

STATE OF NEW MEXICO
TOWN OF KIRTLAND

ANNUAL FINANCIAL REPORT
AND
SUPPLEMENTAL INFORMATION
YEAR ENDED JUNE 30, 2019
WITH
REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

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INTRODUCTORY SECTION

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OFFICIAL ROSTER

June 30, 2019

TOWN COUNCIL

Mark Duncan

Mayor

Thomas Wethington

Councilor

Peter Emery

Councilor

Larry Hathaway

Councilor

Jason Heslop

Councilor

TOWN OFFICIALS

Gwen Warner

Clerk-Treasurer, CMC, CPO

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

Brian S. Colón, Esq., State Auditor and
The Town Council of
Town of Kirtland

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the budgetary comparison for the general fund and major special revenue fund of Town of Kirtland, as of and for the year ended June 30, 2019, and the related notes to the financial statements which collectively comprise Town of Kirtland 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, each major fund, and the aggregate remaining fund information of Town of Kirtland, as of June 30, 2019, and the respective changes in financial position thereof and the respective budgetary comparisons 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.

Brian S. Colón, Esq., State Auditor and
The Town Council of
Town of Kirtland

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. Accounting principles generally accepted in the United States of America also require that the Schedule of Proportionate Share of the Net Pension Liability and Schedule of Contributions on page 36 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. 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 the financial statements that collectively comprise the Town of Kirtland's financial statements and budgetary comparison. The other 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 other schedules required by 2.2.2 NMAC, as presented in the table of content, 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 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 November 25, 2019 on our consideration of the 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
November 25, 2019

BASIC FINANCIAL STATEMENTS

STATE OF NEW MEXICO
TOWN OF KIRTLAND

STATEMENT OF NET POSITION
June 30, 2019

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 375,335
Due from other governments	178,014
Non-current:	
Non-depreciable assets	157,350
Depreciable capital assets, net	<u>3,261,908</u>
Total Assets	<u><u>3,972,607</u></u>
Deferred Outflows of Resources:	
Contributions to pension subsequent to the measurement date	2,950
Difference between expected and actual pension experience	1,613
Net difference between projected and actual investment earnings on pension plan investments	4,139
Net change in pension assumptions	5,059
Net change in proportionate share of pension liability	<u>28,225</u>
Total Deferred Outflows of Resources	<u><u>41,986</u></u>
Liabilities	
Accounts payable	61,554
Accrued salaries	939
Compensated absences	1,736
Aggregate net pension liability	<u>55,803</u>
Total Liabilities	<u><u>120,032</u></u>
Deferred Inflows of Resources	
Difference between expected and actual pension experience	1,465
Net change in pension assumptions	<u>321</u>
Total Deferred Inflows of Resources	<u><u>1,786</u></u>
Net Position	
Net investment in capital assets	3,419,258
Unrestricted	<u>473,517</u>
Total Net Position	<u><u>\$ 3,892,775</u></u>

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, 2019

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	
Primary government:						
Governmental activities:						
General government	\$ 326,304	\$ 14,760	\$ 42,430	\$ -	\$ (269,114)	
Public safety	189,060	-	24,584	-	(164,476)	
Culture and recreation	26,028	-	3,384	-	(22,644)	
Public works	<u>304,554</u>	<u>-</u>	<u>39,602</u>	<u>-</u>	<u>(264,952)</u>	
Total governmental activities	<u>\$ 845,946</u>	<u>\$ 14,760</u>	<u>\$ 110,000</u>	<u>\$ -</u>	<u>(721,186)</u>	
General revenues:						
Taxes:						
Property Taxes:						
Oil and gas						95,019
Gross receipts						829,769
Other						<u>84,995</u>
Total general revenues						<u>1,009,783</u>
<i>Change in net position</i>						288,597
Net position - beginning						<u>3,604,178</u>
Net position - ending						<u>\$ 3,892,775</u>

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, 2019

	<u>General Fund</u>	Law Enforcement Protection <u>Fund #21</u>	Total Governmental <u>Funds</u>
Assets			
Cash and cash equivalents	\$ 375,335	\$ -	\$ 375,335
Due from other governments	<u>178,014</u>	<u>-</u>	<u>178,014</u>
Total assets	<u>\$ 553,349</u>	<u>\$ -</u>	<u>\$ 553,349</u>
 Liabilities, deferred inflows, and fund balance			
Liabilities:			
Accounts payable	\$ 61,554	\$ -	\$ 61,554
Accrued salaries	<u>939</u>	<u>-</u>	<u>939</u>
Total liabilities	<u>62,493</u>	<u>-</u>	<u>62,493</u>
Fund balance:			
Unassigned	<u>490,856</u>	<u>-</u>	<u>490,856</u>
Total fund balance	<u>490,856</u>	<u>-</u>	<u>490,856</u>
Total liabilities and fund balance	<u>\$ 553,349</u>	<u>\$ -</u>	<u>\$ 553,349</u>

