressed by the Council. The Town did not have assigned fund balances for the year ended June 30, 2017.

e. Unassigned

The remaining fund balance, after all other classifications, within the general fund is reported as unassigned fund balance. 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. In governmental funds other than the general fund, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, a negative fund balance will be reported as unassigned fund balance.

When committed, assigned, and unassigned resources are available for use, it is the Town's policy to use committed first followed by assigned and unassigned resources as they are needed.

9. *Net Position*

Net Position is presented on the Statement of Net Position and may be presented in any of three components.

a. Net investment in capital assets

This component of Net Position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. The portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. That portion of the debt is included in restricted for capital projects.

b. Restricted Net Position

Net Position are reported as being restricted when the restriction is either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Enabling legislation 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.

c. Unrestricted Net Position

Unrestricted Net Position consists of Net Position that does not meet the definition of "net investment in capital assets" or "restricted."

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

In the governmental environment, Net Position often is designated to indicate that management does not consider them to be available for general operations. In contrast to restricted Net Position, these types of constraints on resources are internal and management can remove or modify them. However, enabling legislation established by the reporting government should not be construed as an internal constraint.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

E. Assets, Liabilities, and Net Position or Equity (cont'd)

10. *Estimates*

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

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted for all funds except agency funds. All budgets are prepared on the Non-GAAP cash basis. All annual appropriations lapse at fiscal yearend. Carry over funds must be appropriated in the budget of the subsequent fiscal year. Because the budget process in the State of New Mexico requires that the beginning cash balance be appropriated in the budget of the subsequent fiscal year, such appropriated balance is legally restricted and is therefore presented as a reserve portion of fund balance.

Actual expenditures may not exceed the budget on a fund basis. Budgets may be amended by Town Council resolution with approval by the State Department of Finance and Administration. Town department heads may make transfers of appropriations within a fund. The legal level of budgetary control is the fund level. Increases or decreases of appropriations between funds require the approval of the governing Council.

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

Prior to June 1, the Town Clerk-Treasurer submits to the Town Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them. Public hearings are conducted to obtain taxpayers comments. Prior to September 1, the budget is legally enacted through passage of a resolution.

The Town Clerk-Treasurer 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 Town Council. Expenditures of the Town may not legally exceed appropriations at the level at which the budget is adopted, that is, expenditures in each fund may not exceed the budgeted appropriation for that fund.

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

	Original Budget	Final Budget
General Funds	$ 483,215	$ 358,663
Special Revenue Funds	20,000	20,000
Capital Projects Funds	100,000	590,000
	$ 603,215	$ 968,663

B. Budgetary Violations

The Town did not exceed its legal budget during the year ended June 30, 2017.

C. Deficit Fund Equity

There was one deficit fund balance in the Capital Project Fund as of June 30, 2017. This will be funded with a transfer from the General Fund.

III. DETAILED NOTES ON ALL FUNDS

A. Cash and Temporary Investments

Cash and equivalents are comprised of the following balances:

	Balance
Financial institution:	
Bank of the Southwest	$ 377,531
Less net reconciling items	(322)
Total cash and equivalents	$ 377,209

At June 30, 2017, the carrying amount of the Town's deposits was $377,209 and the bank balance was $377,531 with the difference consisting of outstanding checks. Of this balance $250,000 was covered by federal depository insurance.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. New Mexico State Statutes require collateral pledged for deposits in excess of the federal deposit insurance to be delivered, or a joint safekeeping receipt be issued, to the Town for at least one half of the amount on deposit with the institution. The statement listed below will meet the State of New Mexico Office of the State Auditor's requirement in reporting the uninsured portion of the deposits. As of June 30, 2017, none of the Town's bank balance of $377,531 was exposed to custodial risk as follows:

	Bank of the Southwest
Uninsured and Uncollateralized	$ -
Uninsured and collateral held by pledging bank's trust dept not in the Organization's name	127,531
Total uninsured	127,531
Total (FDIC)	250,000
Total deposits	377,531
State of New Mexico collateral requirement:	
50% of uninsured public fund bank deposits	$ 63,766
Pledged Security	250,000
Over collateralization	$ 186,234

The collateral pledged is listed on Page 42 of this report. The types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by any agency, Town or political subdivision of the State of New Mexico.

According to the Federal Deposit Insurance Authority, public unit deposits are funds owned by the Town. Time deposits, savings deposits and interest bearing "Now" accounts of a public unit in an institution in the same state will be insured up to $250,000 in aggregate and separate from the $250,000 coverage for public unit demand deposits at the same institution.

