

Reserve Independent Schools

**FINANCIAL STATEMENTS  
WITH INDEPENDENT AUDITORS'  
REPORT THEREON**

For The Fiscal Year Ended June 30, 2018

Reserve Independent Schools  
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 June 30, 2018

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Reserve Independent Schools  
**DIRECTORY OF OFFICIALS**  
June 30, 2018

**BOARD OF EDUCATION**

|                 |                |
|-----------------|----------------|
| Russell Laney   | President      |
| Sharon Armijo   | Vice-President |
| Bobbie Ricks    | Secretary      |
| Carl Livingston | Member         |
| Sam Nicolds     | Member         |

**SCHOOL OFFICIALS**

|                 |                  |
|-----------------|------------------|
| Cindy Shellhorn | Superintendent   |
| Odelia Delgado  | Business Manager |

MIKE STONE, C.P.A.  
LINDA STONE MCGEE, C.P.A.  
KAY STONE, C.P.A.  
KELLEY WYATT, C.P.A.

RYAN MONTOYA, C.P.A.

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## INDEPENDENT AUDITOR'S REPORT

Wayne Johnson, State Auditor  
And  
Board of Education  
Reserve Independent Schools  
Reserve, New Mexico

### Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons for the general fund and major special revenue funds of the Reserve Independent Schools, as of and for the year ended June 30, 2018, and the related notes to the financial statements which collectively comprise the Reserve Independent Schools' basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of 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 Schools as of June 30, 2018, and the respective changes in financial position and the respective budgetary comparisons for the general fund and major special revenue funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that information related to the District's pension plan presented on pages 42 to 44 and the District's other postemployment benefits presented on pages 45 to 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

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

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the Reserve Independent Schools' financial statements that collectively comprise the District's basic financial statements. The Schedule of Expenditures of Federal Awards as required by the Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Guidance, Cost Principles, and Audit Requirements for Federal Awards*, and the other schedules presented as other supplementary information as listed

in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards and the other supplementary information are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards and the other supplementary information are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2018, on our consideration of the Reserve Independent Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreement and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Reserve Independent Schools' internal control over financial reporting and compliance.

*Stone, McGee & Co., CPAs*

Silver City, New Mexico  
November 5, 2018

**Stone, McGee & Co.**  
Certified Public Accountants

Reserve Independent Schools  
**STATEMENT OF NET POSITION**  
June 30, 2018

|   | <u>Governmental<br/>Activities</u> |
|---|------------------------------------|
| <b>Assets</b>                               |                                    |
| Cash and cash equivalents                   | \$ 640,481                         |
| Property taxes receivable                   | 77,364                             |
| Due from other governments                  | 48,526                             |
| Inventory                                   | 1,178                              |
| Capital assets:                             |                                    |
| Land and improvements                       | 892,892                            |
| Buildings and improvements                  | 17,438,704                         |
| Equipment                                   | 1,236,103                          |
| Less accumulated depreciation               | <u>(4,522,086)</u>                 |
| Total capital assets, net of depreciation   | <u>\$ 15,045,613</u>               |
| Total assets                                | <u>\$ 15,813,162</u>               |
| <b>Deferred Outflows of Resources</b>       |                                    |
| Related to other postemployment liabilities | \$ 29,032                          |
| Related to pensions                         | <u>1,875,413</u>                   |
| Total deferred outflows of resources        | <u>\$ 1,904,445</u>                |
| <b>Liabilities</b>                          |                                    |
| Accounts payable                            | \$ 16,093                          |
| Rent deposits                               | \$ 1,250                           |
| Long-term liabilities:                      |                                    |
| Portion due or payable within one year:     |                                    |
| Bonds payable                               | 190,000                            |
| Accrued interest payable                    | 16,758                             |
| Portion due or payable after one year:      |                                    |
| Net pension liability                       | 5,577,850                          |
| Net other postemployment benefits liability | 1,508,594                          |
| Bonds payable                               | 1,690,000                          |
| Compensated absences                        | <u>19,866</u>                      |
| Total liabilities                           | <u>\$ 9,020,411</u>                |
| <b>Deferred Inflows of Resources</b>        |                                    |
| Related to other postemployment benefits    | \$ 343,352                         |
| Related to pensions                         | <u>234,702</u>                     |
| Total deferred inflows of resources         | <u>\$ 578,054</u>                  |
| <b>Net Position</b>                         |                                    |
| Net investment in capital assets            | \$ 13,165,613                      |
| Restricted for:                             |                                    |
| Capital projects                            | 62,521                             |
| Debt service                                | 234,609                            |
| Other purposes                              | 177,392                            |
| Unrestricted                                | <u>(5,520,993)</u>                 |
| Total net position                          | <u>\$ 8,119,142</u>                |

The accompanying notes are an integral part of these financial statements



Reserve Independent Schools  
**STATEMENT OF ACTIVITIES**  
 For the Fiscal Year Ended June 30, 2018

| <u>Functions/Programs</u>      | <u>Expenses</u>     | <u>Program Revenues</u>         |   | <u>Net (Expense)<br/>Revenue and<br/>Changes in Net<br/>Position<br/>Total<br/>Governmental<br/>Activities</u> |   |
|--------------------------------|---------------------|---------------------------------|---|--|---|
|                                |                     | <u>Charges for<br/>Services</u> | <u>Operating<br/>Grants and<br/>Contributions</u> |  | <u>Capital<br/>Grants and<br/>Contributions</u> |
| Governmental activities:       |                     |                                 |   |  |   |
| Instruction                    | \$ 2,079,663        | \$ 15,449                       | \$ 82,788   | \$ -   | \$ (1,981,426)                                  |
| Support services - Students    | 261,912             |                                 | 27,345  | 347,199  | 112,632   |
| Support services - Instruction | 177,168             |                                 | 79,896  |  | (97,272)  |
| General administration         | 247,683             |                                 |   |  | (247,683)                                       |
| School administration          | 368,518             |                                 | 36,237  |  | (332,281)                                       |
| Central services               | 229,911             |                                 |   |  | (229,911)                                       |
| Operation of plant             | 573,792             |                                 |   |  | (573,792)                                       |
| Food services                  | 132,376             |                                 | 66,963  |  | (65,413)  |
| Transportation                 | 254,099             |                                 | 177,673   |  | (76,426)  |
| Other support services         | 3,463               |                                 |   |  | (3,463)   |
| Interest on long-term debt     | 40,340              |                                 |   |  | (40,340)  |
|                                | <u>40,340</u>       | <u>15,449</u>                   | <u>470,902</u>                                    | <u>347,199</u>   | <u>(3,535,375)</u>                              |
| Total governmental activities  | <u>\$ 4,368,925</u> | <u>\$ 15,449</u>                | <u>\$ 470,902</u>                                 | <u>\$ 347,199</u>  | <u>\$ (3,535,375)</u>                           |

|   |                                |
|---|--------------------------------|
| General revenues:                                     |                                |
| Property taxes:                                       |                                |
| Levied for general purposes                           | \$ 21,588                      |
| Levied for debt service                               | 221,028                        |
| Levied for capital improvements                       | 83,254                         |
| State aid - formula grants                            | 1,844,173                      |
| Federal Aid - formula grants                          | 540,742                        |
| Rents and leases                                      | 15,857                         |
| Recoveries and refunds                                | 6,686                          |
| Gain (Loss) on disposition of assets                  | 2,650                          |
| Unrestricted investment earnings                      | <u>528</u>                     |
| <br>Total general revenues and special items          | <br><u>\$ 2,736,506</u>        |
| <br>Change in net position                            | <br><u><u>\$ (798,869)</u></u> |
| <br>Net position July 1, 2017, as originally reported | <br>\$ 10,628,645              |
| Restatement (Note 13)                                 | <u>(1,710,634)</u>             |
| Net position July 1, 2018, as restated                | \$ 8,918,011                   |
| Change in net position                                | <u>(798,869)</u>               |
| Net position June 30, 2018                            | <u><u>\$ 8,119,142</u></u>     |

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

Reserve Independent Schools  
**BALANCE SHEETS**  
**GOVERNMENTAL FUNDS**  
June 30, 2018

|   | General<br>Fund   | Title I          | Entitlement      | SB-9              |
|---|-------------------|------------------|------------------|-------------------|
| <b>Assets</b>   |                   |                  |                  |                   |
| Cash and investments  | \$ 198,604        | \$ -             | \$ -             | \$ 118,250        |
| Property taxes receivable   | 18,084            |                  |                  | 24,669            |
| Accounts receivable   |                   |                  |                  |                   |
| Inventory   |                   |                  |                  |                   |
| Due from other governments  |                   | 16,260           | 18,156           |                   |
| Interfund receivable  | 48,053            |                  |                  |                   |
|   | <u>264,741</u>    | <u>16,260</u>    | <u>18,156</u>    | <u>142,919</u>    |
| Total assets  | <u>\$ 264,741</u> | <u>\$ 16,260</u> | <u>\$ 18,156</u> | <u>\$ 142,919</u> |
| <br><b>Liabilities</b>  |                   |                  |                  |                   |
| Accounts payable  | \$ 14,481         | \$ -             | \$ -             | \$ 1,139          |
| Rental deposits   | 1,250             |                  |                  |                   |
| Interfund payable   |                   | 16,260           | 18,156           |                   |
|   | <u>15,731</u>     | <u>16,260</u>    | <u>18,156</u>    | <u>1,139</u>      |
| Total liabilities   | <u>\$ 15,731</u>  | <u>\$ 16,260</u> | <u>\$ 18,156</u> | <u>\$ 1,139</u>   |
| <br><b>Deferred Inflows of Resources</b>                              |                   |                  |                  |                   |
| Unavailable revenue   | \$ 17,252         | \$ -             | \$ -             | \$ 21,148         |
|   | <u>17,252</u>     | <u>-</u>         | <u>-</u>         | <u>21,148</u>     |
| Total deferred inflows of resources                                   | <u>\$ 17,252</u>  | <u>\$ -</u>      | <u>\$ -</u>      | <u>\$ 21,148</u>  |
| <br>Fund balance:   |                   |                  |                  |                   |
| Nonspendable:   |                   |                  |                  |                   |
| Inventories   | \$ -              | \$ -             | \$ -             | \$ -              |
| Restricted for:   |                   |                  |                  |                   |
| Education   | 2,031             |                  |                  |                   |
| Operation of plant  |                   |                  |                  | 120,632           |
| Food service  |                   |                  |                  |                   |
| Social services   |                   |                  |                  |                   |
| Transportation  | 10,456            |                  |                  |                   |
| Capital projects  |                   |                  |                  |                   |
| Debt service  |                   |                  |                  |                   |
| Unassigned  | 219,271           |                  |                  |                   |
|   | <u>231,758</u>    | <u>-</u>         | <u>-</u>         | <u>120,632</u>    |
| Total fund balances   | <u>\$ 231,758</u> | <u>\$ -</u>      | <u>\$ -</u>      | <u>\$ 120,632</u> |
| Total liabilities, deferred inflows<br>of resources and fund balances | <u>\$ 264,741</u> | <u>\$ 16,260</u> | <u>\$ 18,156</u> | <u>\$ 142,919</u> |

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

| <u>Bond<br/>Building</u> | <u>Debt<br/>Service</u> | <u>Other<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|--------------------------|-------------------------|------------------------|---|
| \$ 62,521                | \$ 226,305<br>34,611    | \$ 34,801              | \$ 640,481<br>77,364<br>-               |
|                          |                         | 1,178                  | 1,178                                   |
|                          |                         | 14,110                 | 48,526                                  |
|                          |                         |                        | 48,053                                  |
| <u>\$ 62,521</u>         | <u>\$ 260,916</u>       | <u>\$ 50,089</u>       | <u>\$ 815,602</u>                       |
| \$ -                     | \$ -                    | \$ 473                 | \$ 16,093<br>1,250                      |
|                          |                         | 13,637                 | 48,053                                  |
| <u>\$ -</u>              | <u>\$ -</u>             | <u>\$ 14,110</u>       | <u>\$ 65,396</u>                        |
| <u>\$ -</u>              | <u>\$ 25,553</u>        | <u>\$ -</u>            | <u>\$ 63,953</u>                        |
| <u>\$ -</u>              | <u>\$ 25,553</u>        | <u>\$ -</u>            | <u>\$ 63,953</u>                        |
| \$ -                     | \$ -                    | \$ 1,178               | \$ 1,178                                |
|                          |                         | 6,450                  | 8,481                                   |
|                          |                         | 10,141                 | 10,141                                  |
|                          |                         | 18,210                 | 18,210                                  |
| 62,521                   |                         |                        | 10,456                                  |
|                          | 235,363                 |                        | 62,521                                  |
|                          |                         |                        | 235,363                                 |
|                          |                         |                        | 219,271                                 |
| <u>\$ 62,521</u>         | <u>\$ 235,363</u>       | <u>\$ 35,979</u>       | <u>\$ 686,253</u>                       |
| <u>\$ 62,521</u>         | <u>\$ 260,916</u>       | <u>\$ 50,089</u>       | <u>\$ 815,602</u>                       |

Reserve Independent Schools  
**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE  
 TO NET POSITION OF GOVERNMENTAL ACTIVITIES**  
 June 30, 2018

|  |           |                  |
|--|-----------|------------------|
| Total governmental fund balances   | \$        | 686,253          |
| <i>Amounts reported for governmental activities in the statement of net position are different because:</i>  |           |                  |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.  |           | 15,045,613       |
| Bond premiums are deferred and amortized over the life of the bonds  |           |                  |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:   |           |                  |
| Property taxes not collected within the 60 day availability period   |           | 63,953           |
| Deferred outflows and inflows or resources related to pensions and other postemployment benefits are applicable to future periods and, therefore, are not reported in the funds:             |           |                  |
| Deferred inflows of resources related to pensions  |           | (234,702)        |
| Deferred outflows of resources related to pensions   |           | 1,875,413        |
| Deferred inflows of resources related to other postemployment benefits   |           | (343,352)        |
| Deferred outflows of resources related to other postemployment benefits  |           | 29,032           |
| Long-term liabilities, including bonds payable, compensated absences and accrued interest payable are not due and payable in the current period and therefore are not reported in the funds: |           |                  |
| Net pension liability  |           | (5,577,850)      |
| Net other postemployment benefit liability   |           | (1,508,594)      |
| Bonds payable  |           | (1,880,000)      |
| Accrued interest payable   |           | (16,758)         |
| Accrued compensated absences   |           | (19,866)         |
|  |           | (8,803,060)      |
| <i>Net Position of Governmental Activities</i>   | <b>\$</b> | <b>8,119,142</b> |