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, 2019

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

Fund balances - total governmental funds	\$	490,856
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Capital assets		3,561,993
Accumulated depreciation		(142,735)
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		2,950
Difference between expected and actual pension experience		1,613
Net difference between projected and actual investment earnings on pension plan investments		4,139
Net change in pension assumptions		5,059
Net change in proportionate share of pension liability		28,225
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		(1,736)
Net pension liability		(55,803)
Deferred inflow of resources are not financial resources, and therefore are not reported in the funds and include:		
Difference between expected and actual pension experience		(1,465)
Net change in pension assumptions		(321)
Net position of governmental activities	\$	<u>3,892,775</u>

STATE OF NEW MEXICO
TOWN OF KIRTLAND

GOVERNMENTAL FUNDS

Statement of Revenues, Expenditures, and Changes in Fund Balance
Year Ended June 30, 2019

	<u>General</u> <u>Fund</u>	Law Enforcement Protection <u>Fund #21</u>	<u>Total</u> Governmental <u>Funds</u>
Revenues:			
Taxes:			
Oil and gas	\$ 95,019	\$ -	\$ 95,019
Gross receipts	829,769	-	829,769
Other	84,995	-	84,995
Intergovernmental - federal grants	-	20,000	20,000
Intergovernmental - state grants	90,000	-	90,000
Licenses and permits	6,002	-	6,002
Charges for services	<u>8,758</u>	<u>-</u>	<u>8,758</u>
Total revenues	<u>1,114,543</u>	<u>20,000</u>	<u>1,134,543</u>
Expenditures:			
Current:			
General government	277,021	-	277,021
Public safety	149,129	20,000	169,129
Culture and recreation	23,284	-	23,284
Public works	272,448	-	272,448
Capital outlay	<u>383,744</u>	<u>-</u>	<u>383,744</u>
Total expenditures	<u>1,105,626</u>	<u>20,000</u>	<u>1,125,626</u>
<i>Excess of revenues over expenditures</i>	8,917	-	8,917
Fund balance at beginning of the year	<u>481,939</u>	<u>-</u>	<u>481,939</u>
Fund balance at end of the year	<u>\$ 490,856</u>	<u>\$ -</u>	<u>\$ 490,856</u>

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, 2019

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

Net change in fund balance - total governmental funds	\$	8,917
<p>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. This is the amount by which capital outlays exceeded depreciation in the current year</p>		
Capital outlay		383,744
Depreciation		(89,179)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>		
Compensated absences at:		
June 30, 2018		1,268
June 30, 2019		(1,736)
Deferred contributions to pension plan		2,950
Pension expense		<u>(17,367)</u>
Change in net position of governmental activities	\$	<u><u>288,597</u></u>

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, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final	(Budgetary Basis)	Positive (Negative)
Revenues:				
Taxes:				
Oil and gas	\$ 90,000	\$ 90,000	\$ 80,736	\$ (9,264)
Gross receipts	784,500	784,500	705,019	(79,481)
Other	75,000	75,000	46,399	(28,601)
Intergovernmental - state grants	90,000	90,000	90,000	-
Licenses and permits	4,000	4,000	6,002	2,002
Charges for services	<u>-</u>	<u>-</u>	<u>8,372</u>	<u>8,372</u>
Total revenues	<u>1,043,500</u>	<u>1,043,500</u>	<u>936,528</u>	<u>(106,972)</u>
Expenditures:				
Current:				
General government	233,595	234,855	223,196	11,659
Public safety	167,000	167,000	149,129	17,871
Culture and recreation	15,500	15,500	27,597	(12,097)
Public works	470,128	470,115	272,201	197,914
Capital outlay	<u>353,520</u>	<u>259,342</u>	<u>371,948</u>	<u>(112,606)</u>
Total expenditures	<u>1,239,743</u>	<u>1,146,812</u>	<u>1,044,071</u>	<u>102,741</u>
<i>Excess (deficiency) of revenues over expenditures</i>	(196,243)	(103,312)	(107,543)	(4,231)
<i>Beginning cash balance budgeted</i>	196,243	103,312	-	(103,312)
Fund balance at beginning of the year	<u>-</u>	<u>-</u>	<u>481,939</u>	<u>481,939</u>
Fund balance at end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>374,396</u>	<u>\$ 374,396</u>
RECONCILIATION TO GAAP BASIS:				
Change in due from other governments			178,014	
Change in payables			<u>(61,554)</u>	
Fund balance at end of the year (GAAP basis)			<u>\$ 490,856</u>	

