

State of New Mexico

RESERVE INDEPENDENT SCHOOLS



FOR YEAR ENDED JUNE 30, 2017

ANNUAL FINANCIAL REPORT

*"To provide a safe learning environment
that is conducive to the development and
enhancement of personal growth to all."*

RICE & ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

STATE OF NEW MEXICO
RESERVE INDEPENDENT SCHOOLS
AUDIT REPORT
For The Year Ended June 30, 2017
(with Auditor's Report Thereon)

STATE OF NEW MEXICO
RESERVE INDEPENDENT SCHOOL DISTRICT
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STATE OF NEW MEXICO
RESERVE INDEPENDENT SCHOOLS
Official Roster
Year Ended June 30, 2017

Board of Education

<u>Name</u>	<u>Title</u>
Mr. Russell Laney	President
Ms. Sharon Armijo	Vice President
Mr. Robert Ricks	Secretary
Mr. Carl Livingston	Member
Mr. Sam Nicolds	Member

School Officials

Mr. Bill Green	Superintendent
Ms. Odelia Delgado	Business Manager

Rice and Associates, C.P.A.

AUDITING
BOOKKEEPING
(505) 292-8275

CERTIFIED PUBLIC ACCOUNTANTS
11805 Menaul NE
Albuquerque, NM 87112

TAX PLANNING
TAX PREPARATION
FAX (505) 294-8904

INDEPENDENT AUDITOR'S REPORT

Mr. Tim Kellar
New Mexico State Auditor
and
Board of Education
Reserve Independent School District
Reserve, New Mexico

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information, and the budgetary comparisons for the General, Title I, IDEA-B Entitlement and Read2Lead Funds of the Reserve Independent School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements which collectively comprise the Reserve Independent School District's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the Reserve Independent School District non-major governmental and fiduciary funds presented as supplementary information, as defined by the Government Accounting Standards Board, in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2017 as listed in the table of contents. We did not audit the 2016 Schedule of Employer Allocations and Pension Amounts of the State of New Mexico Educational Retirement Board (ERB), the administrator of the cost sharing pension plan for the School District. The schedules and statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the School District, is based solely on the report of the other auditors.

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 misstatements, 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 of material misstatement.

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

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

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 the Reserve Independent School District, as of June 30, 2017, and the respective changes in financial position and where applicable, cash flows thereof, and the respective budgetary comparisons for the General, Title I, IDEA-B Entitlement and Read2lead Funds for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each non-major governmental and fiduciary funds of the Reserve Independent School District, as of June 30, 2017, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the MD&A which is required to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements is required by GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require the Schedules I and II and the notes to the Required Supplementary Information 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 inquires 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 obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

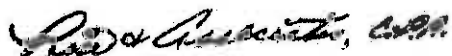
Other Information

Our audit was conducted for the purpose of forming opinions on the Reserve Independent School District financial statements, the combining and the individual fund financial statements, and the budgetary comparisons. The Schedule of Cash Receipts and Disbursements - All Funds by School District Classification is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Cash Receipts and Disbursements - All Funds by School District Classification are the responsibility of management and were derived from and relates 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 basis financial statements or to the basic financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the Untied States of America. In our opinion, the Schedule of Cash Receipts and Disbursements - All Funds by School District Classification fairly states, 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 October 26, 2017 on our consideration of the Reserve Independent School District internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Reserve Independent School District internal control over financial reporting and compliance.



Albuquerque, New Mexico
October 26, 2017

FINANCIAL STATEMENTS

STATE OF NEW MEXICO
RESERVE INDEPENDENT SCHOOLS
Statement of Net Position
June 30, 2017

Statement 1
Page 1 of 2

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash	\$ 668,296
Accounts receivable	6,822
Due from grantor	61,888
Inventory	<u>1,026</u>
Total current assets	<u>738,032</u>
Non-current assets	
Land (non-depreciable)	71,676
Capital assets (depreciable)	19,052,800
Less accumulated depreciation	<u>(3,836,521)</u>
Total non-current assets	<u>15,287,955</u>
Total assets	<u><u>16,025,987</u></u>
 Deferred outflows of resources	
Actuarial experience in net pension liability	15,851
Investment experience in net pension liability	218,091
Change in assumption in net pension liability	74,373
Change in proportion in net pension liability	72,318
Post measurement date contributions	<u>198,663</u>
Total deferred outflows of resources	<u>579,296</u>
Total assets and deferred outflows of resources	<u><u>\$ 16,605,283</u></u>

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

STATE OF NEW MEXICO
RESERVE INDEPENDENT SCHOOLS
Statement of Net Position
June 30, 2017

Statement 1
Page 2 of 2

LIABILITIES

Current liabilities	
Accounts payable	\$ -
Security deposit payable	1,250
Current portion of long-term liabilities	<u>185,000</u>
Total current liabilities	<u>186,250</u>
Long-term obligations:	
Net pension liability	3,653,629
Compensated absences	30,570
Non-current portion of long-term liabilities	<u>1,880,000</u>
Total long-term liabilities	<u>5,564,199</u>
Total liabilities	<u>5,750,449</u>

Deferred inflows of resources

Actuarial experience in net pension liability	34,751
Change in proportion in net pension liability	<u>191,438</u>
Total deferred inflows of resources	<u>226,189</u>

NET POSITION

Net investment in capital assets	13,222,955
Restricted for:	
Cafeteria fund (inventory)	1,026
Capital outlay	292,667
Debt service	231,840
Special grants	18,091
Unrestricted	<u>(3,137,934)</u>
Total net position	<u>10,628,645</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 16,605,283</u>

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

STATE OF NEW MEXICO
RESERVE INDEPENDENT SCHOOLS
Statement of Activities
Year Ended June 30, 2017

Statement 2

Functions/Programs	Program Revenues			Net (Expenses) Revenue and Changes Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
EXPENSES:					
Governmental activities:					
Direct instruction	#####	\$ 10,555	\$ 172,856	\$ -	\$ (1,454,691)
Instructional support	1,431,039	13,623	294,653	2,975,755	1,852,992
Food services	102,271	9,368	62,601	-	(30,302)
Depreciation - unallocated	701,325	-	-	-	(701,325)
Interest - unallocated	42,167	-	-	-	(42,167)
Total governmental activities	3,914,904	33,546	530,110	2,975,755	(375,493)
General revenues:					
Taxes					
Property taxes, levied for general purposes					21,676
Property taxes, levied for capital projects					90,968
Property taxes, levied for debt service					237,205
Federal and State aid not restricted to specific purpose					
General - SEG					2,355,537
Forest Reserve					23,385
Interest and investment earnings					699
Sub-total, general revenues					2,729,470
Change in net position					2,353,977
Net position - beginning of year					8,274,668
Net position - end of year					\$ 10,628,645

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

STATE OF NEW MEXICO
RESERVE INDEPENDENT SCHOOLS
Balance Sheet - All Governmental Funds
June 30, 2017

Statement 3

	General	Title I	IDEA-B Entitlement	Read2Lead	Bond Building	Capital Improvements SB-9 Local	Debt Service	Other Governmental	Total
ASSETS									
Cash on deposit	\$ 132,107	\$ -	\$ -	\$ -	\$ 206,237	\$ 84,672	\$ 227,189	\$ 18,091	\$ 668,296
Accounts receivable	413	-	-	-	-	1,758	4,651	-	6,822
Inventory, at cost	-	-	-	-	-	-	-	1,026	1,026
Due from grantor	-	35,443	14,634	11,786	-	-	-	25	61,888
Due from other funds	61,888	-	-	-	-	-	-	-	61,888
Total assets	<u>\$ 194,408</u>	<u>\$ 35,443</u>	<u>\$ 14,634</u>	<u>\$ 11,786</u>	<u>\$ 206,237</u>	<u>\$ 86,430</u>	<u>\$ 231,840</u>	<u>\$ 19,142</u>	<u>\$ 799,920</u>
LIABILITIES									
Rental deposits	\$ 1,250	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,250
Accounts payable	-	-	-	-	-	-	-	-	-
Due to other funds	-	35,443	14,634	11,786	-	-	-	25	61,888
Total liabilities	<u>1,250</u>	<u>35,443</u>	<u>14,634</u>	<u>11,786</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25</u>	<u>63,138</u>
FUND BALANCE									
Nonspendable	-	-	-	-	-	-	-	1,026	1,026
Restricted	68,521	-	-	-	206,237	86,430	231,840	18,091	611,119
Committed	-	-	-	-	-	-	-	-	-
Assigned	-	-	-	-	-	-	-	-	-
Unassigned	124,637	-	-	-	-	-	-	-	124,637
Total fund balance	<u>193,158</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>206,237</u>	<u>86,430</u>	<u>231,840</u>	<u>19,117</u>	<u>736,782</u>
Total liabilities and fund balance	<u>\$ 194,408</u>	<u>\$ 35,443</u>	<u>\$ 14,634</u>	<u>\$ 11,786</u>	<u>\$ 206,237</u>	<u>\$ 86,430</u>	<u>\$ 231,840</u>	<u>\$ 19,142</u>	<u>\$ 799,920</u>

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

STATE OF NEW MEXICO
RESERVE INDEPENDENT SCHOOLS
Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Position
June 30, 2017

Statement 4

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

Total fund balances - governmental funds		\$ 736,782
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds</p>		
The cost of capital assets	19,124,476	
Accumulated depreciation	<u>(3,836,521)</u>	
		15,287,955
<p>Deferred outflows and inflows or resources related to pensions are applicable to future periods and therefore, are not reported in the funds</p>		
Deferred outflows/inflows		353,107
<p>Long-term and certain other liabilities, including bonds payable and net pension liability, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term and other liabilities at year-end consist of:</p>		
Net pension liability		(3,653,629)
Bonds Payable		(2,065,000)
Compensated absences payable		<u>(30,570)</u>
Total net position - governmental funds		<u>\$ 10,628,645</u>