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

Reserve Independent Schools  
**STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS**  
For The Fiscal Year Ended June 30, 2018

|   | General<br>Fund       | Title I          | Entitlement      |
|---|-----------------------|------------------|------------------|
| Revenues:                                   |                       |                  |                  |
| Property taxes                              | \$ 21,812             | \$ -             | \$ -             |
| Fees and charges                            | 15,857                |                  |                  |
| State aid                                   | 2,072,537             |                  |                  |
| Federal aid                                 | 540,742               | 95,208           | 46,415           |
| Earnings on investments                     | 233                   |                  |                  |
| Miscellaneous                               | 7,512                 |                  |                  |
|   | <u>\$ 2,658,693</u>   | <u>\$ 95,208</u> | <u>\$ 46,415</u> |
| <br>Expenditures:                           |                       |                  |                  |
| Current:                                    |                       |                  |                  |
| Instruction                                 | \$ 1,292,354          | \$ 35,353        | \$ 31,579        |
| Support services - Students                 | 143,836               |                  | 10,203           |
| Support services - Instruction              | 36,125                | 28,251           |                  |
| General administration                      | 181,396               |                  |                  |
| School administration                       | 224,940               | 31,604           | 4,633            |
| Central services                            | 94,488                |                  |                  |
| Operation of plant                          | 451,909               |                  |                  |
| Food service                                | 24,941                |                  |                  |
| Transportation                              | 168,087               |                  |                  |
| Other support services                      | 1,191                 |                  |                  |
| Debt service:                               |                       |                  |                  |
| Principal                                   |                       |                  |                  |
| Interest                                    |                       |                  |                  |
| Capital outlay                              |                       |                  |                  |
|   | <u>\$ 2,619,267</u>   | <u>\$ 95,208</u> | <u>\$ 46,415</u> |
| <br>Revenues over (under) expenditures      | <br>\$ 39,426         | <br>\$ -         | <br>\$ -         |
| <br>Other financing sources (uses):         |                       |                  |                  |
| Reversion to NM Public Education Department | (826)                 |                  |                  |
|   | <u>\$ 38,600</u>      | <u>\$ -</u>      | <u>\$ -</u>      |
| <br>Fund balance, July 1, 2017              | <br>193,158           |                  |                  |
| <br>Fund balance, June 30, 2018             | <br><u>\$ 231,758</u> | <br><u>\$ -</u>  | <br><u>\$ -</u>  |

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

| <u>SB-9</u>       | <u>Bond Building</u> | <u>Debt Service</u> | <u>Other Funds</u> | <u>Governmental Funds Total</u> |
|-------------------|----------------------|---------------------|--------------------|---------------------------------|
| \$ 91,548         | \$ -                 | \$ 231,637          | \$ -               | \$ 344,997                      |
|                   |                      |                     | 19,988             | 35,845                          |
|                   | 347,199              |                     | 9,762              | 2,429,498                       |
|                   |                      |                     | 96,659             | 779,024                         |
| 83                | 103                  | 97                  | 12                 | 528                             |
|                   |                      |                     |                    | 7,512                           |
| <u>\$ 91,631</u>  | <u>\$ 347,302</u>    | <u>\$ 231,734</u>   | <u>\$ 126,421</u>  | <u>\$ 3,597,404</u>             |
| \$ -              | \$ -                 | \$ -                | \$ 21,208          | \$ 1,380,494                    |
|                   |                      |                     | 3,975              | 158,014                         |
|                   | 35,795               |                     | 18,109             | 118,280                         |
|                   |                      |                     |                    | 181,396                         |
| 57,429            |                      |                     |                    | 261,177                         |
|                   |                      |                     |                    | 151,917                         |
|                   |                      |                     |                    | 451,909                         |
|                   |                      |                     | 66,267             | 91,208                          |
|                   |                      |                     |                    | 168,087                         |
|                   |                      | 2,272               |                    | 3,463                           |
|                   |                      | 185,000             |                    | 185,000                         |
|                   |                      | 40,939              |                    | 40,939                          |
|                   | 455,223              |                     |                    | 455,223                         |
| <u>\$ 57,429</u>  | <u>\$ 491,018</u>    | <u>\$ 228,211</u>   | <u>\$ 109,559</u>  | <u>\$ 3,647,107</u>             |
| \$ 34,202         | \$ (143,716)         | \$ 3,523            | \$ 16,862          | \$ (49,703)                     |
|                   |                      |                     |                    | (826)                           |
| \$ 34,202         | \$ (143,716)         | \$ 3,523            | \$ 16,862          | \$ (50,529)                     |
| 86,430            | 206,237              | 231,840             | 19,117             | 736,782                         |
| <u>\$ 120,632</u> | <u>\$ 62,521</u>     | <u>\$ 235,363</u>   | <u>\$ 35,979</u>   | <u>\$ 686,253</u>               |

Reserve Independent Schools  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES**

June 30, 2018

|  |    |          |
|--|----|----------|
| Net change in fund balances-total governmental funds | \$ | (50,529) |
|--|----|----------|

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their useful lives as depreciation expense.

|                      |  |           |
|----------------------|--|-----------|
| Capital outlay       |  | 455,223   |
| Depreciation expense |  | (695,565) |

Revenue in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. This is the net change during the year:

|  |  |          |
|--|--|----------|
| Property taxes not collected within the 60 day availability period |  | (24,522) |
| Basis of disposed capital assets                                   |  | (2,000)  |

Governmental funds report pension contributions as expenditures. However in the Statement of Activities, the cost of pension benefits earned net of contributions is reported as pension expense:

|                         |  |           |
|-------------------------|--|-----------|
| Pension contributions   |  | 202,465   |
| Cost of benefits earned |  | (839,082) |

Governmental funds report other employee benefit contributions as expenditures. However, in the Statement of Activities, the costs of benefits earned net of contributions is reported as OPEB expense:

|                         |  |          |
|-------------------------|--|----------|
| OPEB contributions      |  | 29,032   |
| Cost of benefits earned |  | (59,979) |

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets

|  |  |         |
|--|--|---------|
|  |  | 185,000 |
|--|--|---------|

In the Statement of Activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. This is the net change during the year.

|  |  |     |
|--|--|-----|
|  |  | 599 |
|--|--|-----|

Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the net change during the year.

|  |  |     |
|--|--|-----|
|  |  | 489 |
|--|--|-----|

*Change in Net Position of Governmental Activities*

|  |    |           |
|--|----|-----------|
|  | \$ | (798,869) |
|--|----|-----------|

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



Reserve Independent Schools  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES--BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
For the Fiscal Year Ended June 30, 2018

|   | Original<br>Budget  | Final<br>Budget     | Actual              | Variance<br>Favorable<br>(Unfavorable) |
|---|---------------------|---------------------|---------------------|--|
| Revenues:   |                     |                     |                     |  |
| Federal sources   | \$ -                | \$ 540,743          | \$ 540,742          | \$ (1)                                 |
| State sources   | 2,518,581           | 2,252,937           | 2,072,953           | (179,984)                              |
| Local sources   | 21,390              | 21,390              | 28,163              | 6,773                                  |
| Miscellaneous   | 13,210              | 13,210              | 16,223              | 3,013                                  |
| Interest income   | -                   | -                   | 193                 | 193                                    |
|   | <u>\$ 2,553,181</u> | <u>\$ 2,828,280</u> | <u>\$ 2,658,274</u> | <u>\$ (170,006)</u>                    |
| Total revenues  |                     |                     |                     |  |
| Expenditures:   |                     |                     |                     |  |
| Current:  |                     |                     |                     |  |
| Instruction   | \$ 1,350,829        | \$ 1,397,286        | \$ 1,285,277        | \$ 112,009                             |
| Support services - Students                             | 148,000             | 148,000             | 143,836             | 4,164                                  |
| Support services - Instruction                          | 34,443              | 44,813              | 35,964              | 8,849                                  |
| General administration                                  | 138,320             | 184,357             | 181,396             | 2,961                                  |
| School administration                                   | 228,432             | 240,532             | 224,940             | 15,592                                 |
| Central services  | 92,099              | 101,631             | 93,584              | 8,047                                  |
| Operation of plant                                      | 417,109             | 635,257             | 445,591             | 189,666                                |
| Transportation  | 177,673             | 178,499             | 168,066             | 10,433                                 |
| Other support services                                  | 7,575               | 7,575               | 1,191               | 6,384                                  |
| Food services   | 33,000              | 33,500              | 24,941              | 8,559                                  |
| Capital outlay  | 50,000              | 50,000              |                     | 50,000                                 |
| Non-operating   |                     |                     |                     | -                                      |
|   | <u>\$ 2,677,480</u> | <u>\$ 3,021,450</u> | <u>\$ 2,604,786</u> | <u>\$ 416,664</u>                      |
| Total expenditures                                      |                     |                     |                     |  |
| Revenues over (under) expenditure:                      | \$ (124,299)        | \$ (193,170)        | \$ 53,488           | \$ 246,658                             |
| Other financing sources (uses)                          |                     |                     |                     |  |
| Transfers out   |                     |                     |                     | -                                      |
| Net change in fund balance                              | \$ (124,299)        | \$ (193,170)        | \$ 53,488           | \$ 246,658                             |
| Fund balance, July 1, 2017                              | <u>179,549</u>      | <u>193,995</u>      | <u>193,995</u>      | <u>-</u>                               |
| Fund balance, June 30, 2018                             | <u>\$ 55,250</u>    | <u>\$ 825</u>       | <u>\$ 247,483</u>   | <u>\$ 246,658</u>                      |
| Budgetary reconciliation:                               |                     |                     |                     |  |
| Net change in fund balance, GAAP basis                  |                     |                     | \$ 38,600           |  |
| Revenue accruals (net)                                  |                     |                     | (419)               |  |
| Expenditure accruals (net)                              |                     |                     | 14,481              |  |
| Non-budgeted transactions (net)                         |                     |                     | 826                 |  |
| Net change in fund balance, NON-GAAP<br>budgetary basis |                     |                     | <u>\$ 53,488</u>    |  |

The accompanying notes are an integral part of these financial statements

Reserve Independent Schools  
**SPECIAL REVENUE FUND - TITLE I**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES--BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
For the Fiscal Year Ended June 30, 2018

|   | Original<br>Budget | Final<br>Budget | Actual     | Variance<br>Favorable<br>(Unfavorable) |
|---|--------------------|-----------------|------------|--|
| Revenues:   |                    |                 |            |  |
| Federal sources   | \$ 134,663         | \$ 98,933       | \$ 114,391 | \$ 15,458                              |
| <br>  |                    |                 |            |  |
| Expenditures:   |                    |                 |            |  |
| Current:  |                    |                 |            |  |
| Instruction   | \$ 62,608          | \$ 33,962       | \$ 35,353  | \$ (1,391)                             |
| Support services - Instruction                          | 28,447             | 28,447          | 28,251     | 196                                    |
| School administration                                   | 43,608             | 36,524          | 31,604     | 4,920                                  |
| Total expenditures                                      | \$ 134,663         | \$ 98,933       | \$ 95,208  | \$ 3,725                               |
| <br>  |                    |                 |            |  |
| Net change in fund balance                              | \$ -               | \$ -            | \$ 19,183  | \$ 19,183                              |
| <br>  |                    |                 |            |  |
| Fund balance, July 1, 2017                              | -                  | -               | -          | -                                      |
| <br>  |                    |                 |            |  |
| Fund balance, June 30, 2018                             | \$ -               | \$ -            | \$ 19,183  | \$ 19,183                              |
| <br>  |                    |                 |            |  |
| Budgetary reconciliation:                               |                    |                 |            |  |
| Net change in fund balance, GAAP basis                  |                    |                 | \$ -       |  |
| Revenue accruals (net)                                  |                    |                 | 19,183     |  |
| Expenditure accruals (net)                              |                    |                 |            |  |
| Other financing uses (net)                              |                    |                 |            |  |
| <br>  |                    |                 |            |  |
| Net change in fund balance, NON-GAAP<br>budgetary basis |                    |                 | \$ 19,183  |  |

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

Reserve Independent Schools  
**SPECIAL REVENUE FUND -ENTITLEMENT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES--BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
For the Fiscal Year Ended June 30, 2018

|   | Original<br>Budget | Final<br>Budget | Actual     | Variance<br>Favorable<br>(Unfavorable) |
|---|--------------------|-----------------|------------|--|
| Revenues:   |                    |                 |            |  |
| Federal sources   | \$ 45,231          | \$ 51,140       | \$ 42,893  | \$ (8,247)                             |
| Expenditures:   |                    |                 |            |  |
| Current:  |                    |                 |            |  |
| Instruction   | \$ 31,316          | \$ 31,691       | \$ 31,579  | \$ 112                                 |
| Student support   | 9,515              | 10,204          | 10,203     | 1                                      |
| School administration                                   | 4,400              | 9,245           | 4,633      | 4,612                                  |
| Total expenditures                                      | \$ 45,231          | \$ 51,140       | \$ 46,415  | \$ 4,725                               |
| Net change in fund balance                              | \$ -               | \$ -            | \$ (3,522) | \$ (3,522)                             |
| Fund balance, July 1, 2017                              | -                  | -               | -          | -                                      |
| Fund balance, June 30, 2018                             | \$ -               | \$ -            | \$ (3,522) | \$ (3,522)                             |
| Budgetary reconciliation:                               |                    |                 |            |  |
| Net change in fund balance, GAAP basis                  |                    |                 | \$ -       |  |
| Revenue accruals (net)                                  |                    |                 | (3,522)    |  |
| Expenditure accruals (net)                              |                    |                 | -          |  |
| Net change in fund balance, NON-GAAP<br>budgetary basis |                    |                 | \$ (3,522) |  |