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

STATE OF NEW MEXICO
TOWN OF KIRTLAND

LAW ENFORCEMENT PROTECTION FUND - NO. 21
Statement of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis)
Year Ended June 30, 2019

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget
				Positive (Negative)
Revenues:				
Intergovernmental - federal grants	\$ 20,000	\$ 20,000	\$ 20,000	\$ -
Expenditures:				
Current:				
Public safety	20,000	20,000	20,000	-
<i>Excess of revenues over expenditures</i>	-	-	-	-
Fund balance at beginning of the year	-	-	-	-
Fund balance at end of the year	\$ -	\$ -	-	\$ -
RECONCILIATION TO GAAP BASIS:				
Change in payables			-	
Fund balance at end of the year (GAAP basis)			\$ -	

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

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NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

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NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

I. SUMMARY OF ALL SIGNIFICANT ACCOUNTING POLICIES

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*.

1. Blended Component Units

The Town does not have any component units reported as blended component units.

2. Discretely Presented Component Units

The Town does not have any component units reported as discretely presented component units.

The summary of significant accounting policies of the Town is presented to assist in the understanding of the Town's financial statements. The financial statements and notes are the representation of Town's management who is responsible for their integrity and objectivity. The financial statements of the Town conform to GAAP as applied to governmental units. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

B. Implementation of New Accounting Principles

During fiscal year 2019, the Town adopted the following Governmental Accounting Standards Board (GASB) Statements:

➤ **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.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

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

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

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.

➤ **GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements***

The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

Requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

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

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

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

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

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

➤ **GASB Statement No. 84, *Fiduciary Activities***

This Statement supersedes NCGA Statement 1, Governmental Accounting and Financial Reporting Principles, footnote 24; Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans, paragraph 4; Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, paragraphs 70–73, 110, and 111; Implementation Guide No. 2015-1, Questions 4.14.1, 4.14.2, 6.43.2, 7.7.2, and 7.52.4; and Implementation Guide No. 2016-1, Implementation Guidance Update—2016, Question 4.26. It also amends NCGA Statement 1, paragraphs 32, 139, 143, and 147; NCGA Statement 5, Accounting and Financial Reporting Principles for Lease Agreements of State and Local Governments, paragraphs 5 and 6; Statement No. 6, Accounting and Financial Reporting for Special Assessments, paragraph 19; Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, footnote 12; Statement No. 14, The Financial Reporting Entity, paragraphs 19 and 27; Statement No. 24, Accounting and Financial Reporting for Certain Grants and Other Financial Assistance, paragraph 5; Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, paragraphs 18 and 22; Statement 34, paragraphs 6, 12, 13, 63, 65, 67, 69, 106–109, 115, 123, 125, 135, 138, 141, and 147, and footnotes 48, 49, and 51; Statement No. 37, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus, paragraph 3; Statement No. 38, Certain Financial Statement Note Disclosures, paragraphs 6, 14, and 15; Statement No. 40, Deposit and Investment Risk Disclosures, paragraph 5; Statement No. 44, Economic Condition Reporting: The Statistical Section, paragraph 10; Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, paragraphs 30, 33, and 35; Statement No. 61, The Financial Reporting Entity: Omnibus, paragraph 9; Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, paragraph 34; Statement No. 67, Financial Reporting for Pension Plans, paragraph 11; Statement No. 72, Fair Value Measurement and Application, paragraph 80; Statement 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, paragraph 116; Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, paragraphs 18 and 59; NCGA Interpretation 6, Notes to the Financial Statements Disclosure, paragraph 5; Technical Bulletin No. 2006-1, Accounting and Financial Reporting by Employers and OPEB Plans for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D, paragraph 8; Implementation Guide 2015-1, Questions 1.4.2, 1.4.8, 2.7.1, 2.7.2, 3.49.1, 3.55.2, 3.58.1, 4.6.2, 4.27.1, 4.28.1, 4.28.11, 4.30.3, 4.62.2, 5.64.3, 5.64.4, 5.113.1, 6.29.3, 6.34.3, 6.34.4, 6.43.5, 6.45.1, 6.45.3, 7.3.5, 7.4.1, 7.51.6, 7.52.2, 7.52.3, 7.52.5–7.52.8, 7.55.5, 7.72.10, 7.77.4, 7.81.1, 7.81.2, 7.84.1, 7.97.1, 7.97.2, 7.97.4, 8.1.2, 8.1.3, and 8.15.4; Implementation Guide 2016-1, Questions 4.2, 4.13, 4.27, 4.61–4.63, 5.7, 5.8, 5.16, and 5.24; and 2002 AICPA State and Local Government Auditing and Accounting Guide, paragraph 5.28.

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.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

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

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

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. 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).