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

STATE OF NEW MEXICO
RESERVE INDEPENDENT SCHOOLS
Statement of Revenues, Expenditures and Changes in
Fund Balances - All Governmental Funds
Year Ended June 30, 2017

Statement 5

	General	Title I	IDEA-B Entitlement	Read2Lead	Bond Building	Capital Improvements SB-9 Local	Debt Service	Other Governmental	Total
REVENUES									
Taxes	\$ 21,676	\$ -	\$ -	\$ -	\$ -	\$ 90,968	\$ 237,205	\$ -	\$ 349,849
Charges for services	14,891	-	-	-	-	-	-	18,655	33,546
Local sources	39,687	-	-	-	-	-	-	2,000	41,687
State sources	2,522,859	-	-	50,000	2,957,656	18,099	-	3,252	5,551,866
Federal sources	23,385	126,543	44,304	-	-	-	-	97,002	291,234
Earnings from investments	202	-	-	-	338	54	102	3	699
Total revenues	2,622,700	126,543	44,304	50,000	2,957,994	109,121	237,307	120,912	6,268,881
EXPENDITURES									
Current:									
Direct instruction	1,355,023	56,248	35,518	50,000	-	-	-	33,518	1,530,307
Instructional support	1,218,442	71,368	8,786	-	56,445	59,417	2,222	14,359	1,431,039
Food services	27,526	-	-	-	-	-	-	74,745	102,271
Capital outlay	7,346	-	-	-	3,396,276	2,500	-	-	3,406,122
Debt service									
Bonds	-	-	-	-	-	-	180,000	-	180,000
Interest	-	-	-	-	-	-	42,167	-	42,167
Total expenditures	2,608,337	127,616	44,304	50,000	3,452,721	61,917	224,389	122,622	6,691,906
Net change in fund balances	14,363	(1,073)	-	-	(494,727)	47,204	12,918	(1,710)	(423,025)
Fund balance beginning of year	178,795	1,073	-	-	700,964	39,226	218,922	20,827	1,159,807
Fund balance end of year	\$ 193,158	\$ -	\$ -	\$ -	\$ 206,237	\$ 86,430	\$ 231,840	\$ 19,117	\$ 736,782

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

STATE OF NEW MEXICO
RESERVE INDEPENDENT SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances - Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2017

Statement 6

Total net change in fund balances - governmental funds \$ (423,025)

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capital outlays exceeds depreciation in the period

Capital outlays	3,406,122	
Depreciation expense	<u>(701,325)</u>	
Excess of depreciation expense over capital outlay		2,704,797

In the Statement of Activities, certain operating expenses are measured by the amounts incurred during the year. In the fund financial statements, however, expenditures are measured by the amount of financial resources used (essentially the amounts actually paid). The (increases) decreases in the liabilities for the year were:

Compensated absences payable		(11,574)
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Governmental funds report School district pension contributions as expenditures. However in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense

Pension contributions		198,663
Pension expense		<u>(294,884)</u>

The issuance of long-term debt (e.g. bonds) provides current financial resources to government funds while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds

Proceeds of bond issue		-
Repayment of long-term debt		<u>180,000</u>

Change in net position of governmental activities		<u><u>\$ 2,353,977</u></u>
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The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
RESERVE INDEPENDENT SCHOOLS
Statement of Revenues and Expenditures -
Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Taxes	\$ 20,851	\$ 20,851	\$ 21,506	\$ 655
Charges for services	15,400	15,400	14,891	(509)
Local sources	-	36,905	39,687	2,782
State sources	2,529,133	2,495,208	2,522,859	27,651
Federal sources	-	-	23,385	23,385
Earnings from investments	530	530	202	(328)
	<u>530</u>	<u>530</u>	<u>202</u>	<u>(328)</u>
Total revenues	<u>\$ 2,565,914</u>	<u>\$ 2,568,894</u>	<u>\$ 2,622,530</u>	<u>\$ 53,636</u>
EXPENDITURES				
Direct instruction	\$ 1,370,135	\$ 1,393,322	\$ 1,355,023	\$ 38,299
Instructional support	1,236,327	1,290,006	1,223,268	66,738
Food services	44,000	44,000	27,526	16,474
	<u>44,000</u>	<u>44,000</u>	<u>27,526</u>	<u>16,474</u>
Total expenditures	<u>\$ 2,650,462</u>	<u>\$ 2,727,328</u>	<u>\$ 2,605,817</u>	<u>\$ 121,511</u>
BUDGETED CASH BALANCE	<u>\$ 84,548</u>	<u>\$ 158,434</u>		

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

STATE OF NEW MEXICO
RESERVE INDEPENDENT SCHOOLS
Statement of Revenues and Expenditures -
Budget and Actual (Non-GAAP Budgetary Basis)
Title I
Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Federal sources	\$ 108,571	\$ 138,607	\$ 144,311	\$ (5,704)
Total revenues	<u>\$ 108,571</u>	<u>\$ 138,607</u>	<u>\$ 144,311</u>	<u>\$ (5,704)</u>
EXPENDITURES				
Direct instruction	\$ 36,580	\$ 66,616	\$ 56,248	\$ 10,368
Instructional support	71,991	71,991	71,368	623
Total expenditures	<u>\$ 108,571</u>	<u>\$ 138,607</u>	<u>\$ 127,616</u>	<u>\$ 10,991</u>

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

STATE OF NEW MEXICO
RESERVE INDEPENDENT SCHOOLS
Statement of Revenues and Expenditures -
Budget and Actual (Non-GAAP Budgetary Basis)
IDEA-B Entitlement
Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Federal sources	\$ 42,118	\$ 49,286	\$ 49,586	\$ 300
Total revenues	<u>\$ 42,118</u>	<u>\$ 49,286</u>	<u>\$ 49,586</u>	<u>\$ 300</u>
EXPENDITURES				
Direct instruction	\$ 33,325	\$ 40,493	\$ 35,518	\$ 4,975
Instructional support	8,793	8,793	8,786	7
Total expenditures	<u>\$ 42,118</u>	<u>\$ 49,286</u>	<u>\$ 44,304</u>	<u>\$ 4,982</u>

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

STATE OF NEW MEXICO
RESERVE INDEPENDENT SCHOOLS
Statement of Revenues and Expenditures -
Budget and Actual (Non-GAAP Budgetary Basis)
Read2Lead
Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
State sources	\$ 50,000	\$ 50,000	\$ 64,615	\$ 14,615
Total revenues	<u>\$ 50,000</u>	<u>\$ 50,000</u>	<u>\$ 64,615</u>	<u>\$ 14,615</u>
EXPENDITURES				
Direct instruction	\$ 50,000	\$ 50,000	\$ 50,000	\$ -
Total expenditures	<u>\$ 50,000</u>	<u>\$ 50,000</u>	<u>\$ 50,000</u>	<u>\$ -</u>

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

STATE OF NEW MEXICO
 RESERVE INDEPENDENT SCHOOLS
 Statement of Fiduciary
 Assets and Liabilities - Agency Funds
 June 30, 2017

	<u>Agency Funds</u>
ASSETS	
Cash	\$ <u>44,307</u>
Total Assets	<u>\$ 44,307</u>
LIABILITIES	
Deposits held for others	\$ <u>44,307</u>
Total Liabilities	<u>\$ 44,307</u>

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

STATE OF NEW MEXICO
RESERVE INDEPENDENT SCHOOLS
Notes to Financial Statements
Year Ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Reserve Independent Schools (District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standard Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of the District's accounting policies are described below.

In June 1999, the GASB unanimously approved Statement #34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*. In June 2001, the GASB approved Statement No. 37, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments: Omnibus* and Statement No. 38, *Certain Financial Statement Note Disclosures*. Statement 37 clarifies and modifies Statement No. 34 and should be implemented simultaneously with Statement No. 34. Statement No. 38 modifies, establishes and rescinds certain financial statement disclosure requirements.

The District implemented the provisions of GASB #'s 34, 37 and 38 effective July 1, 2002. As part of Statement No. 34, there is a new reporting requirement regarding the local government's infrastructure (roads, bridges, etc.). The District does not own any infrastructure assets and therefore is unaffected by this requirement.

A. Reporting Entity

The District provides kindergarten, elementary, middle and secondary educational services to school age residents of the District. The Reserve Independent Schools School Board was created under the provision of Chapter 22, Article 5, Paragraph 4, New Mexico Statutes 1978 to provide public education for the children within the District. The School Board is authorized to establish policies and regulations for its own government consistent with the laws of the State of New Mexico and the regulations of the State Board of Education and the Legislative Finance Committee. The School Board is comprised of five members who are elected for terms of four years.

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

Notes to Financial Statements (continued)

own taxes or set rates or charges, and issue bonded debt. This District also has no other legally separate organizations for which the elected School Board members are financially accountable. There are no other primary governments with which the School Board Members are financially accountable. There are no other primary governments with which the District has a significant relationship. The District has no component units, as defined by GASB Statement No. 14.

The accounting policies of the School District as reflected in the accompanying financial statements, conform to generally accepted accounting principles for local governmental units. The following is a summary of the more significant policies:

E. Basis of Presentation

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

The funds of the District are classified into two categories: governmental and fiduciary. In turn, each category is divided into separate fund types.

Governmental Funds

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

Under the requirements of GASB 34, the District is required to present certain of its governmental funds as major funds based upon certain criteria. The major funds presented in the fund financial statements include the following:

General Fund - The primary operating fund of the District accounts for all financial resources, except those required to be accounted for in other funds.

Special Revenue Fund - Title I ESEA Fund - The Title I project provides remedial instruction in language arts for educationally deprived students in low income areas. The project is funded by the Federal Government through the New Mexico State Department of Education, under the Elementary and Secondary Education Act of 1965, Title I, Chapter 1, Part A, 20 U.S.C. 2701 et seq.

Special Revenue Fund - IDEA-B Entitlement - To account for resources for the operation and maintenance of meeting special education needs of children with disabilities. Financing and authority is the Individual With Disabilities Act, Part B, Sec. 611, as amended; Public Law 105-17.