III. DETAILED NOTES ON ALL FUNDS (cont'd)

B. Receivables

Receivables as of June 30, 2017 are as follows:

	Receivables		Due from Other	
	Delinquent Property Taxes	Grant	Governments	Funds
Governmental funds:				
Major Funds:				
General Fund	$ -	$ -	$ 57,229	$ -
Capital Project Fund	-	-	-	-
Other Governmental Funds	-	-	-	-
Total	$ -	$ -	$ 57,229	$ -

C. Inter-Fund Receivables and Payables

There were not any inter-fund receivables and payables at June 30, 2017.

D. Inter-Fund Transfers

The inter-fund transfers during the year ended June 30, 2017 were.

	Transfer out	Transfer in
Governmental funds:		
General Fund	$ 500,000	$ -
Capital Project	-	500,000
Other governmental	-	-
Total transfers	$ 500,000	$ 500,000

III. DETAILED NOTES ON ALL FUNDS (cont'd)

B. Capital Assets

Capital asset activity for the year ended June 30, 2017 was as follows:

	Beginning	Increases	Decreases	Ending
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 26,250	$ 52,500	$ -	$ 78,750
Construction in progress	-	662,888	-	662,888
Total capital assets not being depreciated	26,250	715,388	-	741,638
Capital assets being depreciated:				
Furniture, fixtures, and equipment	-	19,376	-	19,376
Less accumulated depreciation for:				
Furniture, fixtures, and equipment	-	(1,776)	-	(1,776)
Total capital assets being depreciated, net	-	17,600	-	17,600
Total capital assets, net	$ 26,250	$ 732,988	$ -	$ 759,238

Depreciation has been allocated to the functions by the following amounts:

Depreciation by fund:	
General	$ 952
Public safety	792
Public works	32
Total	$ 1,776

The Schedule of Capital Assets Used by Source and the Schedule of Changes in Capital Assets by Function and Activity have not been prepared because the detailed information is unavailable.

C. Long-Term Debt

During the year ended June 30, 2017, the following changes occurred in long-term liabilities:

	Beginning Balance	Additions	Retirements	Ending Balance	Amount Due Within One Year
Compensated absences:					
Governmental activities	$ -	$ 2,294	$ 853	$ 1,441	$ 1,441

The liability of compensated absences is liquidated with resources from the general fund and several special revenue funds. The Bonds and Loans are paid from the general fund, debt service fund and the fire districts.

D. Reserved Fund Balances

The New Mexico Department of Finance and Administration (DFA) requires that 1/12th of the general fund budgeted expenditures be reserved as subsequent year expenditures to maintain an adequate cash flow until the next significant property tax collection.

IV. OTHER INFORMATION

A. Risk Management

The Town is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters.

Town of Kirtland is a member and is insured through the New Mexico Town Insurance Authority. The Authority was created to provide comprehensive core insurance programs by expanding the pool of subscribers to maximize cost containment opportunities for required insurance coverage. The Authority acts as the common carrier for the State of New Mexico counties. The Town pays an annual premium to the Authority based on claim experience and the status of the pool. The Risk Management Program includes Workers Compensation, General and Automobile Liability, Automobile Physical Damage, and Property and Crime coverage. The Town is not liable for more than the premiums paid.

A. Employee Retirement Plan

This is the first year the Town of Kirtland has contributed to PERA, and the Town started contributing as of March 2017. The PERA information is from the measurement date of June 30, 2016, therefore a pension liability is not recognized for the year end June 30, 2017.

Pensions. For purposes of measuring the net pension liability, deferred outflows and 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 the New Mexico Public Employees Retirement Plan (Plan), 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.

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

PERA issues a publicly available financial report and a comprehensive annual financial report that can be obtained at www.pera.state.nm.us or www.saonm.org or writing:

PERA
P.O. Box 2123
Santa Fe, NM 87504-2123
www.nmpera.org

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/2016-CAFR_12.22.2016_FINAL-with-corrections.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 table available in the note disclosures on page 43 of the PERA FY16 annual audit report at https://www.saonm.org/media/audits/366_Public_Employees_Retirement_Association_FY2016.pdf. The PERA coverage options that apply to Town are: General and Police. Statutorily required contributions to the pension plan from Town were $917 for the year ended June 30, 2016.

IV. OTHER INFORMATION (cont'd)

B. Employee Retirement Plan (cont'd)

This is the first year of the Town of Kirtland's participation in the PERA benefits, and thus the contributions to PERA started during March of 2017 of the fiscal year. Statutorily required contributions to the pension plan from the Town of Kirtland were $1,939, which consisted of $917 employers paid member benefits and $1,022 which were the employee's portion of the PERA contribution that were picked up by the employer for the year ended June 30, 2017.