➤ **GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period***

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. The requirements of this Statement apply to the financial statements of all state and local governments. In financial statements prepared using the economic resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expense in the period in which the cost is incurred. Such interest cost should not be capitalized as part of the historical cost of a capital asset. In financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019 (FYE June 30, 2021). Earlier application is encouraged.

➤ **GASB Statement No. 90, *Majority Equity Interests an amendment of GASB Statements No. 14 and No. 61***

The primary objectives of this Statement are to improve consistency in the measurement and comparability of the financial statement presentation of majority equity interests in legally separate organizations and to improve the relevance of financial statement information for certain component units.

This Statement modifies previous guidance for reporting a government's majority equity interest in a legally separate organization. This Statement also provides guidance for reporting a component unit if a government acquires a 100 percent equity interest in that component unit. The requirements of this Statement apply to the financial statements of all state and local governments.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018 (FYE June 30, 2020). Earlier application is encouraged.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

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

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

➤ GASB Statement No. 91, *Conduit Debt Obligations*

This Statement provides a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2020 (FYE June 30, 2022). Earlier application is encouraged.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues, net of estimated refunds and estimated uncollectable amounts, in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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.

The Town reports all direct expenses by function in the statement of activities. Direct expenses are those that are clearly identifiable with a function. The Town does not currently employ indirect cost allocation systems. Depreciation expense is specifically identified by function and is included in the direct expense of each function, except for that portion of depreciation that is identified as unallocated on the statement of activities.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenues received during the year but are applicable to subsequent years are reported as deferred inflows of resources. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Expenditures incurred during the year that are for the benefit of subsequent years are reported as deferred outflows of resources.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Governmental funds are used to account for the Town's general government activities, including the collection and disbursement of specific or legally restricted monies, the acquisition or construction of capital assets, and the servicing of long-term debt.

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

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

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

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

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

GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis* requires the Town to present certain governmental funds as major funds. In addition to the General Fund, the Town reports the following major governmental funds:

➤ SPECIAL REVENUE FUNDS

Law Enforcement Protection (Fund No. 21)

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. The Law Enforcement fund was determined to be a major fund because it is the only special revenue fund.

D. 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 percent 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.

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."

The Town's property taxes are levied each year on the assessed valuation of property located in the Town as of the preceding January 1st. Mill levy rates are set by the State of New Mexico each year for the General Fund, Capital Improvements SB – 9 Fund, and Debt Service Fund. Taxes are payable in two equal installments on November 10th and April 10th following the levy and become delinquent after 30 days.

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. A receivable and deferred 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.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

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

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

3. *Capital assets*

Capital assets, which include property, plant, and equipment (software), are reported in the applicable governmental-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 asset or materially extend assets lives are not capitalized. 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.

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

<u>Assets</u>	<u>Years</u>
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.

4. *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.

5. *Long-term obligations*

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, statement of Net Position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discounts.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as capital projects expenditures.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

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

D. 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.

7. *Deferred Outflows/Inflows of Resources*

Both deferred inflows and outflows are reported in the Statement of Net Position, but are not recognized in the financial statements as revenues, expenses, and reduction of liabilities or increase in assets until the period(s) to which they relate.

In addition to assets, the Town reports a separate section for deferred outflows of resources. This separate financial statement element represents a use of net position/fund balance that applies to future periods and will not be recognized as an expenditure until that time.

The Town also reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position/fund balance that applies to future periods and so will not be recognized as a revenue until that time. Revenue must be susceptible to accrual (measurable and available to finance expenditures of the current fiscal period) to be recognized. If assets are recognized in connection with a transaction, but those assets are not yet available to finance expenditures of the current fiscal period, then the assets must be offset by a corresponding liability for deferred inflows of resources.

The Town reports deferred outflows of resources for pension-related amounts for the Town's share of the difference between projected and actual earnings, for the Town's share of the difference between contributions to the individual plans and the proportionate share of the contributions, and for changes of assumptions or other inputs.

The Town reports deferred inflows of resources for pension-related amounts in the government wide financial statements or the Town's share of the difference between expected and actual experience and for the Town's share of the difference between contributions to the individual plans and the proportionate share of the contributions.

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. Deferred inflows of resources are also comprised of property tax and long-term receivables that are unavailable in the fund statements.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

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

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

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.

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, 2019.

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, 2019.

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 invested in capital assets, net of related debt. That portion of the debt is included in restricted for capital projects.

b. Restricted Net Position

Net Position is 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.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

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

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

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.

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.

11. *Inter-fund Transactions*

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

12. *Tax Abatements*

Governmental Accounting Standards Board Statement No. 77 requires the Town to disclose information on certain tax abatement agreements effecting the Town. Accordingly, the Town did not have any tax abatements effecting the Town during the year ended June 30, 2019.