Notes to Financial Statements (continued)

Special Revenue Fund - Read2Lead - To account for resources received to provide funds to support a reading K-3 Formative Assessment System providing regional and district reading coaches, supports for intervention, and professional administrators. Financing and authority is a special legislative appropriation, Laws of 2014, Chapter 63, Section 4, Item 1 (other Education), Early Reading Initiative.

Capital Projects Funds - Bond Building - To account for resources received from the sale of general obligation bonds for the purpose of constructing and renovating school buildings.

Capital Projects Fund - Capital Improvements SB-9 Local - To account for resources received through Senate Bill 9 and local tax levies obtained for the purpose of building, remodeling, and equipping classroom facilities.

Debt Service Fund - General Obligation Bonds - To account for resources received for the purpose of paying general obligation bonds and interest coupons. Funds are received from property taxes levied against property located within the school district and levied specifically for this purpose.

Fiduciary Funds

Fiduciary Funds - account for assets held by the government in a trustee capacity or as an agent on behalf of outside parties, including other governments, or on behalf of other funds within the District.

The District also reports additional Government funds as non-major. They include:

Special Revenue Funds - these funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

C. Measurement Focus and Basis of Accounting

Government-Wide Financial Statements (GWFS)

The Statement of Net Position and the Statement of Activities displays information about the reporting government as a whole. Fiduciary funds are not included in the GWFS. Fiduciary funds are reported only in the Statement of Fiduciary Net Assets at the fund financial statement level.

The Statement of Net Position and the Statement of Activities were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions*.

Program Revenues

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*. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Allocation of Indirect Expenses

The District reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. The District 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. Interest on general long-term debt is considered an indirect expense and is reported separately on the Statement of Activities.

Governmental Funds

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The government considers all revenues available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for unmatured principal and interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources. Any effect of interfund activity has been eliminated from the district-wide financial statements.

With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets. The governmental funds use the following practices in recording revenues and expenditures:

Revenues

Ad valorem taxes (property taxes) are susceptible to full accrual on the government wide financial statements. Property tax revenues recognize revenues net of estimated refunds and uncollectible accounts in the period for which the taxes are levied. Total delinquent property taxes were not available from the County Treasurer for the current year.

Entitlements and shared revenues (which include state equalization and state revenue sharing) are recorded as unrestricted grants-in-aid at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met and the susceptible to accrual criteria have been met.

Other receipts become measurable and available when cash is received by the District and are recognized as revenue at that time.

Expenditures

Salaries are recorded as paid. Salaries for nine-month employees are paid prior to the end of the fiscal year and therefore not accrued.

Fiduciary Funds

Agency funds are custodial in nature (assets equal liabilities) and do not present results of operations or have a measurement focus. Agency funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. These funds are used to account for assets that the District holds for others in an agency capacity.

D. Budgets and Budgetary Accounting

All budgets, and any amendments or revision thereof, are approved by the State of New Mexico, Department of Finance and Administration, Department of Education. Budgets for the General, Special Revenue and Capital Projects Fund are adopted on a basis inconsistent with generally accepted accounting principles (GAAP) Encumbrance accounting is not used by the School District.

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

Appropriations do not lapse at the end of the fiscal year and unexpended fund balances are budgeted in the succeeding fiscal year. The Board of Education is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the State of New Mexico, Department of Finance and Administration, Department of Education. Budgeted amounts in the accompanying financial statements include transfers and revisions to the original appropriations.

Expenditures of the School District may not legally exceed appropriations at the level at which the budget is adopted, that is, expenditures in each category of line items may not exceed the budgeted appropriation for that category.

E. Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation - is utilized in the governmental funds. Encumbrances lapse at the fiscal year end and are therefore not included as a reservation of fund balance. Authorization for the eventual expenditure will be included in the following years budget appropriations.

F. Assets, Liabilities and Net Position or Fund Equity

1. **Cash & Cash Equivalents**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The District is authorized under the provisions of Chapter 6, Article 10, Paragraph 10, NMSA 1978, to deposit its money in banks, savings and loan associations and/or credit unions whose accounts are insured by an agency of the United States.

2. **Accounts Receivable**

Accounts receivable are recorded in the various governmental funds. They consist of amounts receivable from local governments relating to various grant agreements and property taxes receivable. The information required to report property taxes at full accrual was not available during the year.

Accounts receivable consist of the following:

	<u>General</u>	<u>Other Major</u>	<u>Other Governmental</u>	<u>Total</u>
Property taxes	<u>\$ 413</u>	<u>\$ 6,409</u>	<u>\$ -</u>	<u>\$ 6,822</u>

3. **Inventories**

Purchased inventory is valued at the lower of cost (first-in, first-out) or market. Inventory in the Cafeteria Fund consists of purchased food and non-food items and United States Department of Agriculture (USDA) commodities. Commodities are shown at the USDA procurement cost. Costs are recorded as expenditures at the time individual inventory items are used (consumption method). Reported inventories are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

4. **Capital Assets**

Capital assets are recorded at historical cost and depreciated over their estimated useful lives (with no salvage value). Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. This is an increase from the \$1,000 threshold reported in prior years. This is a change in accounting estimate. All previously reported Capital Assets that do not meet the updated amount will be depreciated currently and in future periods until they are fully depreciated. Donated capital assets are recorded at their estimated fair value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The District does not capitalize interest in regards to its capital assets.

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

Land improvements	15 years
Buildings & building improvements	30 years
Machinery & equipment	10 years
Vehicles	5 years

GASB Statement #34 requires the recording and depreciation of infrastructure assets, which include roads, bridges, traffic signals, etc. The District did not own any infrastructure assets as of June 30.

The District does not capitalize computer software or software developed for internal use (if applicable) unless they exceed the \$5,000 threshold. Also, the District does not capitalize library books unless they exceed the \$5,000 threshold.

5. Compensated Absences

All Administrator/Supervisor employees are entitled to 15 working days per year annual leave. Unused annual leave may be accumulated to a total of not more than 40 days per year, but upon cancellation of their contract, will only be paid for no more than 25 days of unused annual leave.

6. Long-Term Liabilities

For government-wide reporting, the costs associated with bonds are recognized over the life of the bond. As permitted by GASB Statement No. 34 the amortization of the costs of bonds will be amortized prospectively from the date of adoption of GASB Statement No. 34.

For fund financial reporting issuance costs are recognized in the period the bonds are issued. Bond proceeds are reported as an other financing source.

7. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance category includes amounts that cannot be spent because they are 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. It also includes the long-term amount of interfund loans.

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

Enabling legislation authorizes the School District to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the School District can be compelled by an external party - such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purpose specified by the legislation.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of the School District Board. Those committed amounts cannot be used for any other purpose unless the School District's Board removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by the School District's Board, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints are not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the School District Board or a School District official delegated that authority by the School District Board or ordinance.

Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts have been restricted, committed, or assigned.

The School District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

8. Restricted Net Position

The governmental activities financial statements utilize a net position presentation. Net position are categorized as follows:

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

Restricted net position - This category reflects the portion of net assets that have third party limitations on their use.

Unrestricted net position - This category reflects net assets of the School District not restricted for any project or other purposes.

The District's policy is to apply restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

9. Deferred Inflows of Resource

In addition to liabilities, the balance sheet reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (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 deferred inflow of resources. The School District has two types of items, which arise due to the implementation of GASB 68 and the related net pension liability. Accordingly, the items, net difference between expected and actual earnings and change in assumptions, are reported on the Statement of Net Position. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

10. Deferred Outflows of Resource

In addition to assets, the balance sheet reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a use of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenditure) until that time. The School District has two types of items that qualify for reporting in this category. Accordingly, the items, change in proportion and employer contributions subsequent to measurement date, are reported in the Statement of Net Position. These amounts are deferred and recognized as outflows of resources the next period.

G. Revenues

1. Property Tax Levies

Reserve Independent Schools receives property taxes from the Catron County Treasurer for operational, public school capital improvements and debt service purposes. Property taxes are assessed on January 1st of each year, except on livestock, and are payable in two equal installments, on November 10th of the year in which the tax bill is prepared and April 10th of the following year. Property taxes are collected by the County Treasurer and remitted to the School District in the month following collection.

Although there are no restrictions placed on property taxes collected for operation purposes, restrictions do exist on the amounts collected under the Public School Capital Improvements Act (22-25-1 to 22-25-10 NMSA 1978) and the amounts collected as a result of issuing general obligation bonds.

Under the provisions of the Public School Capital Improvements Act, any local school board may adopt a resolution to submit to the qualified electors of the school district the question of whether or not a property tax should be imposed on the net taxable value of property allocated to the school district for the purpose of capital improvements. The resolution shall:

1. Identify the capital improvements;
2. Specify the rate of the proposed tax, which shall not exceed two dollars (\$2.00) on each \$1,000 of net taxable value of property;
3. Specify the date an election will be held;
4. Limit the imposition of the tax to no more than three property tax years.

If approved, any revenues produced by the tax and any state distribution resulting to the District under the Act shall be expended only for the capital improvements specified in the authorized resolution.

General obligation bonds may be issued for the purpose of erecting, remodeling, making additions to and the furnishing of school buildings, or purchasing or improving school grounds or any combination of these purposes. Such bonds shall be fully negotiable and constitute negotiable instruments.

The school board shall establish adequate budgetary provisions, approved by the School Management Division, to promptly pay, as it becomes due, all principal and interest on general obligation bonds issued by the school district.

The full faith and credit of a school district shall be pledged to the payment of the principal and interest on general obligation bonds issued by the school district.

The board of county commissioners shall levy and collect upon all taxable property within a school district in the county such tax as is necessary to pay the interest and principal on general obligation bonds issued by the school district as the interest and principal become due, without limitation as to rate or amount.