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

Reserve Independent Schools  
**SPECIAL REVENUE FUND - SENATE BILL 9**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES--BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
For the Fiscal Year Ended June 30, 2018

|   | <u>Original<br/>Budget</u> | <u>Final<br/>Budget</u> | <u>Actual</u>         | <u>Variance<br/>Favorable<br/>(Unfavorable)</u> |
|---|----------------------------|-------------------------|-----------------------|---|
| Revenues:   |                            |                         |                       |   |
| State sources   | \$ 6,335                   | \$ 6,335                | \$ -                  | \$ (6,335)                                      |
| Local sources   | 89,878                     | 89,878                  | 89,785                | (93)  |
| Earnings on investments                                     | <u>40</u>                  | <u>40</u>               | <u>83</u>             | <u>43</u>                                       |
| <br>Total revenues  | <br><u>\$ 96,253</u>       | <br><u>\$ 96,253</u>    | <br><u>\$ 89,868</u>  | <br><u>\$ (6,385)</u>                           |
| Expenditures:   |                            |                         |                       |   |
| Current:  |                            |                         |                       |   |
| Administration  | \$ 899                     | \$ 1,000                | \$ -                  | \$ 1,000  |
| Operation of plant  | 153,490                    | 167,255                 | 56,290                | 110,965   |
| Capital outlay  | <u>6,335</u>               | <u>6,335</u>            | <u></u>               | <u>6,335</u>                                    |
| <br>Total expenditures                                      | <br><u>\$ 160,724</u>      | <br><u>\$ 174,590</u>   | <br><u>\$ 56,290</u>  | <br><u>\$ 118,300</u>                           |
| <br>Net change in fund balance                              | <br>\$ (64,471)            | <br>\$ (78,337)         | <br>\$ 33,578         | <br>\$ 111,915                                  |
| <br>Fund balance, July 1, 2017                              | <br><u>86,430</u>          | <br><u>86,430</u>       | <br><u>86,430</u>     | <br><u>-</u>                                    |
| <br>Fund balance, June 30, 2018                             | <br><u>\$ 21,959</u>       | <br><u>\$ 8,093</u>     | <br><u>\$ 120,008</u> | <br><u>\$ 111,915</u>                           |
| <br>Budgetary reconciliation:                               |                            |                         |                       |   |
| Net change in fund balance, GAAP basis                      |                            |                         | \$ 34,202             |   |
| Revenue accruals (net)                                      |                            |                         | (1,763)               |   |
| Expenditure accruals (net)                                  |                            |                         | <u>1,139</u>          |   |
| <br>Net change in fund balance, NON-GAAP<br>budgetary basis |                            |                         | <br><u>\$ 33,578</u>  |   |

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

Reserve Independent Schools  
**STATEMENT OF FIDUCIARY ASSETS & LIABILITIES**  
**AGENCY FUNDS**  
June 30, 2018

|                                     | <u>Agency</u>    |
|-------------------------------------|------------------|
| <b>Assets</b>                       |                  |
| Cash and investments                | \$ 52,243        |
| Interest receivable                 | -                |
|                                     | <hr/>            |
| Total assets                        | <u>\$ 52,243</u> |
| <br>                                |                  |
| <b>Liabilities and Net Position</b> |                  |
| Deposits held for others            | <u>\$ 52,243</u> |
| Total liabilities                   | <u>\$ 52,243</u> |

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

Reserve Independent Schools  
**NOTES TO FINANCIAL STATEMENTS**  
For The Fiscal Year Ended June 30, 2018

Note 1 **Summary of Significant Accounting Policies**

Reserve Independent Schools, organized under the laws of the State of New Mexico, operates under the school board-superintendent form of government. The System provides public education opportunities for children from first through twelfth grade, including but not limited to classroom and vocational studies; as well as school oriented social and athletic activities.

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the District are discussed below.

**A. REPORTING ENTITY**

These financial statements present the District (the primary government). As defined by GAAP, component units are legally separate entities that are included in the District's reporting entity because of the significance of their operating or financial relations with the District. Based on the criterion in GAAP, the District has no component units.

**B. BASIS OF PRESENTATION**

*Government-wide Financial Statements:*

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The District has no business-type activities.

*Fund Financial Statements:*

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into two major categories: governmental, and fiduciary. An emphasis is placed on major funds within the governmental categories. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type.

The funds of the financial reporting entity are described below:

### **Governmental Funds**

#### *General Fund*

The General Fund is the primary operating fund of the District and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds. Included in the General Fund are sub-funds; Operational, the Unrestricted District Fund; Transportation, which accounts for State source revenue used to transport students; and Instructional Materials, which accounts for State Source Funds used to purchase textbooks.

#### *Special Revenue Funds*

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

#### *Capital Project Fund*

The Capital project Funds are used to account for resources restricted for the acquisition or construction of specific capital projects or items.

#### *Debt Service Fund*

The Debt Service Fund accounts for the accumulation of financial resources for the payment of interest and principle on the general long-term debt of the District.

#### *Fiduciary Funds*

Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support District programs. The reporting focus is on net position and changes in net position and are reported using accounting principles similar to proprietary funds.

Agency Funds account for assets held in a purely custodial capacity. Since agency funds are custodial in nature (i.e.) assets equal liabilities, they do not involve the measurements of results of operations. Typically, these funds are owned by clubs, athletic teams, and/or student organizations.

The emphasis in fund financial statements is on the major funds in the governmental category. Non-major funds are summarized into a single column.

The District's fiduciary funds are presented in the fiduciary fund financial statements by type (pension, private purpose and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated in to the government-wide statements.

### *Major-Fund Descriptions*

*General* – See above description.

Title I – To account for the federal assistance provided to the District for the improvement of educational opportunities to deprived children, and is a Special Revenue Fund. (Authority, P.L. 103-382).

SB-9 – Created by State Law to account for the Districts tax levy restricted solely for improvements to the physical plant NMSA 1978 22-25-1, and is a Special Revenue Fund.

Entitlement – P.L. 94-142, Individuals with Disabilities Education Act – to account for a federal grant restricted to the operation and maintenance of meeting the special education need of children with disabilities. Authority for the creation of this fund is Individuals with Disabilities Act, Part B, Sec. 611, as amended: Public Laws 91-230, 91-380, 94-142, 98-199 99-457, 100-630 and 101-476; 20 U.S.C. 1401–1419, Public Law 105-17, and is a Special Revenue Fund.

Debt Service – See above description.

Bond Building – accounts for bond proceeds along with other funding to be utilized for construction of facilities, and is a Capital Project Fund.

## **C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

### **Measurement Focus**

On the government-wide Statement of Net Position and the Statement of Activities, governmental activities are presented using the economic resources measurement focus as defined in item “b” below.

In the fund financial statements, the “current financial resources” measurement focus is used.

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets, deferred outflows of resources, liabilities and deferred inflows of resources are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The government-wide financial statements utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), and financial position. All assets, deferred outflows of resources, liabilities and deferred inflows of resources (whether current or noncurrent) associated with their activities are reported. Revenues, expenses, gains, losses, assets, deferred outflow of resources, liabilities and deferred inflows of resources resulting from non-exchange transactions are recognized when the earnings process is complete.



## **BASIS OF ACCOUNTING**

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

### **1. Accrual:**

The government-wide financial statements and the fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities and deferred inflows of resources resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

### **2. Modified Accrual:**

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

Substantially all governmental fund revenues are accrued. In applying GASBS No. 33 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as deferred outflows of resources by the provider and deferred inflows of resources by the recipient. Grant revenues not collected within 60 days of year end are recorded as receivables and deferred inflows of resources. Such amounts are recorded net of estimated uncollectible accounts.

Property tax receivables are recognized net of estimated refunds and uncollectible amounts in the period for which the taxes are levied, even if they are not available. Property taxes not collected within 60 days of year end are reported as deferred inflows of resources in the fund statements. Property taxes are considered fully collectible.

In the government –wide Statement of Net Position, the governmental activities columns (a) are presented on a consolidated basis by column, (b) and are reported on a fully accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net position is reported in three parts – net investment in capital assets; restricted net position; and unrestricted net position. The District first utilizes restricted resources when an expense is incurred and for purposes for which both restricted and unrestricted net positions are available.

The government-wide Statement of Activities reports both the gross and net cost of each of the District's functions. The functions are also supported by generally government revenues (property taxes, certain intergovernmental revenues, and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Charges for services include revenues based on exchange or exchange-like transactions. These revenues arise from charges to customers or applicants who purchase use or directly benefit from the goods, services or privileges

provided. Revenues in this category include fees charged for specific services, such as attendance at athletic events, food service, copies and auxiliary services. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs (by function) are normally covered by general revenue (property taxes, intergovernmental revenues, interest income, etc.).

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net position resulting from the current year's activities.

#### **D. BUDGETS**

Budgets for the General, Special Revenue, Debt Service and Capital Projects funds are prepared by management and approved by the local school board and the Public Finance School Division of the Department of Education. Included in the bond building fund, when applicable, are payments made by the Public School Facilities Authority directly to vendors on behalf of the District, and bond proceeds held and disbursed to vendors by the New Mexico Finance Authority. Such amounts are excluded from the budgetary comparison of the bond building fund.

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

Actual expenditures may not exceed the budget on a functional category basis, i.e., each budgeted expenditure must be within budgeted amounts. Budgets may be amended in two ways. If a budget transfer is necessary within a major category called a "series", this may be accomplished with only local Board of Education approval. If a transfer between "series" or a budget increase is required, approval must also be obtained from Public Education Department.

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

#### **E. CASH AND INVESTMENTS**

Cash includes amounts in demand deposits as well as short-term investments with a maturity of six months from the date acquired by the government. State statutes authorize the government to invest in obligations of the U.S. Treasury, interest-bearing accounts with local financial institutions and the State Treasurer Pool.

New Mexico Statutes require that financial institutions with public monies on deposit pledge collateral, to the owners of such monies, in an amount not less than 50% of the public monies held on deposit. Collateral pledged is held in safekeeping by other financial institutions, with safekeeping receipts held by the District. The pledged securities remain in the name of the financial institution. Repurchase agreements are required to be collateralized 102%.

**F. INVENTORIES**

Except for U.S.D.A. commodities, which are shown at estimated value, inventories are valued at cost (first-in, first-out). Inventory in the Cafeteria Fund consists mainly of food items. Inventories, in other governmental fund types, consist primarily of supply-type assets.

**G. CAPITAL ASSETS**

Capital assets purchased or acquired with an original cost of \$5,000.00 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

|                                |             |
|--------------------------------|-------------|
| Buildings                      | 20-50 years |
| Software and library resources | 3-5 years   |
| Machinery and equipment        | 5-10 years  |
| Improvements                   | 10-20 years |

The accounting treatment over property, plant and equipment depends on whether they are reported in the government-wide financial statements or fund financial statements. In the government-wide financial statements, fixed assets are accounted for as capital assets. In the fund financial statements, fixed assets are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

**H. LONG-TERM DEBT**

The accounting treatment of long-term debt depends on whether the assets are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds payable and accrued compensated absences.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principle and interest reported as expenditures.

**I. COMPENSATED ABSENCES**

The District's policies, regarding vacation time, permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. The current portion of this debt is not estimable. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources. These liabilities have typically been liquidated from general fund resources.

**J. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES**

In addition to assets, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate

financial statement element, deferred outflows of resources, represents consumption of net position that applies to a future period, and so will not be recognized as an outflow or resource (expenses/expenditures) until then. The Government has deferred outflows of resources related to pensions as discussed in Note 5, and other postemployment benefits as discussed in Note 6.

In addition to liabilities, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenues) until that time. The Government has three types of items, one of which arises under the full accrual basis of accounting and all of which arise under the modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item unavailable revenue, is reported in both the statement of net position and the governmental funds balance sheet, if necessary. The amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The Government reports unavailable revenue from the following sources:

| <u>Governmental Funds Balance Sheet</u>                 |  |                         |                      |                                  |                  |
|---|--|-------------------------|----------------------|----------------------------------|------------------|
|   | <u>Statement<br/>of Net<br/>Position</u> | <u>General<br/>Fund</u> | <u>SB-9<br/>Fund</u> | <u>Debt<br/>Service<br/>Fund</u> | <u>Total</u>     |
| Advances received<br>under expenditure<br>driven grants | \$ -0-                                   | \$                      | \$                   | \$                               | \$               |
| Revenue not<br>received within<br>60 days of year-end   |  |                         |                      |                                  |                  |
| Property taxes  | <u>          </u>                        | <u>17,252</u>           | <u>21,148</u>        | <u>25,553</u>                    | <u>63,953</u>    |
| Total   | <u>\$ -0-</u>                            | <u>\$ 17,252</u>        | <u>\$ 21,148</u>     | <u>\$ 25,553</u>                 | <u>\$ 63,953</u> |

In addition, the District reports deferred inflows of resources related to pensions as discussed in Note 5, and other postemployment benefits as discussed in Note 6.

**K. EQUITY CLASSIFICATIONS**

*Government-wide Statements*

Equity is classified as net position and displayed in three components:

- a. Net investment in capital assets – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net position – consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

- c. Unrestricted net position – all other net positions that do not meet the definition of “restricted” or “net investment in capital assets.”

### *Fund Statements*

During the year ended June 30, 2011, the District implemented GASB Statement 54 “Fund Balance Reporting and Governmental Fund Type Definitions”. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used.