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:

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (cont'd)

A. Budgetary Information (cont'd)

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	FINAL
Major Funds:		
General Funds	\$ 1,239,743	\$ 1,146,812
Special Revenue Funds	<u>20,000</u>	<u>20,000</u>
Total Budget	<u><u>\$ 1,259,743</u></u>	<u><u>\$ 1,166,812</u></u>

B. Budgetary Violations

The Town did not have any budgetary violations during the year ended June 30, 2019.

C. Deficit Fund Equity

The Town did not have deficit fund balance as of June 30, 2019.

III. DETAILED NOTES ON ALL FUNDS

A. Cash and Temporary Investments

At June 30, 2019, the carrying amount of the Town's deposits was \$375,335 and the bank balance was \$375,335 with the difference consisting of outstanding checks.

	BALANCE
Financial institution:	
Bank of the Southwest	\$ 375,335
Less:	
Net reconciling items	<u>-</u>
Total cash and equivalents	<u><u>\$ 375,335</u></u>

Of the total cash and cash equivalents balance, \$250,000 was covered by federal depository insurance and \$100,000 was covered by collateral held in joint safekeeping by a third party.

BANK NAME	ACCOUNT TYPE	BALANCE
Bank of the Southwest	Checking non-interest bearing	\$ 375,335

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

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

A. Cash and Temporary Investments (cont'd)

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 Town does not have a deposit policy for custodial credit risk, other than the following state statutes as put forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978). 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, 2019, \$25,335 of the Town's bank deposits was exposed to custodial risk as follows:

	INSURED	UNDER INSURED	TOTAL
Bank deposits:			
Uninsured and uncollateralized	\$ 25,335	\$ -	\$ 25,335
Uninsured and collateral held by pledging bank's trust dept not in the Town's name	100,000	-	100,000
Total uninsured	125,335	-	125,335
Insured (FDIC)	250,000	-	250,000
Total deposits	<u>\$ 375,335</u>	<u>\$ -</u>	<u>\$ 375,335</u>
State of New Mexico collateral requirement:			
50% of uninsured public fund bank deposits	\$ 62,668	\$ -	\$ 62,668
Pledged security	100,000	-	100,000
Over collateralization	<u>\$ 37,332</u>	<u>\$ -</u>	<u>\$ 37,332</u>

The collateral pledged is listed on Schedule of Pledged Collateral in the Other Supplemental Information section 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, district or political subdivision of the State of New Mexico. According to the Federal Deposit Insurance Authority, public unit deposits are funds owned by the schools. 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.

B. Receivables

Receivables as of year-end for the government's individual major funds and non-major funds in the aggregate, including the following:

	<u>RECEIVABLES</u>		<u>DUE FROM OTHER</u>	
	Property Taxes	Grants	Governments	Funds
Major Funds:				
General Funds	\$ -	\$ -	\$ 178,014	\$ -
Law Enforcement Protection	-	-	-	-
Other Governmental Funds	-	-	-	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 178,014</u>	<u>\$ -</u>

An allowance for doubtful accounts has not been established. All receivables are expected to be collectible.

C. Inter-Fund Receivables and Payables

There were not any inter-fund receivables and payables at June 30, 2019.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

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

E. Capital Assets

Capital asset activity for the year ended June 30, 2019 was as follows:

	BEGINNING	INCREASES	DECREASES	ENDING
Governmental activities:				
<u>Capital assets not being depreciated:</u>				
Land	\$ 157,350	\$ -	\$ -	\$ 157,350
Construction in progress	198,030	-	(198,030)	-
Total capital assets not being depreciated	<u>355,380</u>	<u>-</u>	<u>(198,030)</u>	<u>157,350</u>
<u>Capital assets being depreciated:</u>				
Land improvements	100,130	219,922	198,030	518,082
Buildings and improvements	2,593,624	113,644	-	2,707,268
Furniture, fixtures, and equipment	129,115	50,178	-	179,293
Total capital assets being depreciated	<u>2,822,869</u>	<u>383,744</u>	<u>198,030</u>	<u>3,404,643</u>
Less accumulated depreciation for:				
Land improvements	(3,083)	(10,677)	-	(13,760)
Buildings and improvements	(44,729)	(66,262)	-	(110,991)
Furniture, fixtures, and equipment	(5,744)	(12,240)	-	(17,984)
Total accumulated depreciation	<u>(53,556)</u>	<u>(89,179)</u>	<u>-</u>	<u>(142,735)</u>
Total capital assets being depreciated, net	<u>2,769,313</u>	<u>294,565</u>	<u>198,030</u>	<u>3,261,908</u>
Total capital assets, net	<u>\$ 3,124,693</u>	<u>\$ 294,565</u>	<u>\$ -</u>	<u>\$ 3,419,258</u>

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

	BALANCE
General government	\$ 31,377
Public safety	18,179
Culture and recreation	10,338
Highways and streets	29,285
Total Depreciation Expense	<u>\$ 89,179</u>

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.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

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

E. Capital Assets (cont'd)

Construction commitments

The Town is involved in long-term construction projects as part of their master plan for upgrading or constructing the Town's buildings. The amount in the capital projects funds designated for subsequent years expenditures are committed for funding these projects. Interest on construction projects is not capitalized.