2. State Equalization Guarantee

Each school district in the State of New Mexico receives a "state equalization guarantee distribution" which is defined as "that amount of money distributed to each school district to insure that the school district's operating revenue, including its local and federal revenues as defined" (in Chapter 22, Section 8-25, NMSA 1978) "is at least equal to the school district's program cost."

A school district's program costs are determined through the use of various formulas using "program units" which take into consideration (1) early childhood education; (2) basic education; (3) special education; (4) bilingual-multi-cultural education; (5) size, etc. Payment is made from the public school fund under the authority of the chief (director of public school finance). The District received \$1,907,075 in state equalization guarantee distributions during the year. The School District received \$448,462 in emergency supplemental during the year.

3. Transportation Distribution

Money in the transportation distribution of the public school fund shall be used only for the purpose of making payments to each school district for the to-and-from school transportation costs of students in the grades K through twelve attending public school within the school district. Except in unusual circumstances as determined by the local school board and confirmed by the state transportation director, midday bus routes for early childhood education students shall not be approved for funding in excess of twenty miles one way.

Money in the vocational education transportation distribution of the public school fund is used for the purpose of making payments to school districts for transportation of students to and from their regular attendance centers and the place where vocation education programs are being offered, pursuant to Section 22-16-4.1 (NMSA 1978) of the Act. The transportation distribution is allocated to each school district according to an objective formula developed by the state transportation director and the director of public school finance.

In the event the sum of the proposed transportation allocations to each school district exceeds the amounts in the transportation distribution, each school district to receive an allocation shares in a reduction in the proportion that each school district's forty-day average daily membership bears to the forty-day average daily membership of all school districts to receive allocations.

Local school boards shall negotiate school bus contracts in accordance with regulations promulgated by the state transportation director with the approval of the State Board of Education.

Local school boards, with the approval of the state transportation director, may provide additional transportation services pursuant to Section 22-16-2 NMSA 1978 to meet established program needs.

The District received \$159,260 in transportation distribution during the year.

4. SB-9 State Match

The Director shall distribute to any school district that has imposed a tax under the Public School Capital Improvements Act (22-25-1 to 22-25-10 NMSA 1978) an amount from the public school capital improvements fund that is equal to the amount by which the revenue estimated to be received from the imposed tax as specified in Subsection B of Section 22-25-3 NMSA 1978, assuming a one hundred percent collection rate, is

less than an amount calculated by multiplying the product obtained by the rate imposed in the District under the Public School Capital Improvements Act. The distribution shall be made by December 1, of each year that the tax is imposed in accordance with Section 22-25-3 NMSA 1978. Provided, however, in the event that sufficient funds are not available in the public school capital improvement funds to make the state distribution provided for in this section, the dollar per program unit figure shall be reduced as necessary. The District received \$18,099 in state SB-9 matching during the year.

5. Critical Capital Outlay

Under the provisions of Chapter 22, Article 24, a critical capital outlay fund was created. The money in the fund may be used only for capital expenditures deemed by the public school capital outlay council necessary for an adequate educational program, and the capital outlay expenditures are limited to the purchase, or construction of temporary or permanent classrooms.

The council shall approve an application for grant assistance from the fund when the council determines that:

1. A critical need exists requiring action;
2. The residents of the school district have provided all available resources to the district to meet its capital outlay requirements;
3. The school district has used its resources in a prudent manner.
4. The district is in a county or counties which have participated in the reappraisal program and the reappraised values are on the tax rolls, or will be used for the tax year 1979 as certified by the property tax division; and
5. The school district has provided insurance for buildings of the school district in accordance with the provisions of Section 13-5-3 NMSA 1978.

The council shall consider all applications for assistance from the fund and after public hearing shall either approve or deny the application. Applications for grant assistance shall only be accepted by the council after a district has complied with the provisions of this section. The council shall list all applications in order of priority and all allocations shall be made on a priority basis.

Money in the fund shall be disbursed by warrant of the Department of Finance and Administration on vouchers signed by the Secretary of Finance and Administration following certification by the council that the application has been approved.

During the year ended June 30, the District received \$0 in critical capital outlay funds and \$0 in special capital outlay funds.

6. Instructional Materials

The New Mexico State Department of Education (Department) received federal mineral leasing funds from which it makes annual allocations to the various school districts for the purchase of educational materials. Of each allocation, seventy percent is restricted to the requisition of materials listed in the State Board of Education "State Adopted

Instructional Material" list, while thirty percent of each allocation is available for purchases directly from vendors. Beginning with the fiscal year ended June 30, 2002, Districts received their total allocation at the beginning of the fiscal year, instead of being reimbursed for purchases as was done in prior years. During the year ended June 30, the District received \$8,062 in instructional materials allocation.

7. Federal Grants

The District receives revenues from various Federal departments (both direct and indirect) which are legally restricted to expenditures for specific purposes. These programs are reported as Special Revenue Funds. Each program operated under its own budget, which has been approved by the Federal Department or the flow-through agency (usually the New Mexico Department of Education). The various budgets are approved by the Local School Board and the New Mexico Department of Education.

The District also receives reimbursement under the National School Lunch and Breakfast Programs for its food service operations, and distributions of commodities through the New Mexico Human Services Department.

H. Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund from expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

I. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

J. 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 Educational Retirement Board (ERB) and additions to/deductions from ERB's fiduciary net position have been determined on the same basis as they are

Notes to Financial Statements (continued)

reported by ERB, on the economic resources measurement focus and accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

2. DEPOSITORY COLLATERAL

The following is the Cash on Deposit at each financial institution.

First State Bank	Checking	Operational	\$1,024,750
First State Bank	Checking	Activities	<u>47,248</u>
			<u>\$1,071,998</u>
Total amount on deposit			\$1,071,998
Outstanding checks			(359,395)
Deposits in transit			<u>-</u>
Total per financial statements			<u>\$ 712,603</u>

Custodial Credit Risk - Deposits - Custodial Credit Risk is the risk that in the event of bank failure, the School's deposits may not be returned to it. The School does not have a deposit policy for custodial credit risk. As of June 30, 2017, \$821,998 of the School's bank balance of \$1,071,998 was exposed to custodial credit risk as follows:

A. Uninsured and uncollateralized	\$ -
B. Uninsured and collateralized with securities held by the pledging banks trust department, not in the Schools name	<u>821,998</u>
Total	<u>\$ 821,998</u>

The following schedule details the public money held by financial institutions and pledged collateral held by the District as follows:

	<u>First State Bank</u>
Cash on deposit at June 30	\$ 1,071,998
Less F.D.I.C.	<u>(250,000)</u>
Uninsured funds	821,998
50% Collateral requirement (as per section 6-10-17, NMSA, 1978)	410,999
Pledged collateral by pledging banks trust department or agent but not in the Schools name	<u>2,038,626</u>
Excess of pledged collateral	<u>\$ 1,627,627</u>

NM 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 cooperative for at least one half of the amount on deposit with the institution.

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. The collateral pledged is shown as follows:

Notes to Financial Statements (continued)

<u>First State Bank</u>	<u>Maturity Date</u>	<u>Fair Market Value</u>
FFCB CUSIP #31331KNCO	06/08/28	\$ 1,446,298
FFCB CUSIP #3133XN4B2	12/01/22	178,726
FFCB CUSIP #3133KUDO	02/11/25	<u>413,602</u>
		<u>\$ 2,038,626</u>

3. CAPITAL ASSETS

Capital assets balances and activity for the year ended June 30, are as follows:

	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2017</u>
Governmental activities:				
Land	\$ 71,676	\$ -	\$ -	\$ 71,676
Total capital assets not being depreciated	<u>71,676</u>	<u>-</u>	<u>-</u>	<u>71,676</u>
Land improvements	772,593	-	-	772,593
Buildings & building improvements	13,693,199	3,348,455	-	17,041,654
Vehicles	794,271	2,500	-	796,771
Equipment	<u>386,615</u>	<u>55,167</u>	<u>-</u>	<u>441,782</u>
Total	<u>15,646,678</u>	<u>3,406,122</u>	<u>-</u>	<u>19,052,800</u>
Less accumulated depreciation:				
Land improvements	(767,898)	(1,641)	-	(769,539)
Buildings & building improvements	(1,628,235)	(564,029)	-	(2,192,264)
Vehicles	(438,318)	(108,145)	-	(546,463)
Equipment	<u>(300,745)</u>	<u>(27,510)</u>	<u>-</u>	<u>(328,255)</u>
Total	<u>(3,135,196)</u>	<u>(701,325)</u>	<u>-</u>	<u>(3,836,521)</u>
Governmental activities Capital assets, net	<u>\$ 12,583,158</u>	<u>\$ 2,704,797</u>	<u>\$ -</u>	<u>\$ 15,287,955</u>

The District has no infrastructure as of June 30. Depreciation expense was charged to governmental activities as follows:

Unallocated	<u>\$ 701,325</u>
Total depreciation expense	<u>\$ 701,325</u>

The District received \$2,957,656 in Capital Asset Improvements from the Public School Finance Authority.

4. LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities

During the year ended June 30, 2017, the following changes occurred in the liabilities reported in the District-Wide Statement of Net Assets:

Notes to Financial Statements (continued)

B. Compensated Absences

	Balance <u>June 30, 2016</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2017</u>
Compensated Absences	<u>\$ 18,996</u>	<u>\$ 11,574</u>	<u>\$ -</u>	<u>\$ 30,570</u>

The compensated absences liability will ultimately be liquidated by several of the Districts governmental funds, with most being paid by the General Fund, Transportation Fund, Cafeteria Fund and Title I Fund.