- o Non-spendable fund balance – amounts that are not in a spendable form (such as inventory) or are required to remain intact.
- o Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- o Committed fund balance – amounts constrained to specific purposes by the government itself, using its highest level of decision-making authority, to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change its constraints.
- o Assigned fund balance – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the government body delegates the authority.
- o Unassigned fund balance – amounts that are available for any purpose; positive amounts are reported only in the general fund.

The Board of Education establishes (and modifies or rescinds) fund balance commitments by adoption of a resolution or a vote of the Board. This is typically done through the adoption and amendment of the budget. Assigned fund balance is established by the Board of Education through adoption or amendment of the budget as intended for a specific purpose (such as purchase of fixed assets, construction, debt service or for other purposes). Expenditures incurred are normally paid from the most highly constrained fund balance.

## **L. PROPERTY TAX**

Property taxes attach as an enforceable lien on property as of January 1. Property tax rates for the year are set no later than September 1 each year by the Secretary of Finance and Administration. The rates of tax are then used by County Assessors to develop the property tax schedule by October 1. Taxes are payable in equal semiannual installments by November 10 and April 10 of the subsequent year and become delinquent 30 days later. Taxes are collected on behalf of the District by the County Treasurer, and are remitted to the District in the month following collection. Because the Treasurer of the County in which the District is located is statutorily required to collect taxes as an intermediary agency for all forms of government, distribution of taxes are made through the applicable County to the District.

The District is permitted to levy taxes for general operating purposes up to \$.50 per \$1,000 of taxable value for both residential and nonresidential property, taxable value being defined as one third of the fully assessed value. In addition, the district is allowed to levy taxes for payments of bond principal and interest in amounts approved by voters

of the District, as well as a Two Mill Levy for District improvements. The District's total tax rate to finance general government services for the year ended June 30, 2018 was \$.50 per \$1,000 for non-residential property and \$.357 for residential property. The District's tax rate for debt service was \$2.469 per \$1,000 for both residential and nonresidential property. The District's tax rate for District improvements was \$2.00 per \$1,000 for residential and \$2.00 for nonresidential property.

**M. INTERFUND ACTIVITY**

Inter-fund activity is reported as either loans, services provided, reimbursements or transfers. Loans are reported as inter-fund receivables and payable as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other inter-fund transactions are treated as transfers. Inter-fund activity between governmental funds are netted as part of the reconciliation to the government-wide financial statements.

**N. USE OF ESTIMATES**

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

Note 2 Custodial Credit Risk

Custodial credit risk is the risk in the event of a bank failure the government's deposits may not be returned to it. The District does not have a deposit policy for credit risk beyond that disclosed in Note 1.

As of June 30, 2018 \$-0- of the government bank balance of \$1,033,614 was exposed to custodial credit risk as follows:

|  |                     |                        |
|--|---------------------|------------------------|
| Uninsured and collateralized   |                     | \$ <u>-0-</u>          |
|  | <u>Bank Balance</u> | <u>Carrying Amount</u> |
| Deposits by custodial risk category:                                   |                     |                        |
| Insured  | \$ 250,000          | \$ 250,000             |
| Collateral held by the pledging bank's agent<br>in the District's name | 783,614             | 442,724                |
| Uninsured and collateralized   | <u>-0-</u>          | <u>-0-</u>             |
|  | <u>\$ 1,033,614</u> | <u>\$ 692,724</u>      |

The District does not have a risk policy beyond that required by State Statute.

Note 3 Capital Assets

Capital asset activity for the year ended June 30, 2018, was as follows:

|  | Balance<br><u>July 1, 2017</u> | <u>Additions</u> | <u>Deletions</u> | Balance<br><u>June 30, 2018</u> |
|--|--------------------------------|------------------|------------------|---------------------------------|
| Capital assets not being depreciated:        |                                |                  |                  |                                 |
| Land   | \$ 71,676                      | \$ -             | \$ -             | \$ 71,676                       |
| <br>Total assets not being<br>depreciated    | <br>\$ 71,676                  | <br>\$ -         | <br>\$ -         | <br>\$ 71,676                   |
| Other capital assets:                        |                                |                  |                  |                                 |
| Building & improvements                      | \$ 17,041,654                  | \$ 397,050       | \$ -             | \$ 17,438,704                   |
| Furniture and equipment                      | 1,238,553                      | 9,550            | 12,000           | 1,236,103                       |
| Land improvements                            | <u>772,593</u>                 | <u>48,623</u>    | <u>-</u>         | <u>821,216</u>                  |
| <br>Total other assets at<br>historical cost | <br>\$ 19,052,800              | <br>\$ 455,223   | <br>\$ 12,000    | <br>\$ 19,496,023               |
| Less accumulated depreciation:               |                                |                  |                  |                                 |
| Buildings and improvements                   | \$ (2,192,264)                 | \$ (564,029)     | \$ -             | \$ (2,756,293)                  |
| Land improvements                            | (769,539)                      | (1,151)          |                  | (770,690)                       |
| Furniture and equipment                      | <u>(874,718)</u>               | <u>(130,385)</u> | <u>10,000</u>    | <u>(995,103)</u>                |
| <br>Total accumulated depreciation           | <br>\$ (3,836,521)             | <br>\$ (695,565) | <br>\$ 10,000    | <br>\$ (4,522,086)              |
| <br>Total capital assets, net                | <br>\$ 15,287,955              | <br>\$ (240,342) | <br>\$ 2,000     | <br>\$ 15,045,613               |

Depreciation expense was charged to the governmental activities as follows:

|                        |                   |
|------------------------|-------------------|
| Instruction            | \$ 301,039        |
| Student support        | 103,667           |
| Instructional support  | 41,247            |
| Administration general | 13,580            |
| Administration school  | 18,090            |
| Central services       | 49,050            |
| Plant operation        | 86,055            |
| Transportation         | 56,597            |
| Food Services          | <u>26,240</u>     |
|                        | <u>\$ 695,565</u> |

Note 4 Long-term Debt

Changes in long-term debt were as follows during the year end June 30, 2018:

|                         | <u>Balance</u><br><u>July 1, 2017</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u><br><u>June 30, 2018</u> | <u>Due In</u><br><u>One Year</u> |
|-------------------------|---------------------------------------|------------------|------------------|--|----------------------------------|
| G.O. Bonds, 2014        | \$ 2,065,000                          | \$ _____         | \$ 185,000       | \$ 1,880,000                           | \$ 190,000                       |
| Compensated<br>absences | \$ 20,355                             | \$ 5,376         | \$ 5,865         | \$ 19,866                              | \$ -0-                           |

Annual debt service for bonds payable requirements are as follows:

Due in fiscal year ending June 30:

|           | <u>Principal</u>    | <u>Interest</u>   |
|-----------|---------------------|-------------------|
| 2019      | \$ 190,000          | \$ 39,121         |
| 2020      | 195,000             | 36,553            |
| 2021      | 205,000             | 33,099            |
| 2022      | 210,000             | 28,682            |
| 2023      | 220,000             | 23,306            |
| 2024-2028 | <u>860,000</u>      | <u>30,636</u>     |
|           | <u>\$ 1,880,000</u> | <u>\$ 191,397</u> |

No compensated absences are considered due and payable in the next fiscal year.

#### GENERAL OBLIGATION BONDS

The bonds and bond interest are paid from property tax levies enacted specifically for the debt retirement. The revenues pledged totaled \$2,071,397 at June 30, 2018, and equal 100% of the tax levies enacted to repay the bonded indebtedness. The bonds were sold to erect and furnish facilities for the District. Interest rates range from .4166% to 3.20% for individually scheduled retirements, and maturity dates range from 2019 through 2027. The property tax levies expire when the related bond indebtedness is repaid.

During the year ended June 30, 2018, the District recognized \$231,637 in property taxes pledged to retire the bonded indebtedness, and retired \$225,938 in bond principal and interest.

#### Note 5 Pension Plan

##### Summary of Significant Accounting Policies

**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 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 amortized cost.

## General Information about the Pension Plan

### Plan Description

ERB was created by the State's Education Retirement Act, Section 22-11-1 through 22-11-52. NMSA 1978, as amended, to administer the New Mexico Educational Employees' Retirement Plan (Plan). The Plan is a cost-sharing, multiple employer 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 agencies providing educational programs. The Plan is a pension trust fund of the State of New Mexico. The New Mexico Legislature has the authority to set or amend contribution rates.

ERB issues a publicly available financial report and a comprehensive annual financial report that can be obtained at [www.nmerb.org](http://www.nmerb.org).

### Benefits Provided

A member's retirement benefit is determined by a formula which includes three component parts: the member's final average salary (FAS), the number of years of service credit, and 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. A brief summary of Plan coverage provisions follows:

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 that date refunded all member contributions and then became, or becomes, reemployed after that date 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 an ERB employer on or after July 1, 2013. These members must meet one of the following requirements:

- The member's minimum age of 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,
- 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.

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 lump sum to the member's surviving beneficiary. There are three benefit options available: single life annuity; single life annuity monthly benefit reduced to provide for a 100% survivor's benefit; or single life annuity monthly benefit is reduce to provide for a 50% survivor's benefit.

Retired members and surviving beneficiaries receiving benefits receive an automatic cost of living adjustment (COLA) to their benefit each July 1, beginning in the year the member attains or would have attained age 65 or on July 1 of the year following the member's retirement date, whichever is later. Prior to June 30, 2013 the COLA adjustment was equal to one half the change in the Consumer Price Index (CPI), except that the COLA shall not exceed 4% nor be less than 2%, unless the change in CPI is less than 2%, in which case, the COLA would equal the change in the CPI, but never less than zero. As of July 1, 2013, for current and future retirees the COLA was immediately reduced until the plan is 100% funded. The COLA reduction was 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 a 10% COLA reduction; their average COLA will be 1.8%. All other retirees will have a 20% COLA reduction; their average COLA will be 1.6%. 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%. All other retirees will have a 10% COLA reduction; their average will be 1.8%. 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.

A member is eligible for a disability benefit provided (a) he or she has credit for at least 10 years of service, and (b) the disability is approved by ERB. The monthly benefit is equal to 2% of FAS times years of service, but not less than the smaller of (a) one-third of FAS or (b) 2% of FAS times year of service projected to age 60. The disability benefit commences immediately upon the member's retirement. Disability benefits are payable as a monthly life annuity, with a guarantee that, if the payments made do not exceed the member's accumulated contributions, determined as of the date of retirement, the balance will be paid in a lump sum to the member's surviving beneficiary. If the disabled member survives to age 60, the regular optional forms of payment are then applied. A member with five or more years of earned service credit on deferred status may retire on disability retirement when eligible under the Rule of 75 or when the member attains age 65.

### Contributions

The contribution requirements of defined benefit plan members and the Reserve Independent Schools are established in state statute under Chapter 10, Article 11, NMSA, 1978. The requirements may be amended by acts of the legislature. For fiscal year ended June 30, 2018 employers contributed 13.90% and employees earning \$20,000 or less continued to contribute 7.9% and employees earning more than \$20,000 contributed an increased amount of 10.70% of their gross annual salary. Contributions

to the pension plan from the Reserve Independent Schools were \$202,465 for the year ended June 30, 2018.

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

The total ERB pension liability, net pension liability, and sensitivity information were based on an annual actuarial valuation performed as of June 30, 2016. The total ERB pension liability was rolled forward from the valuation date to the Plan year ending June 30, 2017, using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date June 30, 2017. At June 30, 2018, the Reserve Independent Schools reported a liability of \$5,577,850 for its proportionate share of the net pension liability. The District's proportion of the net pension liability is based on the employer contributing entity's percentage of total employer contributions for the fiscal year ended June 30, 2017. The contribution amounts were defined by Section 22-11-21, NMSA 1978. At June 30, 2017, the District's proportion was .05019 percent, which was a decrease of .00058 percent from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the Reserve Independent Schools recognized pension expense of \$839,082. At June 30, 2018, the Reserve Independent Schools reported deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

|  | <u>Deferred<br/>Outflows<br/>Of Resources</u> | <u>Deferred<br/>Inflows<br/>Of Resources</u> |
|--|---|--|
| Differences between expected and actual experience   | \$ 10,013                                     | \$ (85,932)                                  |
| Changes of assumptions   | 1,628,284                                     | -  |
| Net difference between projected and actual earnings on pension plan investments   |   | (765)  |
| Changes in proportion and differences between Reserve Independent Schools contributions and proportionate share of contributions | 34,651  | (148,005)                                    |
| Reserve Independent Schools contributions subsequent to the measurement date   | <u>202,465</u>                                | <u>-</u>                                     |
| Total  | <u>\$ 1,875,413</u>                           | <u>\$ (234,702)</u>                          |

\$202,465 reported as deferred outflows of resources related to pensions resulting from Reserve Independent Schools contributions subsequent to the measurement date June 30, 2017 will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. 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:

|      |            |
|------|------------|
| 2019 | \$ 546,262 |
| 2020 | 565,968    |

2021  
2022

371,945  
(45,929)

### Actuarial Assumptions

As described above, the total ERB pension liability and net pension liability are based on an actuarial valuation performed as of June 30, 2016. The total ERB pension liability was rolled forward from the valuation date to the Plan year ending June 30, 2017 using generally accepted actuarial principles. There were no significant events or changes in benefit provision that required an adjustment to the roll-forward liabilities as of June 30, 2017. Specifically the liabilities measured as of June 30, 2017 incorporate the following assumptions:

1. All members with an annual salary of more than \$20,000 will contribute 10.7%.
2. Members hired after June 30, 2013 will have an actuarially reduced retirement benefit if they retire before age 55 and their COLA will be deferred until age 67.
3. COLA's for most retirees are reduced until ERB attains a 100% funded status.
4. These assumptions were adopted by ERB on June 12, 2015 in conjunction with the six-year experience study period ending June 30, 2014.