F. Long-Term Debt

Changes in long term debt – During the year ended June 30, 2019 the following changes occurred in liabilities reported in the general obligation bonds account group:

	ORIGINAL AMOUNT	ADDITIONS	RETIREMENTS	ENDING BALANCE	DUE WITHIN ONE YEAR
Compensated absences:					
Compensated vacation	<u>\$ 1,268</u>	<u>\$ 1,514</u>	<u>\$ 1,047</u>	<u>\$ 1,736</u>	<u>\$ 1,736</u>

The liability of compensated absences is liquidated with resources from the general fund.

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.

B. Employee Retirement Plan

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.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

IV. OTHER INFORMATION (cont'd)

B. Employee Retirement Plan (cont'd)

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, 2018 available at https://reports.saonm.org/media/audits/366_Public_Employees_Retirement_Association_FY2018_Final.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 FY2018 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 FY2018 annual audit report at https://reports.saonm.org/media/audits/366-B_NM_PERA_Schedule_of_Employer_Allocation_FY2018.pdf. The PERA coverage options that apply to Town of Kirtland are: General and Police. Statutorily required contributions to the pension plan from Town of Kirtland were \$2,950 for the year ended June 30, 2019.

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, 2017. The PERA pension liability amounts for each division were rolled forward from the valuation date to the Plan year ending June 30, 2018, using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date June 30, 2018. The assets of the PERA fund are held in one trust, but there are six distinct membership groups (municipal general members, municipal police members, municipal fire members, state general members, state police members and legislative members) for whom separate contribution rates are determined each year pursuant to chapter 10, Article 11 NMSA 1978. Therefore, the calculations of the net pension liability, pension expense and deferred Inflows and Outflows were performed separately for each of the membership groups: municipal general members; municipal police members; municipal fire members; state general members; state police members and legislative members. The 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, 2018. Only employer contributions for the pay period end dates that fell within the period of July 1, 2017 to June 30, 2018 were included in the total contributions for a specific employer. Regular and any adjustment contributions that applied to FY 2018 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.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

IV. OTHER INFORMATION (cont'd)

B. Employee Retirement Plan (cont'd)

PERA Fund Municipal General Division

For PERA Municipal General Division, at June 30, 2019, the Town reported a liability of \$55,803, measured at June 30, 2018 for its proportionate share of the net pension liability. At June 30, 2018, the Town's proportion was .0035 percent, which was an increase of .0024% from its proportion measured as of June 30, 2017, due to the insignificance of the difference.

For the year ended June 30, 2019, the Town recognized PERA Fund Municipal General Division pension expense of \$17,367

PENSION EXPENSE CALCULATION	
Net pension liability - end of the year	\$ 55,803
Net pension liability - beginning of the year	(15,115)
Deferred outflows of resources during the year	(27,156)
Deferred inflows of resources during the year	856
Reductions to ending net pension liability due contributions paid	2,979
Total Pension Expense	\$ 17,367

At June 30, 2019, the Town of Kirtland 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	\$ 1,613	\$ 1,465
Change of assumptions	5,059	321
Net difference between projected and actual earnings on pension plan investments	4,139	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	28,225	-
Town contributions subsequent to the measurement date	2,950	-
Total	\$ 41,986	\$ 1,786

Deferred outflows of resources related to PERA Fund Division General Fund in the amount of \$2,950 resulting from the Town's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to PERA Fund Division General Fund will be recognized in pension expense as follows:

JUNE 30,	AMORTIZATION
2020	\$ 16,540
2021	12,531
2022	7,897
2023	282
2024	-
Thereafter	-
Total	\$ 37,250

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

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, 2017 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, 2018 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, 2018. These actuarial methods and assumptions were adopted by the Board for use in the June 30, 2017 actuarial valuation.