C. General Obligation Bonds

The general obligation bonds will be paid from taxes levied against property owners living within the School District boundaries. The School District has pledged future property taxes to repay the outstanding bonds of \$2,400,000. Total annual principal and interest payments for all General Obligation Bonds are expected to require 100% of gross revenue in the Debt Service Fund. The annual requirements to retire general obligation bonds are as follows:

Date of issue - March 21, 2014
Original Amount - \$2,400,000
Interest Rate - .1000% to 3.2000%

Due in Year <u>Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 185,000	\$ 40,938	\$ 225,938
2019	190,000	39,121	229,121
2020	195,000	36,554	231,554
2021	205,000	33,100	238,100
2022	210,000	28,682	238,682
2023	220,000	23,306	243,306
2024	230,000	17,007	247,007
2025	230,000	10,127	240,127
2026	200,000	3,400	203,400
2027	<u>200,000</u>	<u>100</u>	<u>200,100</u>
	<u>\$2,065,000</u>	<u>\$ 232,335</u>	<u>\$2,297,335</u>

During the year ended June 30, the following changes occurred in the liabilities reported in the District-Wide Statement of Net Assets:

	Balance <u>June 30, 2016</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2017</u>	Due Within <u>One Year</u>
2014 GOBonds	<u>\$ 2,245,000</u>	<u>\$ -</u>	<u>\$ 180,000</u>	<u>\$ 2,065,000</u>	<u>\$ 185,000</u>

Notes to Financial Statements (continued)

D. Operating Lease

The School District did not have any operating leases during the fiscal year.

E. Short-Term Liabilities

The District did not have any short-term liabilities during the fiscal year.

5. DUE FROM GRANTOR

The amount shown as due from grantor represents federal, state and local expenditures in excess of revenues. Most federal, state or local projects earn revenue as expenditures are incurred and are subsequently reimbursed by the grantor.

6. CASH OVERDRAFTS

The cash overdrafts shown in some federal, state and local projects in the special revenue fund represent expenditures made by the District which will be reimbursed by the grantor. Receivables from grantor are presented to off-set these overdrafts.

7. SOUTHWEST REGIONAL EDUCATION CENTER NO. 10

The School District is a member of the Southwest Regional Education Center No. 10. Southwest Regional Education Center No. 10 issues a separate, publicly available financial report that includes financial statements and required supplementary information. A copy of that audit report can be obtained by writing to Southwest Regional Education Center No. 10, PO Box 952, Truth or Consequences, New Mexico 87901.

8. RECONCILIATION OF BUDGETARY BASIS TO GAAP BASIS STATEMENTS

	<u>General</u>	<u>Title I</u>	<u>IDEA-B Entitlement</u>	<u>Read2Lead</u>
Revenues per modified accrual basis	\$ 2,622,700	\$ 135,425	\$ 50,000	\$ 49,457
Receivables	(170)	-	-	-
Deferred revenues/Due from grantor	-	35,340	(13,952)	(27,699)
Security deposits	-	-	-	-
Revenues per budgetary basis	<u>\$ 2,622,530</u>	<u>\$ 170,765</u>	<u>\$ 36,048</u>	<u>\$ 21,758</u>
Expenditures per modified accrual basis	\$ 2,608,337	\$ 127,616	\$ 44,304	\$ 50,000
Accounts payable	-	-	-	-
Security deposits	250	-	-	-
Reversion - transportation	(2,770)	-	-	-
Expenditures per budgetary basis	<u>\$ 2,605,817</u>	<u>\$ 127,616</u>	<u>\$ 44,304</u>	<u>\$ 50,000</u>

9. RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and Workmens Compensation. For these risks of loss the School District belongs to a public entity risk pool currently operated as a common risk management and insurance program for 89 member school districts. (New Mexico Public School Insurance Authority). Amounts of settlement have not exceeded insurance coverage in the past three years.

10. PENSION-PLAN - EDUCATIONAL RETIREMENT BOARD

Plan description. The New Mexico Educational Retirement Act (ERA) was enacted in 1957. The act created the Educational Employees Retirement Plan (Plan) and, to administer it, the New Mexico Educational Retirement Board (NMERB). The Plan is included in NMERB's comprehensive annual financial report. The report can be found on NMERB's Web site at https://www.nmerb.org/Annual_reports.html.

The Plan is a cost sharing, multiple-employer pension plan established to provide retirement and disability benefits for certified teachers and other employees of the state's public schools, institutions of higher learning, and state agencies providing educational programs. Additional tenets of the ERA can be found in Section 22-11-1 through 22-11-52, NMSA 1978, as amended.

The Plan is considered a component unit of the State's financial reporting entity. The ERA assigns the authority to establish and amend benefit provisions to a seven-member Board of Trustees (Board); the state legislature has the authority to set or amend contribution rates and other terms of the Plan which is a pension benefit trust fund of the State of New Mexico. NMERB is self-funded through investment income and educational employer contributions. The Plan does not receive General Fund Appropriations from the State of New Mexico.

All accumulated assets are held by the Plan in trust to pay benefits, including refunds of contributions as defined in the terms of the Plan. Eligibility for membership in the Plan is a condition of employment, as defined Section 22-11-2, NMSA 1978. Employees of public schools, universities, colleges, junior colleges, technical-vocational institutions, state special schools, charter schools, and state agencies providing an educational program, who are employed more than 25% of a full-time equivalency, as required to be members of the Plan, unless specifically excluded.

Benefits provided - A member's retirement benefit is determined by a formula which includes three component parts: 1) the member's final average salary (FAS), 2) the number of years of service credit, and 3) a 0.0235 multiplier. The FAS is the average of the member's salaries for the last five years of service or any other consecutive five-year period, whichever is greater.

Summary of Plan Provisions for Retirement Eligibility - For members employed before July 1, 2010, a member is eligible to retire when one of the following events occurs:

- The member's age and earned service credit add up to the sum of 75 or more,
- The member is at least sixty-five years of age and has five or more years of earned service credit, or
- The member has service credit totaling 25 years or more.

Chapter 288, Laws of 2009 changed the eligibility requirements for new members first employed on or after July 1, 2010 and before July 1, 2013. The eligibility for a member who either becomes a new member on or after July 1, 2010 and before July 1, 2013, or at any time prior to July 1, 2010 refunded all member contributions and then becomes re-employed after July 1, 2010 is as follows:

- The member's age and earned service credit add up to the sum of 80 or more,
- The member is at least sixty-seven years of age and has five or more years of earned service credit; or
- The member has service credit totaling 30 years or more.

Section 2-11-23.2, NMSA 1978 added eligibility requirements for new members who were first employed on or after July 1, 2013, or who were employed before July 1, 2013 but terminated employment and subsequently withdrew all contributions, and returned to work for ERB employer on or after July 2013. These members must meet on of the following requirements:

- The member's minimum age is 55, and has earned 30 or more years of service credit. Those who retire earlier than age 55, but with 30 years of earned service credit will have a reduction in benefits to the actuarial equivalent of retiring at age 55.

Notes to Financial Statements (continued)

- The member's minimum age and earned service credit add up to the sum of 80 or more. Those who retire under the age of 65, and who have fewer than 30 years of earned service credit will receive reduced retirement benefits.
- The member's age is 67, and has earned 5 or more years of service credit.

Forms of Payment - The benefit is paid as a monthly life annuity with a guarantee that, if the payments made do not exceed the member's accumulated contributions plus accumulated interest, determined as of the date of retirement, the balance will be paid in a lump sum to the member's surviving beneficiary.

Benefit Options - The Plan has three benefit options available.

Option A - Straight Life Benefit - The single life annuity option has no reductions to the monthly benefit, and there is no continuing benefit due to a beneficiary or estate, except the balance, if any, of member contributions plus interest less benefits paid prior to the member's death.

Option B - Joint 100% Survivor Benefit - The single life annuity monthly benefit is reduced to provide for a 100% survivor's benefit. The reduced benefit is payable during the life of the member, with the provision that, upon death, the same benefit is paid to the beneficiary for his or her lifetime. If the beneficiary predeceases the member, the member's monthly benefit is increased to the amount the member would have received under Option A Straight Life benefit. The member's increased monthly benefit commences in the month following the beneficiary's death.

Option C - Joint 50% Survivor Benefit - The single life annuity monthly benefit is reduced to provide for a 50% survivor's benefit. The reduced benefit is payable during the life of the member, with the provision that, upon death, the reduced 50% benefit is paid to the beneficiary for his or her lifetime. If the beneficiary predeceases the member, the member's monthly benefit is increased to the amount the member would have received under Option A Straight Life benefit. The member's increased monthly benefit commences in the month following the beneficiary's death.

Disability Benefit - An NMERB member is eligible for disability benefits if they have acquired at least ten years of earned service credit and is found totally disabled. The disability benefit is equal to 2% of the member's Final Average Salary (FAS) multiplied by the number of years of total service credits. However, the disability benefit shall not be less than the smaller of (a) one-third of the member's FAS or (b) 2% of the member's FAS multiplied by total years of service credit projected to age 60.

Cost of Living Adjustment (COLA) - All retired members and beneficiary receiving benefits receive an automatic adjustment in their benefit on July 1 following the later of 1) the year a member retires, or 2) the year a member reaches age 65 (Tier 1 and Tier 2) or age 67 (Tier 3).

- Tier 1 membership is comprised of employees who became members prior to July 1, 2010.
- Tier 2 membership is comprised of employees who became members after July 1, 201, but prior to July 1, 2013.
- Tier 3 membership is comprised of employees who became members on or after July 1, 2013.

As of July 1, 2013, for current and future retirees the COLA is immediately reduced until the Plan is 100% funded. The COLA reduction is based on the median retirement benefit of all retirees excluding disability retirements. Retirees with benefits at or below the median and with 25 or more years of service credit will have 10% COLA reduction; their average COLA will be 1.8%. Once the funding is greater than 90%, the COLA reductions will decrease. The retirees with benefits at or below the median and with 25 or more years of service credit will have a 5% COLA reduction; their average COLA will be 1.9%.

Members on disability retirement are entitled to a COLA commencing on July 1 of the third full year following disability retirement. A member on regular retirement who can prove retirement because of a disability may qualify for a COLA beginning July 1 in the third full year of retirement.