For the purposes of projecting future benefits, it is assumed that the full COLA is paid in all future years. The actuarial methods and assumptions used to determine contribution rates included in the measurement are as follows:

|                           |   |
|---------------------------|---|
| Actuarial Cost Method     | Entry Age Normal  |
| Single discount rate      | 5.9 Years   |
| Inflation                 | 3.00%   |
| Salary Increases          | Composition: 3% inflation, plus .75% productivity rate, plus step rate promotional increases for members with less than 10 years of service   |
| Investment Rate of Return | 7.25%   |
| Retirement Age            | Experience based table of age and service rates   |
| Mortality                 | Healthy males: RP-2000 Combined Mortality Table with White Collar Adjustment, using Scale BB.<br><br>Healthy females: GRS Southwest Regional teacher mortality table, set back one year, generational mortality improvements in accordance with scale BB from the tables base year of 2012. |

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.). These items are developed for each major asset class.

Discount Rate

A single discount rate of 5.9% was used to measure the total ERB pension liability as of June 30, 2017. This single discount rate was based on the expected rate of return on pension plan investments of 7.25%. Based on the stated assumptions and the projection of cash flows, the Plan’s fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current pension plan members. Therefore, the long-term expected rate of return on 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 contributions will be made at the current statutory levels. Additionally, contributions received through the Alternative Retirement Plan (ARP), ERBs defined contribution plan, are included in the projection of cash flows. ARP contributions are assumed to remain at a level percentage of ERB payroll, where the percentage of payroll is based on the most recent five year contribution history.

Sensitivity of the Reserve Independent Schools Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table shows the sensitivity of the net pension liability to changes in the discount rate as of the fiscal year end 2017. In particular, the table presents the District’s net pension liability under the current single rate assumption, as if it were calculated using a discount rate one percentage point lower (4.90%) or one percentage point higher (6.90%) than the single discount rate.

|  | <u>1% Decrease</u><br><u>(4.90%)</u> | <u>Discount Rate</u><br><u>(5.90%)</u> | <u>1% Increase</u><br><u>(6.90%)</u> |
|--|--------------------------------------|--|--------------------------------------|
| Reserve Independent Schools proportionate share of the net pension liability | \$ 7,260,973                         | \$ 5,577,850                           | \$ 4,202,033                         |

Pension Plan Fiduciary Net Position

Detailed information about the ERB’s fiduciary net position is available in the separately issued audited financial statements as of and for the years ended June 30, 2017 and 2016 which are publicly available at [www.nmerb.org](http://www.nmerb.org).

Note 6 Retiree Health Care Plan

Summary of Significant Accounting Policies

For purposes of measuring the net other postemployment benefits liability (OPEB) deferred outflows of resources and deferred inflows of resources related to OPEB, and

OPEB expense, information about the fiduciary net position of the Retiree Health Care Authority (RHCA) and additions to/deductions from RHCA’s fiduciary net position have been determined on the same basis as they are reported by RHCA, on the economic resources measurement focus and accrual basis of accounting. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

General Information about the Health Care Authority

The New Mexico Retiree Health Care Authority (the Authority) was formed February 13, 1990, under the New Mexico Retiree Health Care Act (the Act) of New Mexico Statutes Annotated, as amended (NMSA 1978), to administer the Retiree Health Care Fund (the Fund) under Section 10-7C-1-19 NMSA 1978. The Fund was created to provide comprehensive group health insurance coverage for individuals (and their spouses, dependents and surviving spouses) who have retired or will retire from public service in New Mexico.

RHCA issues a publicly available financial report and a comprehensive annual financial report that can be obtained at [www.nmrhca.state.nm.us](http://www.nmrhca.state.nm.us), or by contacting the New Mexico Retiree Health Care Authority at 4308 Carlisle N.E., Albuquerque, N.M. 87107.

The Fund is a multiple employer cost sharing defined benefit healthcare plan that provides eligible retirees (including terminated employees who have accumulated benefits but are not yet receiving them), their spouses, dependents and surviving spouses and dependents with health insurance and prescription drug benefits consisting of a plan, or optional plans of benefits, that can be contributions to the Fund and by co-payments or out-of-pocket payments of eligible retirees. Employees of the Authority also participate in the Fund.

The plan has 310 participating employers and 160,035 current members, including active employees, terminated eligible members, retirees, and surviving spouses. As of June 30, 2017, membership in the plan consists of the following:

Plan membership:

|  |                |
|--|----------------|
| Current retirees and surviving spouses     | 51,208         |
| Inactive and eligible for deferred benefit | 11,478         |
| Current active members                     | <u>97,349</u>  |
|  | <u>160,035</u> |
| <br>                                       |                |
| Municipal police                           | 3,820          |
| Municipal FTRE                             | 2,290          |
| Educational Retirement Board               | <u>48,756</u>  |
|  | <u>97,349</u>  |

The Authority is an independent agency of the State of New Mexico. The funds administered by the Authority are considered part of the State of New Mexico financial reporting entity and are OPEB Trust Funds of the State of New Mexico. The Authority’s financial information is included with the financial presentation of the State of New Mexico.

Employer and employee contributions to the Authority total 3% for non-enhanced retirement plans and 3.75% of enhanced retirement plans of each participating employee's salary as required by Section 10-7C-15 NMSA 1978. The contributions are established by statute and are not based on an actuarial calculation. All employer and employee contributions are non-refundable under any circumstance, including termination of the employer's participation in the Authority.

Current retirees are required to make monthly contributions for individual basic medical coverage. The Board may designate other plans as "optional coverages". See Section 10-7C-13 NMSA 1978 for more details.

The plan's actuarial valuation and measurement of the net OPEB liability and other OPEB amounts were performed by the Authority's independent actuary as of June 30, 2017. The plan's valuation and measurement of the total OPEB liability and related net OPEB liability were performed in accordance with GASB No. 74. The components of the net OPEB liability as of June 30, 2017 are as follows:

|                             | <u>June 30, 2017</u>    |
|-----------------------------|-------------------------|
| Total OPEB liability        | \$ 5,111,141,659        |
| Plan fiduciary net position | <u>579,468,641</u>      |
| Net OPEB liability          | <u>\$ 4,531,673,018</u> |

|   |        |
|---|--------|
| Plan fiduciary net position as a percentage of the total OPEB liability (funded status) | 11.34% |
|---|--------|

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Other Postemployment Benefits

The Reserve Independent Schools reported a liability of \$1,508,594 for its proportionate share of the net OPEB liability. The District's proportion of the net OPEB liability based on the employer contributing entity's percentage of total employer contributions for the fiscal year ended June 30, 2017. At June 30, 2017, the District's proportion was .03329 percent.

For the year ended June 30, 2018, the District recognized OPEB expense of \$59,979. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to other postemployment benefits from the following sources:

|  | <u>Deferred<br/>Outflows<br/>Of Resources</u> | <u>Deferred<br/>Inflows<br/>Of Resources</u> |
|--|---|--|
| Differences between expected and actual experience                       | \$  | \$ 57,892                                    |
| Net difference between projected and actual earnings on plan investments |   | 21,702                                       |

|   |                  |                   |
|---|------------------|-------------------|
| Changes of assumptions  |                  | 263,758           |
| The District's contributions subsequent to the measurement date | <u>29,032</u>    | <u>          </u> |
| Total   | <u>\$ 29,032</u> | <u>\$ 343,352</u> |

\$29,032 reported as deferred outflows of resources related to OPEB resulting from the District contributions subsequent to the measurement date, June 30, 2017 will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30:

|      |             |
|------|-------------|
| 2019 | \$ (72,999) |
| 2020 | (72,999)    |
| 2021 | (72,999)    |
| 2022 | (72,999)    |
| 2023 | (51,356)    |

Actuarial Valuation

The total OPEB liability as of June 30, 2017 was determined by an actuarial valuation as of June 30, 2017. The mortality, retirement, disability, turnover and salary increase assumptions are based on the PERA annual valuation as of June 30, 2016 and the ERB actuarial experience study as of June 30, 2016. The following actuarial assumptions were applied to the actuary's measurement:

|                             |   |
|-----------------------------|---|
| Valuation Date              | June 30, 2017   |
| Actuarial cost method       | Entry age normal, level percent of pay calculated on individual employee basis  |
| Asset valuation method      | Market value of assets  |
| Actuarial assumptions:      |   |
| Inflation                   | 2.50% for ERB members; 2.25% for PERA members   |
| Projected payroll increases | 3.50%   |
| Investment rate of return   | 7.25%, net of OPEB plan investment expense and margin for adverse deviation including inflation   |
| Health care cost trend rate | 8% graded down to 4.5% over 14 years for Non-Medicare medical plan costs and 7.5% graded down to 4.5% over 12 for Medicare medical plan costs |
| Mortality                   | ERB members:  |



RP-2000 Combined Healthy Mortality Table with White Collar Adjustment (males) and GRS Southwest Region Teacher Mortality Table (females) PERA Members: RP-2000 Combined Healthy Mortality.

Rate of Return

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which the expected future real rates of return (net of investment fees and inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumptions.

The best estimates for the long-term expected rate of return is summarized as follows:

| <u>Asset Class</u>            | <u>Target Allocation</u> | <u>Long-term Rate of Return</u> |
|-------------------------------|--------------------------|---------------------------------|
| U.S. Core Fixed Income        | 20%                      | 4.1%                            |
| U.S. Equity – Large Cap       | 20%                      | 9.1%                            |
| Non U.S. – Emerging Markets   | 15%                      | 12.2%                           |
| Non U.S. – Developed Equities | 12%                      | 9.8%                            |
| Private Equity                | 10%                      | 13.8%                           |
| Credit and Structured Finance | 10%                      | 7.3%                            |
| Real Estate                   | 5%                       | 6.9%                            |
| Absolute Return               | 5%                       | 6.1%                            |
| U.S. Equity – Small/Mid Cap   | 3%                       | 9.1%                            |

Discount Rate

The discount rate used to measure the total OPEB liability is 3.81% as of June 30, 2017. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at rates proportional to the actuary determined contribution rates. For this purpose, employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries are not included. Based on those assumptions, the Fund’s fiduciary net position was projected to be available to make all projected future benefit payments for current plan members through the fiscal year ending June 30, 2028. Thus, the 7.25% discount rate was used to calculate the net OPEB liability through 2029. Beyond 2029, the index rate for 20-year, tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher. Thus 3.81% is the blended discount rate.

Sensitivity of the Net Cooperative’s OPEB Liability

The following presents the District’s net OPEB liability, calculated using the discount rate of 3.81%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percent lower or 1-percent higher than the current rate:

|                               |                                    |                               |
|-------------------------------|------------------------------------|-------------------------------|
| <u>1% Decrease</u><br>(2.81%) | <u>Current Discount</u><br>(3.81%) | <u>1% Increase</u><br>(4.81%) |
| \$ 1,829,901                  | \$ 1,508,594                       | \$ 1,256,500                  |

Note 7 Risk Management

The 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 natural disasters. Because the District was unable to obtain general liability insurance at a cost it considered to be economically justifiable, it joined together with other school districts in the State and obtained insurance coverage with New Mexico Public Schools Insurance Authority, a public entity risk pool currently operating as a common risk management and insurance program for member school districts. The District pays an annual premium to New Mexico Public Schools Insurance Authority for its general insurance coverage, and all risk of loss is transferred. No losses exceeded insurance in the past three years.

The New Mexico Public Schools Insurance Authority is self-insured for property and liability losses below \$250,000 and purchases excess insurance above the self-insured retention. The self-insured retention aggregate for property is set at \$2,000,000 with a \$1,000,000 stop loss. The self-insured retention aggregate for liability is \$3,000,000 with a \$1,000,000 stop loss.

Note 8 Contingent Liabilities

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

Note 9 Inter-fund Activity

|                              | <u>Inter-Fund Payable</u> |                    |                      |                    |              |
|------------------------------|---------------------------|--------------------|----------------------|--------------------|--------------|
|                              | <u>Title I</u>            | <u>Entitlement</u> | <u>Bond Building</u> | <u>Other Funds</u> | <u>Total</u> |
| <u>Inter-fund Receivable</u> |                           |                    |                      |                    |              |
| General                      | \$ 16,260                 | \$ 18,156          | \$ _____             | \$ 13,637          | \$ 48,053    |

These transactions were used to fund operations in the short-term, and are expected to be repaid within one year.

There were no inter-fund transfers during the year ended June 30, 2018.

Note 10 Restricted Net Position

At June 30, 2018, net positions restricted for other purposes included the following balances:

|           |                   |
|-----------|-------------------|
| General   | \$ 12,487         |
| Medicaid  | 18,210            |
| Cafeteria | 11,319            |
| SB-9      | 128,921           |
| Other     | <u>6,450</u>      |
|           | <u>\$ 177,387</u> |

The District reports restricted positions of \$474,761 of which \$468,311 is restricted by enabling legislation.

Note 11 Evaluation of Subsequent Events

The District has evaluated subsequent events through November 5, 2018, the date which the financial statements were available to be issued.

Note 12 Expenditures in Excess of Budgetary Authority

The District had expenditures in excess of budgetary authority in the Title I - instruction function of \$1,391. The District has placed emphasis on year-end budget adjustments.

Note 13 Restatements

During the year ended June 30, 2018, the District adopted Governmental Accounting Standards Board Statement No. 75. This statement requires the recognition of a net other postemployment benefit liability for the unfunded postemployment benefits as currently measured by the Retiree Health Care Authority of \$1,791,967.

In addition, the prior year net position was restated for the overstatement of beginning compensated absences payable of \$10,215.

Also, prior year net position was restated to record property taxes receivable that had not been recognized since it was not collected within 60 days, of \$88,475.

Finally, prior year net position was restated to recognize accrued interest on bonds payable of \$17,357 at June 30, 2017.

|  |   |
|--|---|
|  | <u>Government-Wide<br/>Financial Statements</u> |
| Recognition of the OPEB Liability                    | \$(1,791,967)                                   |
| Recognition of overstatement of compensated absences | 10,215  |
| Recognition of property taxes receivable             | 88,475  |
| Recognition of 2017 accrued interest                 | <u>(17,357)</u>                                 |
| Net effect on beginning net position                 | <u>\$(1,710,634)</u>                            |

Prior year net position has been restated to show the effects of the changes, where necessary.