Actuarial valuation date	June 30, 2017
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	7.25% annual rate, net of investment expense
Projected benefit payment	100 years
Payroll growth	3.00%
Projected salary increases	3% to 14.00% annual rate
Includes inflation at	2.50% annual rate
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, 2017 (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%	7.48
Risk Reduction & Mitigation	21.50%	2.37
Credit Oriented Fixed Income	15.00%	5.47
Real Assets	20.00%	6.48
	100.00%	

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

IV. OTHER INFORMATION (cont'd)

B. Employee Retirement Plan (cont'd)

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

The discount rate used to measure the total pension liability was 7.25 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 7.25% 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 Town'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 Town's net pension liability in each PERA Fund Division that the Town participates in, under the current single rate assumption, as if it were calculated using a discount rate one percentage point lower (6.25%) or one percentage point higher (8.25%) than the single discount rate.

CURRENT SINGLE RATE					
		Discount	Single Rate		
		Rate	1% Decrease	Assumption	1% Increase
PERA Municipal General (All Employers)					
2018	7.25%	\$ 2,456,817,527	\$ 1,594,370,105	\$ 881,419,378	
2017	7.51%	2,153,644,368	1,374,084,582	725,772,215	
2016	7.75%	2,381,974,199	1,597,663,507	947,116,802	
Town of Kirtland					
2018	7.25%	\$ 85,988	\$ 55,803	\$ 30,849	
2017	7.51%	23,691	15,115	7,984	
2016	7.75%	-	-	-	

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued FY2018 PERA financial report. The report is available at www.pera.state.nm.us.

C. Contingent Liabilities

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

The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the government's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the government.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

IV. OTHER INFORMATION (cont'd)

D. Joint Powers Agreements

EMERGENCY SERVICES:

Participants:	Town of Kirtland San Juan County
Operation Responsibility:	Both parties
Description:	The County shall provide road and street maintenance/repairs services, E-911 and law enforcement services, fire department services.
Period:	July 01, 2018 to June 30, 2019; renewable annually.
Project Cost:	The Town pays the County according to the services provided for personnel and equipment costs assigned.
Town Contributions:	Initial: None Annually: Undetermined.
Audit Responsibility:	Town of Kirtland and San Juan County
Reporting Responsibility:	Expenses are recorded on the County's books and reimbursed by the Town.

TRANSIT SERVICES:

Participants:	Town of Kirtland City of Farmington
Operation Responsibility:	City of Farmington
Description:	The City of Farmington shall provide Red Apple Transit service routes in the Town of Kirtland.
Period:	July 01, 2018 to June 30, 2019; renewable annually.
Project Cost:	The Town pays the City in quarterly installments of \$2,998 for a total annual cost of \$11,994.
Town Contributions:	Initial: None Annually: \$11,994.
Audit Responsibility:	City of Farmington
Reporting Responsibility:	Expenses are recorded on the City's books and reimbursed by the Town.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

IV. OTHER INFORMATION (cont'd)

D. Joint Powers Agreements (cont'd)

COMMUNICATIONS SERVICES:

Participants: Town of Kirtland
San Juan County

Operation Responsibility: Both parties

Description: The County will allow the Town to use the remaining 90 optic fibers in the Town will maintain and ensure the fibers and provide a salary of one records technician at the San Juan County Sheriff's Office Kirtland substation.

Period: July 01, 2018 to June 30, 2019. Renewable annually

Project Cost: The Town pays the County for one Records Technician.

Town Contributions: Initial: None
Annually: \$25,796.

Audit Responsibility: Town of Kirtland and San Juan County

Reporting Responsibility: Expenses are recorded on the County's books and reimbursed by the Town.

AERIAL IMAGING SERVICES:

Participants: Town of Kirtland
San Juan County

Operation Responsibility: San Juan County

Description: San Juan County shall allow the Town of Kirtland to use a License for the software and hardware for the Pictometry products for aerial imaging.

Period: July 01, 2018 to June 30, 2019. Renewable annually

Project Cost: The Town pays the County \$2,679.

Association Contributions: Initial: None
Annually: \$2,679.

Audit Responsibility: San Juan County

Reporting Responsibility: Expenses are recorded on the County's books and reimbursed by the Town.

E. Subsequent Events

Subsequent events were evaluated through November 25, 2019 which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2019

SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY Public Employee Retirement Association (PERA) Pension Plan Last 10 Fiscal Years*

	2019	2018	2017
Town's proportion of the net pension liability	0.0035%	0.0011%	0.0000%
Town's proportionate share of the net pension liability	\$ 55,803	\$ 15,115	\$ -
Town's covered-employee payroll	\$ 31,200	\$ 9,600	\$ -
Town's proportionate share of the net pension liability as a percentage of its covered-employee payroll	178.86%	157.45%	-
Plan fiduciary net position as a percentage of the total pension liability	71.13%	73.74%	61.58%

* These schedules are intended to present 10 years of trending history. However, until a full 10-year trend is compiled, the Town will present information for those years for which information is available.