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

The PERA pension liability amounts, net pension liability amounts, and sensitivity information were based on an annual actuarial valuation performed as of June 30, 2015. The PERA pension liability amounts for each division were rolled forward from the valuation date to the Plan year ending June 30, 2016, using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement 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 preformed separately for each of the membership groups: municipal general members; municipal police members; municipal fire members; state general members; state police members and legislative members. The Association's proportion of the net pension liability for each membership group that the employer participates in is based on the employer contributing entity's percentage of that membership group's total employer contributions for the fiscal year ended June 30, 2016. Only employer contributions for the pay period end dates that fell within the period of July 1, 2015 to June 30, 2016 were included in the total contributions for a specific employer. Regular and any adjustment contributions that applied to FY 2016 are included in the total contribution amounts. In the event that an employer is behind in reporting to PERA its required contributions, an estimate (receivable) was used to project the unremitted employer contributions. This allowed for fair and consistent measurement of the contributions with the total population. This methodology was used to maintain consistent measurement each year in determining the percentages to be allocated among all the participating employers.

PERA Fund Municipal General Division

At June 30, 2017, the Town reported PERA Fund Division General Fund deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

	Outflows	Inflows
Difference between expected and actual experience	$ -	$ -
Change of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	-	-
Town contributions subsequent to the measurement date	917	-
Total	$ 917	$ -

Deferred outflows of resources related to PERA Fund Division General Fund in the amount of $917 resulting from the Association's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

IV. OTHER INFORMATION (cont'd)

B. Employee Retirement Plan (cont'd)

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.

Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay, Open
Amortization period	Solved for based on statutory rates
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	7.48% annual rate, net of investment expense
Projected benefit payment	100 years
Payroll growth	2.75% for first 10 years, then 3.25% annual rate
Projected salary increases	2.75% to 14.00% annual rate
Includes inflation at	2.25% annual rate first 10 years, 2.75% all other years
Mortality Assumption	RP-2000 Mortality Tables (Combined table for health 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 (demographic) and July 1, 2010 through June 20, 2015 (economic)

The long-term expected rate of return on pension plan investments was determined using a statistical analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and most recent best estimates of arithmetic real 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	43.50%	7.39
Risk Reduction & Mitigation	21.50%	1.79
Credit Oriented Fixed Income	15.00%	5.77
Real Assets	20.00%	7.35
	100.00%	

Sensitivity of the Net Pension Liability to Changes in the Discount Rate Assumption

The discount rate used to measure the total pension liability was 7.48 percent. The projection of cash flows used to determine the discount rate assumed that future contributions will be made in accordance with statutory rates. On 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 7.48% 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 Association's proportionate share of the net pension liability to changes in the discount rate. The following tables show the sensitivity of the net pension liability to changes in the discount rate. In particular, the tables present the Association's net pension liability in each PERA Fund Division that the Association participates in, under the current single rate assumption, as if it were calculated using a discount rate one percentage point lower (6.48%) or one percentage point higher (8.48%) than the single discount rate.

NONMAJOR GOVERNMENTAL FUNDS

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Special Revenue Funds

Special revenue funds are operating funds used to account for the proceeds of specific revenue sources that are intended for specific purposes other than special assessments or major capital projects.

LAW ENFORCEMENT PROTECTION FUND — Minimum Balance: None

To account for the state grant to be used for the repair and/or replacement of law enforcement equipment, according to state law, section 29-13.1 through 29-13.9, NMSA 1978. The fund was established by local ordinance to comply with state statutes. Section 29-13-17A, NMSA 1978 limits distributions from the fund for law enforcement related expenditures, including, but not limited to, the purchase of equipment, expenses associated with advanced law enforcement planning and training.

STATE OF NEW MEXICO

TOWN OF KIRTLAND

NON-MAJOR GOVERNMENTAL FUNDS
Combining Balance Sheet
June 30, 2017

	Law Enforcement Protection Fund Fund #211	Total Non-Major Special Revenue Funds
Assets		
Cash and cash equivalents	$ -	$ -
Liabilities and fund balance		
Liabilities:		
Accounts payable	$ -	$ -
Fund balance:		
Restricted for:		
Special revenue funds	$ -	$ -
Total liabilities and fund balance	$ -	$ -

NON-MAJOR GOVERNMENTAL FUNDS

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance

Year Ended June 30, 2017

	Law Enforcement Protection Fund Fund #211	Total Nonmajor Governmental Funds
Revenues:		
Intergovernmental - state grants	$ 20,000	$ 20,000
Expenditures:		
Current:		
Public safety	624	624
Capital outlay	19,376	19,376
Total expenditures	20,000	20,000
Excess of revenues over expenditures	-	-
Fund balance at beginning of the year	-	-
Fund balance at end of the year	$ -	$ -

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OTHER SUPPLEMENTAL INFORMATION