Reserve Independent Schools  
**NONMAJOR GOVERNMENTAL FUNDS DESCRIPTION**  
June 30, 2018

**SPECIAL REVENUE FUNDS**

**Cafeteria** – Fund used to account for revenues generated by the District as well as the federal assistance received and the related expenditures necessary to provide food services for the District. Required by the New Mexico Department of Education Manual of Procedures for New Mexico School Districts to be accounted for as a separate fund within the Special Revenue Funds (PSAB, Supplement 17).

**Athletics** – To account for the revenues received, and the related expenditures incurred, by the District related to athletic functions (PSAB, Supplement 3).

**Pre-School** – Fund used to account for federal resources administered by the New Mexico State Department of Education to provide for the special education needs of handicapped children. Required by the New Mexico Department of Education Manual of Procedures for New Mexico School Districts to be accounted for as a separate fund within the Special Revenue Funds (P.L. 94-142 and P.L. 99-457).

**Teacher Training** – Created by P.L. 107-110 to improve teacher and principal quality and ensure that all teachers are highly qualified.

**Rural Schools** – Created to provide financial assistance to rural districts to carry out activities help improve the quality of teaching and learning in their schools. (Elementary and Secondary Education Act of 1965 (ESEA), Title VI, Part B, as amended).

**Medicaid** – To account for the federal assistance to improve primary health care and increase health education (P.L. 015-33); and is a Special Revenue Fund.

**2009 Dual Credit Instruction** – To account for state grant received to provide college credits to high school students, authority, State Grant PED.

**Library SB301 G.O. Bonds, Library Bonds, and REC Operating** – to account for funds to upgrade libraries, books, and equipment (NMPED), Laws of 2004.

**Elementary Breakfast/Breakfast for Elementary** – To account for funds to provide breakfast for elementary students (PED).

**NM Autism** – Funded through IDEA-B for training for the teachers of Autistic students.

**CAPITAL PROJECT FUNDS**

**Bond Building** – To account for the state resources to be used for specific construction projects.

Reserve Independent Schools  
**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY OF  
 THE EDUCATIONAL RETIREMENT BOARD (ERB) PLAN  
 LAST 10 FISCAL YEARS\***

|  | <u>2018</u>  | <u>2017</u>  | <u>2016</u>  | <u>2015</u>  |
|--|--------------|--------------|--------------|--------------|
| Reserve Independent Schools'<br>proportion of the net pension liability  | .05019%      | .05077%      | .05476%      | .05242%      |
| Reserve Independent Schools'<br>proportionate share of the net pension liability   | \$ 5,577,850 | \$ 3,653,629 | \$ 3,546,951 | \$ 2,990,937 |
| Reserve Independent Schools'<br>covered payroll  | \$ 1,460,400 | \$ 1,429,219 | \$ 1,449,913 | \$ 1,556,566 |
| Reserve Independent Schools'<br>proportionate share of the net pension liability<br>as a percentage of its covered payroll | 382%         | 256%         | 245%         | 192%         |
| Plan fiduciary net position as a percentage<br>of the total pension liability  | 52.95%       | 61.58%       | 63.97%       | 66.54%       |

\*The amounts presented were determined as of June 30. This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10 year trend is compiled, Reserve Independent Schools will present information for those years for which information is available.

Reserve Independent Schools  
**SCHEDULE OF CONTRIBUTIONS**  
**EDUCATIONAL RETIREMENT BOARD (ERB) PENSION PLAN**  
**\*LAST 10 FISCAL YEARS**

|  | <u>2018</u>        | <u>2017</u>        | <u>2016</u>        | <u>2015</u>        |
|--|--------------------|--------------------|--------------------|--------------------|
| Contractually required contributions                             | \$ 202,465         | \$ 198,663         | \$ 201,538         | \$ 216,363         |
| Contributions in relation to contractually required contribution | <u>(202,465)</u>   | <u>(198,663)</u>   | <u>(201,538)</u>   | \$ (216,363)       |
| Contribution deficiency (excess)                                 | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> |
| Reserve Independent Schools' covered payroll                     | \$ 1,460,400       | \$ 1,429,219       | \$ 1,449,913       | \$ 1,556,566       |
| Contributions as a percentage of covered payroll                 | 13.90%             | 13.90%             | 13.90%             | 13.90%             |

\*This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, Reserve Independent Schools will present information for those years for which information is available.

Reserve Independent Schools  
**NOTES TO REQUIRED EDUCATIONAL RETIREMENT BOARD (ERB)**  
**SUPPLEMENTARY INFORMATION**  
For the Fiscal Year Ended June 30, 2018

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

**Changes of Assumptions**

ERB conducts an actuarial experience study for the Plan on a biennial basis. Based on the six-year actuarial experience study for period ending June 30, 2016, presented to the Board of Trustees on April 21, 2017, ERB implemented the following changes in assumptions for the fiscal year 2017:

1. Fiscal year 2017 valuation assumptions that changed based on this study:
  - a. Lower inflation assumption from 3.00% to 2.50%
  - b. Lower payroll growth from 3.50% to 3.00%
  - c. Wage inflation rate from 3.75% to 3.25%
  - d. Investment return assumption from 7.75% to 7.25%
  - e. Annual assumed COLA from 2.00% to 1.9%

All other assumptions remain unchanged.

See also the **Actuarial Assumptions** subsection of the financial statement note disclosure **General Information on the Pension Plan**.

Reserve Independent Schools  
 SCHEDULE OF PROPORTIONATE SHARE OF THE NET OTHER  
 POSTEMPLOYMENT BENEFIT (OPEB) LIABILITY OF THE  
 RETIREE HEALTH CARE AUTHORITY (RHCA) PLAN  
 LAST 10 FISCAL YEARS\*

|   | 2017         |
|---|--------------|
| Reserve Independent Schools'<br>proportion of the net OPEB liability  | .03329%      |
| Reserve Independent Schools'<br>share of the OPEB liability   | \$ 1,508,594 |
| Reserve Independent Schools'<br>covered employee payroll  | \$ 1,456,586 |
| Reserve Independent Schools'<br>proportionate share of the net OPEB liability<br>as a percentage of it covered employee payroll | 104%         |
| Plan fiduciary net position as a percentage of the<br>total OPEB liability  | 11.34%       |

\*The amounts presented were determined as of June 30. This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10 year trend is compiled, Reserve Independent Schools will present information for those years for which information is available.



Reserve Independent Schools  
 SCHEDULE OF CONTRIBUTIONS  
 RETIREE HEALTH CARE AUTHORITY (RHCA) PLAN  
 LAST 10 FISCAL YEARS\*

|  | 2017         |
|--|--------------|
| Contractually required contributions   | \$ 29,032    |
| Contributions in relation to contractually required contributions                          | (29,032)     |
| Contribution deficiency (excess)   | \$ -         |
| Reserve Independent Schools' covered employee payroll                                      | \$ 1,456,586 |
| Reserve Independent Schools' contributions as a percentage of its covered employee payroll | 2%           |

\*The amounts presented were determined as of June 30. This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10 year trend is compiled, Reserve Independent Schools will present information for those years for which information is available.

Reserve Independent Schools  
**NOTES TO REQUIRED RETIREE HEALTH CARE AUTHORITY (RHCA)**  
**SUPPLEMENTARY INFORMATION**  
For the Fiscal Year Ended June 30, 2018

**Changes in benefit terms** – The eligibility benefits changes in recent years are described in the **Benefits Provided** subsection of the financial statement note disclosure **General Information on the Retiree Health Care Plan**.

**Changes of Assumptions**

RHCA conducted an actuarial experience study for the Plan as of June 30, 2017. The mortality, retirement, disability, turnover and salary increase assumptions are based on the Public Employees Retirement Association (PERA) of New Mexico Actuarial Valuation as of June 30, 2016, and the New Mexico Educational Retirement Board (ERB) Actuarial Experience Study as of June 30, 2016. Changes in those assumptions as they relate to the Reserve Independent Schools are detailed in the ERB notes to supplementary information included elsewhere in this report.

1. Fiscal year 2017 valuation assumptions are as follows:
  - a. Inflation assumptions 2.50% for ERB, 2.25% for PERA
  - b. Investment return assumption 7.25%
  - c. Health care trend 8% graded down to 4.5% over 14 years for Non-Medicare medical plan costs and 7.5% graded down to 4.5% over 12 years for Medicare medical plan costs

See also the **Actuarial Assumptions** subsection of the financial statement note disclosure **General Information on the Pension Plan**.

Reserve Independent Schools  
**NONMAJOR GOVERNMENTAL FUNDS**  
**COMBINING BALANCE SHEET**  
June 30, 2018

|  | Special Revenue Funds |           |           |                     |
|--|-----------------------|-----------|-----------|---------------------|
|  | Cafeteria             | Athletics | Preschool | Teacher<br>Training |
| <b>Assets</b>  |                       |           |           |                     |
| Cash and investments   | \$ 10,141             | \$ 6,450  | \$ -      | \$ -                |
| Inventory  | 1,178                 |           |           |                     |
| Property taxes receivable  |                       |           |           |                     |
| Interfund receivable   |                       |           |           |                     |
| Due from other governments   |                       |           | 1,630     | 3,667               |
|  |                       |           |           |                     |
| Total assets   | \$ 11,319             | \$ 6,450  | \$ 1,630  | \$ 3,667            |
| <b>Liabilities</b>   |                       |           |           |                     |
| Accounts payable   | \$ -                  | \$ -      | \$ -      | \$ -                |
| Interfund payable  |                       |           | 1,630     | 3,667               |
|  |                       |           |           |                     |
| Total liabilities  | \$ -                  | \$ -      | \$ 1,630  | \$ 3,667            |
| <b>Deferred Inflows of Resources</b>                                   |                       |           |           |                     |
| Unavailable revenue  | \$ -                  | \$ -      | \$ -      | \$ -                |
|  |                       |           |           |                     |
| Total deferred inflows of resources                                    | \$ -                  | \$ -      | \$ -      | \$ -                |
| <b>Fund balance:</b>   |                       |           |           |                     |
| Nonspendable:  |                       |           |           |                     |
| Inventories  | \$ 1,178              | \$ -      | \$ -      | \$ -                |
| Restricted for:  |                       |           |           |                     |
| Education  |                       | 6,450     |           |                     |
| Food service   | 10,141                |           |           |                     |
| Social services  |                       |           |           |                     |
| Capital projects   |                       |           |           |                     |
| Unassigned   |                       |           |           |                     |
|  |                       |           |           |                     |
| Total fund balances  | \$ 11,319             | \$ 6,450  | \$ -      | \$ -                |
| Total liabilities, deferred inflows<br>of resources, and fund balances | \$ 11,319             | \$ 6,450  | \$ 1,630  | \$ 3,667            |

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

Special Revenue Funds

| Rural<br>Education | GO Bond<br>Library | NM<br>Autism | Medicaid  |
|--------------------|--------------------|--------------|-----------|
| \$ -               | \$ -               | \$ -         | \$ 18,210 |
|                    | 4,942              | 3,871        |           |
| \$ -               | \$ 4,942           | \$ 3,871     | \$ 18,210 |
| \$ -               | \$ -               | \$ 473       | \$ -      |
|                    | 4,942              | 3,398        |           |
| \$ -               | \$ 4,942           | \$ 3,871     | \$ -      |
| \$ -               | \$ -               | \$ -         | \$ -      |
| \$ -               | \$ -               | \$ -         | \$ -      |
| \$ -               | \$ -               |              | \$ -      |
|                    |                    |              | 18,210    |
| \$ -               | \$ -               | \$ -         | \$ 18,210 |
| \$ -               | \$ 4,942           | \$ 3,871     | \$ 18,210 |

Reserve Independent Schools  
**NONMAJOR GOVERNMENTAL FUNDS**  
**COMBINING BALANCE SHEET (concluded)**  
June 30, 2018

|  | Special Revenue Funds |                         | Total             |
|--|-----------------------|-------------------------|-------------------|
|  | Dual<br>Credit        | Elementary<br>Breakfast |                   |
| Cash and investments   | \$ -                  | \$ -                    | \$ 34,801         |
| Inventory  |                       |                         | 1,178             |
| Property taxes receivable  |                       |                         | -                 |
| Interfund receivable   |                       |                         | -                 |
| Due from other governments   |                       |                         | 14,110            |
|  | <u>          </u>     | <u>          </u>       | <u>          </u> |
| Total assets   | <u>\$ -</u>           | <u>\$ -</u>             | <u>\$ 50,089</u>  |
| <br><b>Liabilities</b>   |                       |                         |                   |
| Accounts payable   | \$ -                  | \$ -                    | \$ 473            |
| Interfund payable  |                       |                         | 13,637            |
|  | <u>          </u>     | <u>          </u>       | <u>          </u> |
| Total liabilities  | <u>\$ -</u>           | <u>\$ -</u>             | <u>\$ 14,110</u>  |
| <br><b>Deferred Inflows of Resources</b>                               |                       |                         |                   |
| Unavailable revenue  | \$ -                  | \$ -                    | \$ -              |
|  | <u>          </u>     | <u>          </u>       | <u>          </u> |
| Total deferred inflows of resources                                    | <u>\$ -</u>           | <u>\$ -</u>             | <u>\$ -</u>       |
| <br>Fund balance:  |                       |                         |                   |
| Nonspendable:  |                       |                         |                   |
| Inventories  | \$ -                  | \$ -                    | \$ 1,178          |
| Restricted for:  |                       |                         |                   |
| Education  |                       |                         | 6,450             |
| Food service   |                       |                         | 10,141            |
| Capital projects   |                       |                         | 18,210            |
| Social services  |                       |                         | -                 |
| Unassigned   |                       |                         | -                 |
|  | <u>          </u>     | <u>          </u>       | <u>          </u> |
| Total fund balances  | <u>\$ -</u>           | <u>\$ -</u>             | <u>\$ 35,979</u>  |
| Total liabilities, deferred inflows<br>of resources, and fund balances | <u>\$ -</u>           | <u>\$ -</u>             | <u>\$ 50,089</u>  |