SCHEDULE OF THE TOWN'S CONTRIBUTIONS Public Employee Retirement Association (PERA) Pension Plan Last 10 Fiscal Years*

	2019	2018	2017
Contractually required contribution	\$ 2,950	\$ 2,979	\$ 916
Contributions in relation to the contractually required	(2,950)	(2,979)	(917)
Contribution deficiency (excess)	\$ -	\$ -	\$ (1)
Town's Covered-employee Payroll	\$ 30,895	\$ 31,200	\$ 9,600
Contribution as a percentage of covered-employee payroll	9.55%	9.55%	9.55%

* These schedules are intended to present 10 years of trending history. However, until a full 10-year trend is compiled, the Town will present information for those years for which information is available.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION For the Year Ended June 30, 2019

Changes of benefit terms: The COLA and retirement eligibility benefits changes in recent years are described in the Benefits Provided subsection of the financial statement note disclosure General Information on the Pension Plan.

Changes of assumptions: The Public Employees Retirement Association (PERA) of New Mexico Annual Actuarial Valuation as of June 30, 2015 report is available at http://www.nmpera.org/assets/uploads/downloads/comprehensive-annual-financial-reports/2018-CAFR_12.22.2018_FINAL-with-corrections.pdf.

STATE REQUIRED DISCLOSURES

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STATE OF NEW MEXICO
TOWN OF KIRTLAND

SCHEDULE OF PLEDGED COLLATERAL
June 30, 2019

	<u>Bank of the Southwest</u>
Cash on deposit at June 30, 2019:	
Checking and savings	\$ 404,083
Less: FDIC coverage	<u>(250,000)</u>
Uninsured funds	<u>\$ 154,083</u>
 Amount requiring pledged collateral:	
50% collateral requirement	\$ 77,042
Pledged collateral	<u>100,000</u>
Excess (deficiency) of pledged collateral	<u>\$ 22,958</u>

Pledged collateral of financial institutions consists of the following at June 30, 2019

<u>Bank of the Southwest</u>	<u>Maturity</u>	<u>Market Value</u>
FHLB Line of Credit	12/5/2019	<u>\$ 100,000</u>

The above securities are held at Federal Home Loan Bank, Dallas, TX.

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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

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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

Brian S. Colón, Esq., State Auditor and
The Town Council of
Town of Kirtland

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, each major fund, the aggregate remaining fund information, the budgetary comparisons of the general fund and major special revenue fund, of the Town of Kirtland as of and for the year ended June 30, 2019, 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 November 25, 2019.

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 would consider to be a material weakness. We did not identify any deficiencies in internal controls that we would consider to be a significant deficiency.

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. We did not note any other matter that is required to be reported pursuant to *Government Auditing Standards* and pursuant to Section 12-6-5, NMSA 1978.

Brian S. Colón, Esq., State Auditor and
The Town Council of
Town of Kirtland

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
November 25, 2019



SCHEDULE OF FINDINGS AND RESPONSES

JUNE 30, 2019

I. SUMMARY OF AUDIT RESULTS

	<u>Yes</u>	<u>No</u>	<u>Occurrences</u>
FINANCIAL STATEMENTS:			
Type of auditor’s report issued: <u>Unmodified</u>			
Internal control over financial reporting:			
Material weakness(es) identified?	—	✓	—
Significant deficiency(ies) identified?	—	✓	—
Noncompliance material to financial statements noted?	—	✓	—
NEW MEXICO STATE REQUIREMENTS:			
Internal control over state requirements:			
Other non-compliance?	—	✓	—
Finding that does not rise to the level of significant deficiency?	—	✓	—

II. AUDIT FINDINGS - RELATED TO FINANCIAL STATEMENTS

There were not any findings required to be reported.

III. AUDIT FINDINGS – SECTION 12-6-5 NMSA 1978

There were not any findings required to be reported.

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

JUNE 30, 2019

I. PRIOR YEAR FINDINGS - NOT RESOLVED

There were not any findings to be reported from the prior year.

II. PRIOR YEAR FINDINGS - RESOLVED

2018 – 001 VIOLATION OF ANTI-DONATION

Current Status: Resolved. Not Repeated in the current year.

2018 – 002 CERTIFICATION OF THE ANNUAL PHYSICAL INVENTORY

Current Status: Resolved. Not Repeated in the current year.

2018 – 003 IMPROPER REPORTING OF FUND ACCOUNTING

Current Status: Resolved. Not Repeated in the current year.

REQUIRED DISCLOSURES

JUNE 30, 2019

The independent public accountants assisted in the preparation of the financial statements.

An exit conference was held December 9, 2019 and was attended by the following individuals:

TOWN OF KIRTLAND

Mark Duncan	Mayor
Gwen Warner	Clerk

ACCOUNTING & FINANCIAL SOLUTIONS, LLC

Terry Ogle, CPA	Partner
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