Refund of Contributions - Members may withdraw their contributions only when they terminate covered employment in the State and their former employer(s) certification determination has been received by NMERB. Interest is paid to members when they withdraw their contributions following termination of employment at a rate set by the Board. Interest is not earned on contributions credited to accounts prior to July 1, 1971, or for contributions held for less than one year.

Notes to Financial Statements (continued)

Contributions - For the fiscal year ended June 30, 2017 and 2016 educational employers contributed to the Plan based on the following rate schedule.

Fiscal Year	Date Range	Wage Category	Member Rate	Employer Rate	Combined Rate	Increase Over Prior
2017	7-1-16 to 6-30-17	Over \$20K	10.70%	13.90%	24.60%	0.00%
2017	7-1-16 to 6-30-17	\$20K or less	7.90%	13.90%	21.80%	0.00%
2016	7-1-15 to 6-30-16	Over \$20K	10.70%	13.90%	24.60%	0.00%
2016	7-1-15 to 6-30-16	\$20K or less	7.90%	13.90%	21.80%	0.00%

The contribution requirements are established in statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the New Mexico Legislature. For the fiscal years ended June 30, 2017 and 2016, the School District paid employee and employer contributions of \$345,674 and \$351,394, which equal the amount of the required contributions for each fiscal year.

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

At June 30, 2017, the School District reported a liability of \$3,653,629 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015. The total pension liability was rolled-forward from the valuation date to the plan year ending June 30, 2016 using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date of June 30, 2016. There were no significant events or changes in benefit provision that required an adjustment to the roll-forward liabilities as of June 30, 2016. The School District's proportion of the net pension liability was based on a projection of the School District's long-term share of contributions to the pension plan relative to the projected contributions of all participating educational institutions, actuarially determined. At June 30, 2016, the School District's proportion was 0.05077%, which was a decrease of 0.00399% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the School District recognized pension expense of \$296,132. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Notes to Financial Statements (continued)

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 15,851	\$ 34,751
Changes in assumptions	74,373	-
Net difference between and actual earnings on pension plan investments	218,091	-
Changes in proportion and differences between District contributions and proportionate share of contributions	72,318	191,438
District contributions subsequent to the measurement date	<u>198,663</u>	<u>-</u>
Total	<u>\$ 579,296</u>	<u>\$ 226,189</u>

\$198,663 reported as deferred outflows of resources related to pensions resulting from the School District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2018	\$ 19,253
2019	30,929
2020	51,078
2021	53,184
2022	-

Actuarial assumptions. The total pension liability in the June 30, 2016 actuarial valuation was determined using the following significant actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary Increases	Composed of 3.0% inflation, plus a 0.75% productivity increase rate, plus a step-rate promotional increase for members with less than 10 years of service.

Notes to Financial Statements (continued)

Investment Rate of Return	7.75% compounded annually, net of expenses expenses. This is made up of a 3.00% inflation rate and a 4.75 real rate of return. The long-term expected rate of return on pension plan investments is determined annually using a building-block approach that includes the following: 1) rate of return projections are the sum of current yield plus projected changes in price (valuation, defaults, etc.), 2) application of key economic projections (inflation, real growth, dividends, etc.), and 3) structural themes (supply and demand imbalances, capital flows, etc.) developed for each major asset class.
Average of Expected Remaining Service Lives	3.77 years
Mortality	Healthy males: Based on the RP-2000 Combined Mortality Table with White Collar adjustments, generational mortality improvements with Scale BB. Healthy females: Based on GRS Southwest Region Teacher Mortality Table, set back one year, generational mortality improvements in accordance with Scale BB from the table's base year of 2012. Disabled males: RP-2000 Disabled Mortality Table for males, set back three years, projected to 2016 with Scale BB. Disabled females: RP-2000 Disabled Mortality Table for females, no set back, projected to 2016 with Scale BB. Active members: RP-2000 Employee Mortality Tables, with males set back two years and scaled at 80%, and females set back five years and scaled at 70%. Static mortality improvement from the table's base year of 2000 to the year 2016 in accordance with Scale BB. No future improvement was assumed for pre-retirement mortality.
Retirement Age	Experience-based table rates based on age and service, adopted by the Board on June 12, 2015 in conjunction with the six-year experience study for the period ending June 30, 2014.
Cost-of-living increases	2% per year, compounded annually.

Notes to Financial Statements (continued)

Payroll growth	3.5% per year (with no allowance for membership growth).
Contribution accumulation	5% increase per year for all years prior to the valuation date. (Contributions are credited with 4.0% interest, compounded annually, applicable to the account balance in the past as well as the future).
Disability Incidence	Approved rates applied to eligible members with at least 10 years of service.

The actuarial assumptions and methods are set by the Plan's Board of Trustees, based upon recommendations made by the Plan's actuary. The Board adopted new assumptions on June 12, 2015 in conjunction with the six-year actuarial experience study period ending June 30, 2014. At that time, the Board adopted several assumption changes, which included a decrease in the annual wage inflation rate from 4.25% to 3.75%, and changes to the mortality rates, disability rates, and retirement rates for members who joined the plan after June 30, 2010. In addition, the board lowered the population growth rate assumption to zero.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>
Equities	35%	
Fixed income	28%	
Alternatives	36%	
Cash	<u>1%</u>	
Total	<u>100%</u>	<u>7.75%</u>

Discount rate: A single discount rate of 7.75% was used to measure the total ERB pension liability as of June 30, 2016. This single discount rate was based on a long-term expected rate of return on pension plan investments of 7.75%, compounded annually, net of expense. Based on the stated assumptions and the projection of cash flows, the Plan's fiduciary net position and future

Notes to Financial Statements (continued)

contributions were projected to be available to finance all projected future benefit payments of current pension plan members. Therefore the long-term expected rate of return on Pension Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

Sensitivity of the School District's proportionate share of the net pension liability to changes in the discount rate. The following presents the School District's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$ 4,839,147	\$ 3,653,629	\$ 2,669,984

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in separately issued NMERB's financial reports. The reports can be found on the NMERB's Website at https://www.nmerb.org/Annual_reports.html.

Payables to the pension plan. At June 30, 2017, the School District had no outstanding amount of contributions to the pension plan and therefore, had no payables reported at fiscal year 2017.

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

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

Notes to Financial Statements (continued)

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

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

Funding Policy. The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorized the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses for the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at www.nmrhca.state.nm.us.

The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that choose to become participating employers after January 1, 1998, are required to make contributions to the RHCA fund in the amount determined to be appropriate by the board.

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2015, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an

Notes to Financial Statements (continued)

enhanced retirement plan during the fiscal year ended June 30, 2015, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The Reserve Independent Schools contributions to the RHCA for the years ended June 30, 2017, 2016, and 2015 were \$28,584, \$28,998 and \$31,131, respectively, which equal the required contributions for each year.

12. BUDGETED ACTIVITY FUNDS

The Student Activity Funds, while budgeted under Non-Instructional Support in the financial statements, are considered for reporting purposes as Agency Funds. These monies are retained by the District in a fiduciary capacity. Monies are received from student groups and are expended for purposes determined by the students within guidelines established by the District. The changes in those balances follow:

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2017</u>
ASSETS				
Cash and cash equivalent	\$ 38,363	\$ 70,506	\$ 64,562	\$ 44,307
Total assets	<u>\$ 38,363</u>	<u>\$ 70,506</u>	<u>\$ 64,562</u>	<u>\$ 44,307</u>
LIABILITIES				
Deposits held for others				
Reserve Independent Schools	\$ 38,363	\$ 70,506	\$ 64,562	\$ 44,307
Total liabilities	<u>\$ 38,363</u>	<u>\$ 70,506</u>	<u>\$ 64,562</u>	<u>\$ 44,307</u>

13. CONCENTRATIONS

The District depends on financial resources flowing from, or associated with, both the Federal Government and the State of New Mexico. Because of this dependency, the District is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations.

14. FUND BALANCE CLASSIFIED

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned upon the use of the resources in the governmental funds. The constraints placed on fund balances for the major governmental funds and all other governmental funds are presented here.

Fund Balances	Capital Improvements				Debt Service	Non-Major Governmental Fund	Totals
	General Fund	Bond Building	SB-9 Local				
Nonspendable:							
Inventory	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,026	\$ 1,026
Total nonspendable	-	-	-	-	-	1,026	1,026
Restricted for:							
Transportation services	1,651	-	-	-	-	-	1,651
Instructional materials	12,795	-	-	-	-	-	12,795
Teacherage units	52,196	-	-	-	-	-	52,196
Capital improvements	-	206,237	86,430	-	-	-	292,667
Debt service payments	-	-	-	231,840	-	-	231,840
Athletic services	-	-	-	-	340	-	340
Special grants	-	-	-	-	12,699	-	12,699
Cafeteria services	-	-	-	-	5,052	-	5,052
State mandated cash reserve	1,879	-	-	-	-	-	1,879
Total restricted	68,521	206,237	86,430	231,840	18,091	-	611,119
Committed to:							
Other purposes	-	-	-	-	-	-	-
Total committed	-	-	-	-	-	-	-
Unassigned:							
	124,637	-	-	-	-	-	124,637
Total Fund Balances	\$ 193,158	\$ 206,237	\$ 86,430	\$ 231,840	\$ 19,117	\$ -	\$ 736,782

NON-MAJOR FUNDS

NON-MAJOR SPECIAL REVENUE FUNDS

ALL FUNDS - All funds were created by management directive.

IDEA-B PRESCHOOL - To account for monies received for the operation and maintenance of meeting the special education needs of children with disabilities. Financing and authority is the Individuals With Disabilities Act, Part B, Sec. 611, as amended; Public Law 105-17.

IMPROVING TEACHER QUALITY - To account for grant funds to increase student academic achievement through strategies such as improving teacher and principal quality. Financing and authority is Elementary and Secondary Education Act of 1965 as amended, Title II, Part A, Public Law 107-110.

MEDICAID - To account for a program providing school-based screening, diagnostic services and other related health services and administrative activities in conformance with the approved Medicaid State Plan in order to improve health and developmental outcomes for children.