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

Reserve Independent Schools  
**NONMAJOR GOVERNMENTAL FUNDS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
For The Fiscal Year Ended June 30, 2018

|                                    | Special Revenue Funds |           |           |
|------------------------------------|-----------------------|-----------|-----------|
|                                    | Cafeteria             | Athletics | Preschool |
| Revenues:                          |                       |           |           |
| Property Taxes                     | \$ -                  | \$ -      | \$ -      |
| Fees and charges                   | 4,539                 | 15,449    |           |
| State aid                          |                       |           |           |
| Federal aid                        | 62,399                |           | 4,119     |
| Earnings on investments            | 6                     | 1         |           |
| Miscellaneous                      |                       |           |           |
|                                    | \$ 66,944             | \$ 15,450 | \$ 4,119  |
| Total revenues                     |                       |           |           |
| Expenditures:                      |                       |           |           |
| Current:                           |                       |           |           |
| Instruction                        | \$ -                  | \$ 9,340  | \$ 144    |
| Support services - Students        |                       |           | 3,975     |
| Support services - Instruction     |                       |           |           |
| General administration             |                       |           |           |
| School administration              |                       |           |           |
| Central services                   |                       |           |           |
| Operation of plant                 |                       |           |           |
| Transportation                     |                       |           |           |
| Food services                      | 61,703                |           |           |
| Capital outlay                     |                       |           |           |
|                                    | \$ 61,703             | \$ 9,340  | \$ 4,119  |
| Total expenditures                 |                       |           |           |
| Revenues over (under) expenditures | \$ 5,241              | \$ 6,110  | \$ -      |
| Net change in fund balance         | \$ 5,241              | \$ 6,110  | \$ -      |
| Fund balance, July 1, 2017         | 6,078                 | 340       |           |
| Fund balance, June 30, 2018        | \$ 11,319             | \$ 6,450  | \$ -      |

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

Special Revenue Funds

| <u>Teacher<br/>Training</u> | <u>Rural<br/>Education</u> | <u>GO Bond<br/>Library</u> | <u>NM<br/>Autism</u> | <u>Medicaid</u>         |
|-----------------------------|----------------------------|----------------------------|----------------------|-------------------------|
| \$ -                        | \$ -                       | \$ -                       | \$ -                 | \$ -                    |
| 3,667                       | 3,930                      | 4,942                      | 3,871                | 18,673<br>5             |
| <u>\$ 3,667</u>             | <u>\$ 3,930</u>            | <u>\$ 4,942</u>            | <u>\$ 3,871</u>      | <u>\$ 18,678</u>        |
| \$ 3,667                    | \$ 3,930                   | \$ -                       | \$ 3,871             | \$ -                    |
|                             |                            | 4,942                      |                      | 13,167                  |
| <u>\$ 3,667</u>             | <u>\$ 3,930</u>            | <u>\$ 4,942</u>            | <u>\$ 3,871</u>      | <u>\$ 13,167</u>        |
| <u>\$ -</u>                 | <u>\$ -</u>                | <u>\$ -</u>                | <u>\$ -</u>          | <u>\$ 5,511</u>         |
| \$ -                        | \$ -                       | \$ -                       | \$ -                 | \$ 5,511                |
|                             |                            |                            |                      | 12,699                  |
| <u><u>\$ -</u></u>          | <u><u>\$ -</u></u>         | <u><u>\$ -</u></u>         | <u><u>\$ -</u></u>   | <u><u>\$ 18,210</u></u> |

Reserve Independent Schools  
**NONMAJOR SPECIAL REVENUE FUNDS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES (concluded)**  
For The Fiscal Year Ended June 30, 2018

|                                    | Special Revenue Funds |                         | Total             |
|------------------------------------|-----------------------|-------------------------|-------------------|
|                                    | Dual<br>Credit        | Elementary<br>Breakfast |                   |
| Revenues:                          |                       |                         |                   |
| Property Taxes                     | \$ -                  | \$ -                    | \$ -              |
| Fees and charges                   |                       |                         | 19,988            |
| State aid                          | 256                   | 4,564                   | 9,762             |
| Federal aid                        |                       |                         | 96,659            |
| Earnings on investments            |                       |                         | 12                |
| Miscellaneous                      |                       |                         | -                 |
|                                    | <u>256</u>            | <u>4,564</u>            | <u>126,421</u>    |
| Total revenues                     | <u>\$ 256</u>         | <u>\$ 4,564</u>         | <u>\$ 126,421</u> |
| Expenditures:                      |                       |                         |                   |
| Current:                           |                       |                         |                   |
| Instruction                        | \$ 256                | \$ -                    | \$ 21,208         |
| Support services - Students        |                       |                         | 3,975             |
| Support services - Instruction     |                       |                         | 18,109            |
| General administration             |                       |                         | -                 |
| School administration              |                       |                         | -                 |
| Central services                   |                       |                         | -                 |
| Operation of plant                 |                       |                         | -                 |
| Transportation                     |                       |                         | -                 |
| Food services                      |                       | 4,564                   | 66,267            |
| Capital outlay                     |                       |                         | -                 |
|                                    | <u>256</u>            | <u>4,564</u>            | <u>109,559</u>    |
| Total expenditures                 | <u>\$ 256</u>         | <u>\$ 4,564</u>         | <u>\$ 109,559</u> |
| Revenues over (under) expenditures | <u>\$ -</u>           | <u>\$ -</u>             | <u>\$ 16,862</u>  |
| Net change in fund balance         | \$ -                  | \$ -                    | \$ 16,862         |
| Fund balance, July 1, 2017         |                       |                         | <u>19,117</u>     |
| Fund balance, June 30, 2018        | <u>\$ -</u>           | <u>\$ -</u>             | <u>\$ 35,979</u>  |

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



Reserve Independent Schools  
**GENERAL FUND**  
**COMBINING BALANCE SHEET**  
June 30, 2018

|   | Operational | Transportation | Teacherage |
|---|-------------|----------------|------------|
| <b>Assets</b>   |             |                |            |
| Cash and investments  | \$ 133,701  | \$ 10,456      | \$ 52,416  |
| Taxes receivable  | 18,084      |                |            |
| Inventory   |             |                |            |
| Interfund receivable  | 48,053      |                |            |
| Total assets  | \$ 199,838  | \$ 10,456      | \$ 52,416  |
| <br><b>Liabilities</b>  |             |                |            |
| Accounts payable  | \$ 14,481   | \$ -           | \$ -       |
| Deposits  | 1,250       |                |            |
| Total liabilities   | \$ 15,731   | \$ -           | \$ -       |
| <br><b>Deferred Inflows of Resources</b>                            |             |                |            |
| Unavailable revenue   | \$ 17,252   | \$ -           | \$ -       |
| Total deferred inflows of resources                                 | \$ 17,252   | \$ -           | \$ -       |
| <br><b>Fund balance:</b>  |             |                |            |
| Nonspendable:   |             |                |            |
| Inventories   | \$ -        | \$ -           | \$ -       |
| Restricted for:   |             |                |            |
| Education   |             |                |            |
| Transportation  |             | 10,456         |            |
| Unassigned  | 166,855     |                | 52,416     |
| Total fund balances   | \$ 166,855  | \$ 10,456      | \$ 52,416  |
| Total liabilities, deferred inflows of resources, and fund balances | \$ 199,838  | \$ 10,456      | \$ 52,416  |

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

| <u>Instructional<br/>Materials</u> | <u>Total</u>              |
|------------------------------------|---------------------------|
| \$ 2,031                           | \$ 198,604<br>18,084<br>- |
| <u>2,031</u>                       | <u>48,053</u>             |
| <u>\$ 2,031</u>                    | <u>\$ 264,741</u>         |
|                                    |                           |
| \$ -                               | \$ 14,481<br>1,250        |
| <u>-</u>                           | <u>15,731</u>             |
|                                    |                           |
| <u>\$ -</u>                        | <u>\$ 17,252</u>          |
| <u>\$ -</u>                        | <u>\$ 17,252</u>          |
|                                    |                           |
| \$ -                               | \$ -<br>-                 |
| 2,031                              | 12,487<br>219,271         |
| <u>2,031</u>                       | <u>231,758</u>            |
| <u>\$ 2,031</u>                    | <u>\$ 264,741</u>         |

Reserve Independent Schools  
**GENERAL FUND**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
For The Fiscal Year Ended June 30, 2018

|                                    | Operational         | Transportation    | Teacherage       |
|------------------------------------|---------------------|-------------------|------------------|
| Revenues:                          |                     |                   |                  |
| Property taxes                     | \$ 21,812           | \$ -              | \$ -             |
| Fees and charges                   | 607                 |                   | 15,250           |
| State aid                          | 1,890,877           | 177,673           |                  |
| Federal aid                        | 540,742             |                   |                  |
| Earnings on investments            | 168                 | 24                | 40               |
| Miscellaneous                      | 7,512               |                   |                  |
|                                    | <u>\$ 2,461,718</u> | <u>\$ 177,697</u> | <u>\$ 15,290</u> |
| Total revenues                     |                     |                   |                  |
| Expenditures:                      |                     |                   |                  |
| Current:                           |                     |                   |                  |
| Instruction                        | \$ 1,277,602        | \$ -              | \$ -             |
| Support services - Students        | 143,836             |                   |                  |
| Support services - Instruction     | 36,125              |                   |                  |
| General administration             | 181,396             |                   |                  |
| School administration              | 224,940             |                   |                  |
| Central services                   | 94,488              |                   |                  |
| Operation of plant                 | 435,589             |                   | 16,320           |
| Transportation                     | 21                  | 168,066           |                  |
| Food services                      | 24,941              |                   |                  |
| Other support services             | 1,191               |                   |                  |
| Capital outlay                     |                     |                   |                  |
|                                    | <u>\$ 2,420,129</u> | <u>\$ 168,066</u> | <u>\$ 16,320</u> |
| Total expenditures                 |                     |                   |                  |
| Revenues over (under) expenditures | \$ 41,589           | \$ 9,631          | \$ (1,030)       |
| Other financing sources (uses):    |                     |                   |                  |
| Reversion to NM PED                |                     | \$ (826)          |                  |
|                                    |                     | <u>\$ (826)</u>   |                  |
| Net change in fund balance         | \$ 41,589           | \$ 8,805          | \$ (1,030)       |
| Fund balance, July 1, 2017         | <u>125,266</u>      | <u>1,651</u>      | <u>53,446</u>    |
| Fund balance, June 30, 2018        | <u>\$ 166,855</u>   | <u>\$ 10,456</u>  | <u>\$ 52,416</u> |

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

| <u>Instructional<br/>Materials</u> | <u>Total</u>             |
|------------------------------------|--------------------------|
| \$ -                               | \$ 21,812                |
|                                    | 15,857                   |
| 3,987                              | 2,072,537                |
|                                    | 540,742                  |
| 1                                  | 233                      |
|                                    | 7,512                    |
| <u>\$ 3,988</u>                    | <u>\$ 2,658,693</u>      |
|                                    |                          |
| \$ 14,752                          | \$ 1,292,354             |
|                                    | 143,836                  |
|                                    | 36,125                   |
|                                    | 181,396                  |
|                                    | 224,940                  |
|                                    | 94,488                   |
|                                    | 451,909                  |
|                                    | 168,087                  |
|                                    | 24,941                   |
|                                    | 1,191                    |
|                                    | -                        |
| <u>\$ 14,752</u>                   | <u>\$ 2,619,267</u>      |
| \$ (10,764)                        | \$ 39,426                |
|                                    | <u>\$ (826)</u>          |
| \$ (10,764)                        | \$ 38,600                |
| <u>12,795</u>                      | <u>193,158</u>           |
| <u><u>\$ 2,031</u></u>             | <u><u>\$ 231,758</u></u> |

Reserve Independent Schools  
**GENERAL FUND/OPERATIONAL**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES--BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
For the Fiscal Year Ended June 30, 2018

|   | Original<br>Budget  | Final<br>Budget     | Actual              | Variance<br>Favorable<br>(Unfavorable) |
|---|---------------------|---------------------|---------------------|--|
| Revenues:   |                     |                     |                     |  |
| Federal   | \$ -                | \$ 540,743          | \$ 540,742          | \$ (1)                                 |
| State sources   | 2,337,211           | 2,071,276           | 1,891,293           | (179,983)                              |
| Local sources   | 21,390              | 21,390              | 28,163              | 6,773                                  |
| Miscellaneous   | 330                 | 330                 | 933                 | 603                                    |
| Interest income   | -                   | -                   | 168                 | 168                                    |
|   | <u>\$ 2,358,931</u> | <u>\$ 2,633,739</u> | <u>\$ 2,461,299</u> | <u>\$ (172,440)</u>                    |
| Expenditures:   |                     |                     |                     |  |
| Current:  |                     |                     |                     |  |
| Instruction   | \$ 1,347,132        | \$ 1,380,503        | \$ 1,270,525        | \$ 109,978                             |
| Support services - Students                             | 148,000             | 148,000             | 143,836             | 4,164                                  |
| Support services - Instruction                          | 34,443              | 44,813              | 35,964              | 8,849                                  |
| General administration                                  | 138,320             | 184,357             | 181,396             | 2,961                                  |
| School administration                                   | 228,432             | 240,532             | 224,940             | 15,592                                 |
| Central services  | 92,099              | 101,631             | 93,584              | 8,047                                  |
| Operation of plant                                      | 401,194             | 618,931             | 429,271             | 189,660                                |
| Transportation  |                     |                     |                     | -                                      |
| Other support services                                  | 7,575               | 7,575               | 1,191               | 6,384                                  |
| Food services   | 33,000              | 33,500              | 24,941              | 8,559                                  |
| Capital outlay  |                     |                     |                     | -                                      |
| Non-operating   |                     |                     |                     | -                                      |
|   | <u>\$ 2,430,195</u> | <u>\$ 2,759,842</u> | <u>\$ 2,405,648</u> | <u>\$ 354,194</u>                      |
| Revenues over (under) expenditure                       | \$ (71,264)         | \$ (126,103)        | \$ 55,651           | \$ 181,754                             |
| Other financing sources (uses)                          |                     |                     |                     |  |
| Transfers out   | -                   | -                   | -                   | -                                      |
| Net change in fund balance                              | \$ (71,264)         | \$ (126,103)        | \$ 55,651           | \$ 181,754                             |
| Fund balance, July 1, 2017                              | <u>126,103</u>      | <u>126,103</u>      | <u>126,103</u>      | <u>-</u>                               |
| Fund balance, June 30, 2018                             | <u>\$ 54,839</u>    | <u>\$ -</u>         | <u>\$ 181,754</u>   | <u>\$ 181,754</u>                      |
| Budgetary reconciliation:                               |                     |                     |                     |  |
| Net change in fund balance, GAAP basis                  |                     |                     | \$ 41,589           |  |
| Revenue accruals (net)                                  |                     |                     | (419)               |  |
| Expenditure accruals (net)                              |                     |                     | 14,481              |  |
| Net change in fund balance, NON-GAAP<br>budgetary basis |                     |                     | <u>\$ 55,651</u>    |  |