STATE OF NEW MEXICO

TOWN OF KIRTLAND

SCHEDULE OF PLEDGED COLLATERAL

June 30, 2017

	Bank of the Southwest
Cash on deposit at June 30, 2017:	
Checking and savings	$ 377,531
Less: FDIC coverage	(250,000)
Uninsured funds	$ 127,531
Amount requiring pledged collateral:	
50% collateral requirement	$ 63,766
Pledged collateral	250,000
Excess (deficiency) of pledged collateral	$ 186,234

Pledged collateral of financial institutions consists of the following at June 30, 2017

Bank of the Southwest	Maturity	Market Value
FHLB Letter of Credit	12/5/2017	$ 100,000
FHLB Letter of Credit	12/5/2017	150,000
		$ 250,000

The above letters of credit are held at Federal Home Loan Bank, Atlanta, GA.

STATE OF NEW MEXICO
TOWN OF KIRTLAND

CASH RECONCILIATION
Year Ended June 30, 2017

	Beginning Cash	Receipts	Distributions	Other	Net Cash End of Period	Adjustments to the report	Total Cash on Report
Operations	$ 216,860	$ 893,202	$ 281,450	$ (499,711)	$ 328,901	$ -	$ 328,901
Law Protection	-	20,000	20,000	-	-	-	-
Capital Outlay	-	90,000	541,692	500,000	48,308	-	48,308
Total	$ 216,860	$ 1,003,202	$ 843,142	$ 289	$ 377,209	$ -	$ 377,209

Account Name	Account Type	Bank Name	Bank Amount
Operational	Checking - Interest	Bank of the Southwest	$ 377,531

Adjustments to cash:	
Bank Balance	$ 377,531
Outstanding checks	(322)
Total adjusted cash	$ 377,209

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COMPLIANCE SECTION

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
Schedule of Findings and Responses:
Summary of Auditor's Results
Financial Statement Findings

Summary Schedule of Prior Year Audit Findings

Required Disclosure

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

INDEPENDENT AUDITORS' REPORT

Wayne A Johnson, State Auditor
Members of the Town of Kirtland Councilors

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 aggregate remaining fund information, and the budgetary comparisons of the general fund, of the Town of Kirtland as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Town of Kirtland's basic financial statements, and the combining and individual funds and related budgetary comparisons of Town of Kirtland, 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 Town of Kirtland'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 Town of Kirtland's internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Kirtland'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 Town of Kirtland'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 not identify any deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies.

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Telephone (505) 566-1900
Fax (505) 566-1911

Wayne A Johnson, State Auditor
Members of the Town of Kirtland Councilors

Compliance and other matters

As part of obtaining reasonable assurance about whether Town of Kirtland's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported pursuant to *Government Auditing Standards* and pursuant to Section 12-6-5, NMSA 1978.

Purpose of this Report

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

Accounting & Financial Solutions, LLC
Farmington, New Mexico
December 12, 2017

4801 N Butler Ave. Ste 8101
Farmington, NM 87401
afs@afsolutions-cpa.com
Telephone (505) 566-1900
Fax (505) 566-1911

SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2017

I. SUMMARY OF AUDIT RESULTS

	Yes	No	Occurrences
FINANCIAL STATEMENTS:			
Type of auditor's report issued: Unmodified			
Internal control over financial reporting:			
Material weakness(es) identified?		✓	-
Significant Deficiency(ies) identified?		✓	-
Noncompliance material to financial statements noted?		✓	-

SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2017

II. FINDINGS RELATED TO FINANCIAL STATEMENTS

There were no findings required to be reported relating to financial statements.

SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2017

I. NOT RESOLVED

There were no findings to be reported from the prior year.

II. RESOLVED

2016 – 001 PURCHASES MADE PRIOR TO APPROVAL
Current Status: Resolved. Not repeated in the current year.

2016 – 002 UNTIMELY PAYMENT OF PURCHASES
Current Status: Resolved. Not repeated in the current year.

2016 – 003 UNTIMELY DEPOSITS
Current Status: Resolved. Not repeated in the current year.

2016 – 004 BANK ACCOUNTS WERE NOT RECONCILED TO THE GENERAL LEDGER IN A TIMELY MANNER
Current Status: Resolved. Not repeated in the current year.

2016 – 005 MISSING OR INCOMPLETE FORM W-4 AND I-9
Current Status: Resolved. Not repeated in the current year.

REQUIRED DISCLOSURE
YEAR ENDED JUNE 30, 2017

The financial statements were prepared by the independent public accountants.

An exit conference was held December 15, 2017, during which the audit findings were discussed. The exit conference was attended by the following individuals:

TOWN OF KIRTLAND

Larry E. Hathaway	Mayor
Gwen Warner	Clerk Treasurer

ACCOUNTING & FINANCIAL SOLUTIONS, LLC

Terry Ogle, CPA	Partner