REAP (RURAL EDUCATION ACHIEVEMENT PROGRAM) - To provide financial assistance to rural districts to carry out activities to help improve the quality of teaching and learning in their schools. The authority for the creation of this fund is the Elementary and Secondary Education Act (ESEA), Title VI, Part B, as amended.

DUAL CREDIT - To account for resources received from House Bill 2, 2009, to be used for dual credit instructional materials through a course approved by Higher Education Department and through a college/university for which the district has an approved agreement.

BREAKFAST PROGRAM - To account for monies received from the 2006 Legislative General Appropriations Act to be used for Elementary Breakfast food expenses. Financing and authority is provided by the State Legislature.

CATRON COUNTY GRANT - To account for resources received from Catron County Grassroots Behavioral Health Group to be used for a stipend to reimburse the staff members for the monies they spend while giving direct guidance and assistance to the students participating Natural Helpers Program.

ATHLETICS FUND - To account for the activities of the athletic functions of the district. (State Department of Education Regulations 93-1).

SCHOOL LUNCH FUND - This program provides financing for the School Hot Lunch Program. Funding is provided from fees from patrons and USDA food reimbursements, under the National School Lunch Act of 1946, as amended, Public Law 79-396, Sections 2-12, 60 Stat. 230, 42 U.S.C. 1751 et seq.; 80 stat., 889, as amended; 84 stat. 270; and the Child Nutrition Act of 1966, as amended, Sections 4 and 10. Public Law 89-642, 80 stat. 886, 889, 42 U.S.C. 1773, 1779; Public Law 99-591, 100 stat. 3341; Public Law 100-71, 101 stat. 430.

STATE OF NEW MEXICO
RESERVE INDEPENDENT SCHOOLS
Non-Major Special Revenue Funds
Combining Balance Sheet
June 30, 2017

Statement A-1
Page 1 of 2

	IDEA-B Preschool Fund	Improving Teacher Quality Fund	Medicaid Fund	REAP Fund	Dual Credit Fund
ASSETS					
Cash on deposit	\$ -	\$ -	\$ 12,699	\$ -	\$ -
Due from grantor	-	-	-	-	25
Inventory, at cost	-	-	-	-	-
Total assets	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 12,699</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 25</u></u>
LIABILITIES					
Cash overdraft	\$ -	\$ -	\$ -	\$ -	\$ 25
Total liabilities	-	-	-	-	25
FUND BALANCES					
Nonspendable	-	-	-	-	-
Restricted	-	-	12,699	-	-
Total fund balance	-	-	12,699	-	-
Total liabilities and fund balances	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 12,699</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 25</u></u>

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

STATE OF NEW MEXICO
RESERVE INDEPENDENT SCHOOLS
Non-Major Special Revenue Funds
Combining Balance Sheet
June 30, 2017

Statement A-1
Page 2 of 2

	Breakfast Program Fund	Catron County Grant	Athletics	Student Cafeteria Account	Totals
ASSETS					
Cash on deposit	\$ -	\$ -	\$ 340	\$ 5,052	\$ 18,091
Due from grantor	-	-	-	-	25
Inventory, at cost	-	-	-	1,026	1,026
Total assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 340</u>	<u>\$ 6,078</u>	<u>\$ 19,142</u>
LIABILITIES					
Cash overdraft	\$ -	\$ -	\$ -	\$ -	\$ 25
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25</u>
FUND BALANCES					
Nonspendable	-	-	-	1,026	1,026
Restricted	-	-	340	5,052	18,091
Total fund balance	<u>-</u>	<u>-</u>	<u>340</u>	<u>6,078</u>	<u>19,117</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 340</u>	<u>\$ 6,078</u>	<u>\$ 19,142</u>

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

STATE OF NEW MEXICO
RESERVE INDEPENDENT SCHOOLS
Non-Major Special Revenue Funds
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Year Ended June 30, 2017

Statement A-2
Page 1 of 2

	IDEA-B Preschool Fund	Improving Teacher Quality Fund	Medicaid Fund	REAP Fund	Dual Credit Fund
REVENUES					
Charges for services	\$ -	\$ -	\$ -	\$ -	\$ -
Local sources	-	-	-	-	-
State sources	-	-	-	-	167
Federal sources	4,559	10,213	12,066	10,648	-
Earnings from investments	-	-	-	-	-
Total revenues	<u>4,559</u>	<u>10,213</u>	<u>12,066</u>	<u>10,648</u>	<u>167</u>
EXPENDITURES					
Direct instruction	-	10,213	-	10,648	167
Instructional support	4,559	-	9,800	-	-
Food services	-	-	-	-	-
Total expenditures	<u>4,559</u>	<u>10,213</u>	<u>9,800</u>	<u>10,648</u>	<u>167</u>
Net change in fund balance	-	-	2,266	-	-
Fund balance beginning of ye	-	-	10,433	-	-
Fund balance at end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 12,699</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

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

STATE OF NEW MEXICO
RESERVE INDEPENDENT SCHOOLS
Non-Major Special Revenue Funds
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Year Ended June 30, 2017

Statement A-2
Page 2 of 2

	Breakfast Program Fund	Catron County Grant	Athletics	Student Cafeteria Account	Totals
REVENUES					
Charges for services	\$ -	\$ -	\$ 9,287	\$ 9,368	\$ 18,655
Local sources	-	2,000	-	-	2,000
State sources	3,085	-	-	-	3,252
Federal sources	-	-	-	59,516	97,002
Earnings from investments	-	-	-	3	3
Total revenues	<u>3,085</u>	<u>2,000</u>	<u>9,287</u>	<u>68,887</u>	<u>120,912</u>
EXPENDITURES					
Direct instruction	-	2,000	10,490	-	33,518
Instructional support	-	-	-	-	14,359
Food services	3,085	-	-	71,660	74,745
Total expenditures	<u>3,085</u>	<u>2,000</u>	<u>10,490</u>	<u>71,660</u>	<u>122,622</u>
Net change in fund balance	-	-	(1,203)	(2,773)	(1,710)
Fund balance beginning of ye	-	-	1,543	8,851	20,827
Fund balance at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 340</u>	<u>\$ 6,078</u>	<u>\$ 19,117</u>

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

GENERAL FUND

OPERATIONAL FUND - This fund is the chief operating fund of the School District. It is used to account for all financial resources of the School District except for those required to be accounted for in another fund.

TEACHERAGE FUND - To account for resources received from the rental of School owned facilities.

TRANSPORTATION FUND - To account for resources received from the Public Education Department to be used only for eligible to and from school transportation costs.

INSTRUCTIONAL MATERIALS FUND - to account for resources received from the Public Education Department to be used to purchase materials used as the basis for instruction.

STATE OF NEW MEXICO
RESERVE INDEPENDENT SCHOOLS
Combining Balance Sheet
General Fund
June 30, 2017

Statement B-1

	<u>Operational</u>	<u>Teacherage</u>	<u>Transporation</u>	<u>Instructional Materials</u>	<u>Total</u>
ASSETS					
Cash on deposit	\$ 126,103	\$ 53,446	\$ 1,651	\$ 12,795	\$ 193,995
Accounts receivable, collectible	413	-	-	-	413
Total assets	\$ 126,516	\$ 53,446	\$ 1,651	\$ 12,795	\$ 194,408
LIABILITIES					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Rental deposits	-	1,250	-	-	1,250
Total liabilities	-	1,250	-	-	1,250
FUND BALANCES					
Nonspendable	-	-	-	-	-
Restricted	1,879	52,196	1,651	12,795	68,521
Unassigned	124,637	-	-	-	124,637
Total fund balance	126,516	52,196	1,651	12,795	193,158
Total liabilities and fund balance	\$ 126,516	\$ 53,446	\$ 1,651	\$ 12,795	\$ 194,408

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

STATE OF NEW MEXICO
RESERVE INDEPENDENT SCHOOLS
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
General Fund
Year Ended June 30, 2017

	<u>Operational</u>	<u>Teacherage</u>	<u>Transportation</u>	<u>Instructional Materials</u>	<u>Total</u>
REVENUES					
Property taxes	\$ 21,676	\$ -	\$ -	\$ -	\$ 21,676
Charges for services	1,268	13,623	-	-	14,891
Local sources	39,687	-	-	-	39,687
State sources	2,355,537	-	159,260	8,062	2,522,859
Federal sources	23,385	-	-	-	23,385
Earnings from investments	158	44	-	-	202
	<u>2,441,711</u>	<u>13,667</u>	<u>159,260</u>	<u>8,062</u>	<u>2,622,700</u>
EXPENDITURES					
Direct instruction	1,349,342	-	-	5,681	1,355,023
Instructional support	1,047,618	7,676	163,148	-	1,218,442
Food service	27,526	-	-	-	27,526
Capital outlay	7,346	-	-	-	7,346
	<u>2,431,832</u>	<u>7,676</u>	<u>163,148</u>	<u>5,681</u>	<u>2,608,337</u>
Net change in fund balance	9,879	5,991	(3,888)	2,381	14,363
Fund balance at beginning of year	116,637	46,205	5,539	10,414	178,795
Fund balance at end of year	<u>\$ 126,516</u>	<u>\$ 52,196</u>	<u>\$ 1,651</u>	<u>\$ 12,795</u>	<u>\$ 193,158</u>

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

STATE OF NEW MEXICO
RESERVE INDEPENDENT SCHOOLS
General Fund - Operational Fund
Statement of Revenues and Expenditures -
Budget and Actual (Non-GAAP Budgetary Basis)
Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
REVENUES				
Taxes	\$ 20,851	\$ 20,851	\$ 21,506	\$ 655
Charges for services	-	-	1,268	1,268
Local sources	-	36,905	39,687	2,782
State sources	2,338,201	2,329,889	2,355,537	25,648
Federal sources	-	-	23,385	23,385
Earnings from investments	500	500	158	(342)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total revenues	<u>\$ 2,359,552</u>	<u>\$ 2,388,145</u>	<u>\$ 2,441,541</u>	<u>\$ 53,396</u>
EXPENDITURES				
Direct instruction	\$ 1,363,084	\$ 1,376,846	\$ 1,349,342	\$ 27,504
Instructional support	1,033,599	1,083,692	1,054,964	28,728
Food services	44,000	44,000	27,526	16,474
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total expenditures	<u>\$ 2,440,683</u>	<u>\$ 2,504,538</u>	<u>\$ 2,431,832</u>	<u>\$ 72,706</u>
BUDGETED CASH BALANCE	<u>\$ 81,131</u>	<u>\$ 116,393</u>		
REVENUES				
Budgetary basis			\$ 2,441,541	
(Decrease) in receivables			<u>170</u>	
Modified accrual basis			<u>\$ 2,441,711</u>	

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

STATE OF NEW MEXICO
RESERVE INDEPENDENT SCHOOLS
General Fund - Teacherage Fund
Statement of Revenues and Expenditures -
Budget and Actual (Non-GAAP Budgetary Basis)
Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ -
Charges for services	15,400	15,400	13,623	(1,777)
Local sources	-	-	-	-
State sources	-	-	-	-
Federal sources	-	-	-	-
Earnings from investments	30	30	44	14
	<u>30</u>	<u>30</u>	<u>44</u>	<u>14</u>
Total revenues	<u>\$ 15,430</u>	<u>\$ 15,430</u>	<u>\$ 13,667</u>	<u>\$ (1,763)</u>
EXPENDITURES				
Direct instruction	\$ -	\$ -	\$ -	\$ -
Instructional support	18,847	44,287	7,926	36,361
Food services	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>\$ 18,847</u>	<u>\$ 44,287</u>	<u>\$ 7,926</u>	<u>\$ 36,361</u>
BUDGETED CASH BALANCE	<u>\$ 3,417</u>	<u>\$ 28,857</u>		
EXPENDITURES				
Budgetary basis			\$ 7,926	
Decrease in security deposits			<u>(250)</u>	
Modified accrual basis			<u>\$ 7,676</u>	

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

STATE OF NEW MEXICO
RESERVE INDEPENDENT SCHOOLS
General Fund - Transportation Fund
Statement of Revenues and Expenditures -
Budget and Actual (Non-GAAP Budgetary Basis)
Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ -
Charges for services	-	-	-	-
Local sources	-	-	-	-
State sources	183,881	159,257	159,260	3
Federal sources	-	-	-	-
Earnings from investments	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total revenues	<u>\$ 183,881</u>	<u>\$ 159,257</u>	<u>\$ 159,260</u>	<u>\$ 3</u>
EXPENDITURES				
Direct instruction	\$ -	\$ -	\$ -	\$ -
Instructional support	183,881	162,027	160,378	1,649
Food service	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total expenditures	<u>\$ 183,881</u>	<u>\$ 162,027</u>	<u>\$ 160,378</u>	<u>\$ 1,649</u>
BUDGETED CASH BALANCE	<u>\$ -</u>	<u>\$ 2,770</u>		

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

STATE OF NEW MEXICO
RESERVE INDEPENDENT SCHOOLS
General Fund - Instructional Materials Fund
Statement of Revenues and Expenditures -
Budget and Actual (Non-GAAP Budgetary Basis)
Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ -
Charges for services	-	-	-	-
Local sources	-	-	-	-
State sources	7,051	6,062	8,062	2,000
Federal sources	-	-	-	-
Earnings from investments	-	-	-	-
	-	-	-	-
Total revenues	\$ 7,051	\$ 6,062	\$ 8,062	\$ 2,000
EXPENDITURES				
Direct instruction	\$ 7,051	\$ 16,476	\$ 5,681	\$ 10,795
Instructional support	-	-	-	-
Food services	-	-	-	-
	-	-	-	-
Total expenditures	\$ 7,051	\$ 16,476	\$ 5,681	\$ 10,795
BUDGETED CASH BALANCE	\$ -	\$ 10,414		

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

REQUIRED SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO
RESERVE INDEPENDENT SCHOOLS
Schedule of Proportionate Share of the Net Pension Liability
Educational Retirement Board (ERB) Pension Plan
Last 10 Fiscal Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Reserve Independent School District's proportion of net pension liability (asset)	0.05077%	0.05476%	0.05242%
Reserve Independent School District's proportionate share of the net pension liability (asset)	\$ 3,653,629	\$ 3,546,951	\$ 2,990,937
Reserve Independent School District's covered-employee payroll	\$ 1,429,219	\$ 1,495,123	\$ 1,556,566
Reserve Independent School District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	262.59%	237.23%	207.00%
Plan fiduciary net position as a percentage of the total pension liability	61.58%	63.97%	66.54%

*Governmental Accounting Standards Board Statement No. 68 requires ten years of historical information be presented; however, until a full 10-year trend is compiled, the statement only requires presentation of information for those years that information is available. Complete information for Reserve Independent Schools is not available prior to the fiscal 2015, the year the statement's requirement became effective.

See Independent Auditor's Report
See notes to required supplementary information

STATE OF NEW MEXICO
RESERVE INDEPENDENT SCHOOLS
Schedule of Contributions
Educational Retirement Board (ERB) Pension Plan
Last 10 Fiscal Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contributions	\$ 198,663	\$ 201,538	\$ 216,363
Contributions in relation to the contractually required contribution	<u>198,663</u>	<u>201,538</u>	<u>216,363</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Reserve Independent School District's covered-employee payroll	\$ 1,429,219	\$ 1,449,913	\$ 1,556,566
Contribution as a percentage of covered-employee payroll	13.90%	13.90%	13.90%

*Governmental Accounting Standards Board Statement No. 68 requires ten years of historical information be presented; however, until a full 10-year trend is compiled, the statement only requires presentation of information for those years that information is available. Complete information for Reserve Independent Schools is not available prior to the fiscal 2015, the year the statement's requirement became effective.

See Independent Auditor's Report
See notes to required supplementary information

STATE OF NEW MEXICO
RESERVE INDEPENDENT SCHOOLS
Notes to Required Supplementary Information
Year Ended June 30, 2017

Changes in benefit terms and assumptions.

There were no benefit or assumption changes adopted since the last actuarial valuation. However, the actual cost of living adjustment (COLA) was less than the expected 2.0%, which resulted in a net \$138 million decrease in the unfunded actuarial.

See Independent Auditor's Report
See notes to required supplementary information

SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO
RESERVE INDEPENDENT SCHOOLS
Schedule of Cash Receipts and
Disbursements - All Funds by
School District Classification
Year Ended June 30, 2017

Schedule III

	<u>Operational</u>	<u>Teacherage</u>	<u>Transportation</u>	<u>Instructional Materials</u>	<u>Cafeteria</u>	<u>Athletics</u>
Cash balance, June 30, 2016	\$ 116,394	\$ 47,705	\$ 5,540	\$ 10,414	\$ 7,331	\$ 1,543
Cash Receipts, 2016-2017	2,441,541	13,667	159,260	8,062	68,887	9,287
Cash Disbursements, 2016-2017	<u>(2,431,832)</u>	<u>(7,926)</u>	<u>(163,149)</u>	<u>(5,681)</u>	<u>(71,166)</u>	<u>(10,490)</u>
Cash balance, June 30, 2017	<u>\$ 126,103</u>	<u>\$ 53,446</u>	<u>\$ 1,651</u>	<u>\$ 12,795</u>	<u>\$ 5,052</u>	<u>\$ 340</u>
				Capital Improvement		
	<u>Local/ State</u>	<u>Federal Projects</u>	<u>Bond Building</u>	<u>SB-9 Local</u>	<u>Debt Service</u>	<u>Agency</u>
Cash balance, June 30, 2016	\$ (154,765)	\$ (71,418)	\$ 700,963	\$ 38,207	\$ 216,068	\$ 38,363
Cash Receipts, 2016-2017	198,206	241,180	338	108,382	235,510	70,506
Cash Disbursements, 2016-2017	<u>(55,252)</u>	<u>(207,140)</u>	<u>(495,064)</u>	<u>(61,917)</u>	<u>(224,389)</u>	<u>(64,562)</u>
Cash balance, June 30, 2017	<u>\$ (11,811)</u>	<u>\$ (37,378)</u>	<u>\$ 206,237</u>	<u>\$ 84,672</u>	<u>\$ 227,189</u>	<u>\$ 44,307</u>

Rice and Associates, C.P.A.

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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 AUDITOR'S REPORT

Mr. Tim Keller
New Mexico State Auditor
and
Board of Education
Reserve Independent Schools
Reserve, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information, the budgetary comparisons of the General, Title I, IDEA-B Entitlement and Read2Lead Funds of the Reserve Independent Schools, as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise the Reserve Independent Schools basic financial statements, and the combining and individual funds presented as supplemental information, and have issued our report thereon dated October 26, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Reserve Independent Schools internal control over financial reporting as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Reserve Independent Schools internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Reserve Independent Schools internal control over financial reporting.

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be a material weakness. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Reserve Independent Schools internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Albuquerque, New Mexico
October 26, 2017

STATUS OF FINDINGS AND RESPONSES

Prior Year Audit Findings:

1. Operational Cash Balance (2016-001) - Resolved.

Current Year Audit Findings:

NONE

FINANCIAL STATEMENT PREPARATION

The combining and individual fund financial statements and notes to the financial statements for the year ended, June 30, 2017 were prepared by Rice & Associates, CPA, based on managements chart of accounts and trial balances including any adjusting, correcting or closing entries approved by management. These services are allowable under SAS 115.

EXIT CONFERENCE

An exit conference was held at the School District on October 26, 2017, to discuss the current audit report. In attendance were Ms. Sharon Armijo, Board Vice President, Mr. Bill Green, Superintendent, Ms. Odelia Delgado, Business Manager and Ms. Pamela A. Rice, CPA, Contract Auditor.