Reserve Independent  
**GENERAL FUND/TRANSPORTATION**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES--BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
For the Fiscal Year Ended June 30, 2018

|   | Original<br>Budget | Final<br>Budget | Actual     | Variance<br>Favorable<br>(Unfavorable) |
|---|--------------------|-----------------|------------|--|
| Revenues:   |                    |                 |            |  |
| State sources   | \$ 177,673         | \$ 177,673      | \$ 177,673 | \$ -                                   |
| Interest  | -                  | -               | 24         | 24                                     |
|   | \$ 177,673         | \$ 177,673      | \$ 177,697 | \$ 24                                  |
| Expenditures:   |                    |                 |            |  |
| Current:  |                    |                 |            |  |
| Pupil transportation                                    | \$ 177,673         | \$ 178,499      | \$ 168,066 | \$ 10,433                              |
| Capital outlay  |                    |                 |            | -                                      |
| Total expenditures                                      | \$ 177,673         | \$ 178,499      | \$ 168,066 | \$ 10,433                              |
| Net change in fund balance                              | \$ -               | \$ (826)        | \$ 9,631   | \$ 10,457                              |
| Fund balance, July 1, 2017                              | -                  | 1,651           | 1,651      | -                                      |
| Fund balance, June 30, 2018                             | \$ -               | \$ 825          | \$ 11,282  | \$ 10,457                              |
| Budgetary reconciliation:                               |                    |                 |            |  |
| Net change in fund balance, GAAP basis                  |                    |                 | \$ 9,631   |  |
| Revenue accruals (net)                                  |                    |                 | -          |  |
| Expenditure accruals (net)                              |                    |                 | -          |  |
| Net change in fund balance, NON-GAAP<br>budgetary basis |                    |                 | \$ 9,631   |  |

Reserve Independent Schools  
**GENERAL FUND/INSTRUCTIONAL MATERIALS**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES--BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
For the Fiscal Year Ended June 30, 2018

|   | Original<br>Budget | Final<br>Budget | Actual      | Variance<br>Favorable<br>(Unfavorable) |
|---|--------------------|-----------------|-------------|--|
| Revenues:   |                    |                 |             |  |
| State sources   | 3,697              | 3,988           | 3,987       | (1)                                    |
| Interest  | -                  | -               | 1           | 1                                      |
|   |                    |                 |             |  |
| Total revenues  | \$ 3,697           | \$ 3,988        | \$ 3,988    | \$ -                                   |
| Expenditures:   |                    |                 |             |  |
| Current:  |                    |                 |             |  |
| Instruction   | \$ 3,697           | \$ 16,783       | \$ 14,752   | \$ 2,031                               |
| Support service - Instruction                           | -                  | -               | -           | -                                      |
|   |                    |                 |             |  |
| Total expenditures                                      | \$ 3,697           | \$ 16,783       | \$ 14,752   | \$ 2,031                               |
| Net change in fund balance                              | \$ -               | \$ (12,795)     | \$ (10,764) | \$ 2,031                               |
| Fund balance, July 1, 2017                              | -                  | 12,795          | 12,795      | -                                      |
| Fund balance, June 30, 2018                             | \$ -               | \$ -            | \$ 2,031    | \$ 2,031                               |
| Budgetary reconciliation:                               |                    |                 |             |  |
| Net change in fund balance, GAAP basis                  |                    |                 | \$ (10,764) |  |
| Revenue accruals (net)                                  |                    |                 | -           |  |
| Expenditure accruals (net)                              |                    |                 | -           |  |
| Net change in fund balance, NON-GAAP<br>budgetary basis |                    |                 | \$ (10,764) |  |

Reserve Independent  
**GENERAL FUND/TEACHERAGE**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES--BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
For the Fiscal Year Ended June 30, 2018

|   | Original<br>Budget | Final<br>Budget | Actual     | Variance<br>Favorable<br>(Unfavorable) |
|---|--------------------|-----------------|------------|--|
| Revenues:   |                    |                 |            |  |
| Miscellaneous   | \$ 12,880          | \$ 12,880       | \$ 15,290  | \$ 2,410                               |
| Expenditures:   |                    |                 |            |  |
| Current:  |                    |                 |            |  |
| Operation of Plant                                      | \$ 15,915          | \$ 16,326       | \$ 16,320  | \$ 6                                   |
| Capital outlay  | 50,000             | 50,000          | -          | 50,000                                 |
| Total expenditures                                      | \$ 65,915          | \$ 66,326       | \$ 16,320  | \$ 50,006                              |
| Net change in fund balance                              | \$ (53,035)        | \$ (53,446)     | \$ (1,030) | \$ 52,416                              |
| Fund balance, July 1, 2017                              | 53,446             | 53,446          | 53,446     | -                                      |
| Fund balance, June 30, 2018                             | \$ 411             | \$ -            | \$ 52,416  | \$ 52,416                              |
| Budgetary reconciliation:                               |                    |                 |            |  |
| Net change in fund balance, GAAP basis                  |                    |                 | \$ (1,030) |  |
| Revenue accruals (net)                                  |                    |                 | -          |  |
| Expenditure accruals (net)                              |                    |                 | -          |  |
| Net change in fund balance, NON-GAAP<br>budgetary basis |                    |                 | \$ (1,030) |  |



Reserve Independent Schools  
**AGENCY FUNDS**  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
June 30, 2018

|                            | Balance<br>July 1, 2017 | Receipts  | Disbursements | Balance<br>June 30, 2018 |
|----------------------------|-------------------------|-----------|---------------|--------------------------|
| <b>Assets</b>              |                         |           |               |                          |
| Cash and investments:      |                         |           |               |                          |
| Reserve Independent School | \$ 44,307               | \$ 67,218 | \$ 59,282     | \$ 52,243                |
| Total Assets               | \$ 44,307               | \$ 67,218 | \$ 59,282     | \$ 52,243                |
| <b>Liabilities</b>         |                         |           |               |                          |
| Deposits held for others:  |                         |           |               |                          |
| Reserve Independent School | \$ 44,307               | \$ 67,218 | \$ 59,282     | \$ 52,243                |
| Total Liabilities          | \$ 44,307               | \$ 67,218 | \$ 59,282     | \$ 52,243                |

Reserve Independent Schools has only one campus for agency fund activity.

Reserve Independent Schools  
**SCHEDULE OF DEPOSITORY COLLATERAL**  
June 30, 2018

|   | <u>First<br/>State<br/>Bank</u> | <u>Total</u>        |
|---|---------------------------------|---------------------|
| Checking and CD's   | \$ 1,033,614                    | \$ 1,033,614        |
| Total on deposit  | \$ 1,033,614                    | \$ 1,033,614        |
| Less: FDIC insurance  | <u>(250,000)</u>                | <u>(250,000)</u>    |
| Total uninsured public funds                                | <u>\$ 783,614</u>               | <u>\$ 783,614</u>   |
| 50% collateralization requirement<br>(Section 6-10-17 NMSA) | <u>\$ 391,807</u>               | <u>\$ 391,807</u>   |
| Pledged Securities:   |                                 |                     |
| FFCB NonCLB Cusip No. 3133XN4B2                             | \$ 178,041                      | \$ 178,041          |
| FFCB 3.620 Cusip No. 31331KUD0                              | 411,816                         | 411,816             |
| FFCB 4.230 Cusip No. 31331KNC0                              | <u>1,423,776</u>                | <u>1,423,776</u>    |
| Total pledged securities                                    | <u>\$ 2,013,633</u>             | <u>\$ 2,013,633</u> |
| Pledged securities over<br>(under) requirement              | <u>\$ 1,621,826</u>             | <u>\$ 1,621,826</u> |

Pledged securities are held by the Federal Home Loan Bank of Dallas, TX.  
Safekeeping receipts are held by the District.

Reserve Independent Schools  
**SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS AND INVESTMENTS**  
 June 30, 2018

|                         | <u>Type of<br/>Account</u> | <u>Bank<br/>Balance</u> | <u>Reconciled<br/>Balance</u> |
|-------------------------|----------------------------|-------------------------|-------------------------------|
| <u>First State Bank</u> |                            |                         |                               |
| Activity                | Checking                   | \$ 53,064               | \$ 52,243                     |
| Operational             | Checking                   | <u>980,550</u>          | <u>640,481</u>                |
| Total First State Bank  |                            | <u>\$ 1,033,614</u>     | <u>\$ 692,724</u>             |

Reserve Independent Schools  
**SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS**  
**ALL FUNDS BY SCHOOL DISTRICT CLASSIFICATION**  
For The Fiscal Year Ended June 30, 2018

|  | <u>Operational</u>       | <u>Transportation</u>   | <u>Teacherage</u>       | <u>Instruction<br/>Materials</u> | <u>Food<br/>Services</u> | <u>Athletics</u>       |
|--|--------------------------|-------------------------|-------------------------|----------------------------------|--------------------------|------------------------|
| Total cash and investments as of July 1, 2017  | \$ 126,103               | \$ 1,651                | \$ 53,446               | \$ 12,795                        | \$ 5,052                 | \$ 340                 |
| Add: Current year receipts                     | 2,461,299                | 177,697                 | 15,290                  | 3,989                            | 62,777                   | 15,450                 |
| Prior year warrants voided                     |                          |                         |                         |                                  |                          |                        |
| Less: Current year expenditures                | (2,405,648)              | (168,066)               | (16,320)                | (14,753)                         | (57,688)                 | (9,340)                |
| Outstanding loans                              | (48,052)                 |                         |                         |                                  |                          |                        |
| Reversion                                      |                          | (826)                   |                         |                                  |                          |                        |
|  | <u>          </u>        | <u>          </u>       | <u>          </u>       | <u>          </u>                | <u>          </u>        | <u>          </u>      |
| Total cash and investments as of June 30, 2018 | <u><u>\$ 133,702</u></u> | <u><u>\$ 10,456</u></u> | <u><u>\$ 52,416</u></u> | <u><u>\$ 2,031</u></u>           | <u><u>\$ 10,141</u></u>  | <u><u>\$ 6,450</u></u> |

Reserve Independent Schools  
**SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS (continued)**  
**ALL FUNDS BY SCHOOL DISTRICT CLASSIFICATION**  
For The Fiscal Year Ended June 30, 2018

|  | Non-<br>Instructional<br>Support | Federal<br>Flowthrough | Federal<br>Direct | State<br>Flowthrough | State Direct<br>Fund |
|--|----------------------------------|------------------------|-------------------|----------------------|----------------------|
| Total cash and investments as of July 1, 2017  | \$ -                             | \$ (50,077)            | \$ 12,699         | \$ (11,811)          |                      |
| Add: Current year receipts                     |                                  | 159,774                | 22,608            | 16,631               |                      |
| Prior year warrants voided                     |                                  |                        |                   |                      |                      |
| Less: Current year expenditures                |                                  | (152,807)              | (17,097)          | (9,762)              |                      |
| Outstanding loans                              |                                  | 43,110                 |                   | 4,942                |                      |
| Transfers                                      |                                  |                        |                   |                      |                      |
| Total cash and investments as of June 30, 2018 | <u>\$ -</u>                      | <u>\$ -</u>            | <u>\$ 18,210</u>  | <u>\$ -</u>          | <u>\$ -</u>          |

Reserve Independent Schools  
**SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS (concluded)**  
**ALL FUNDS BY SCHOOL DISTRICT CLASSIFICATION**  
For The Fiscal Year Ended June 30, 2018

|  | <u>Local or<br/>State Fund</u> | <u>Bond<br/>Building</u> | <u>SB-9<br/>State</u> | <u>SB-9<br/>Local</u> | <u>Debt<br/>Service</u> | <u>Total</u>      |
|--|--------------------------------|--------------------------|-----------------------|-----------------------|-------------------------|-------------------|
| Total cash and investments as of July 1, 2017  |                                | \$ 206,237               |                       | \$ 84,672             | \$ 227,189              | \$ 668,296        |
| Add: Current year receipts                     |                                | 103                      |                       | 89,868                | 227,327                 | 3,252,813         |
| Prior year warrants voided                     |                                |                          |                       |                       |                         | -                 |
| Less: Current year expenditures                |                                | (143,819)                |                       | (56,290)              | (228,211)               | (3,279,801)       |
| Outstanding loans                              |                                |                          |                       |                       |                         | -                 |
| Transfers                                      |                                |                          |                       |                       |                         | (826)             |
| Total cash and investments as of June 30, 2018 | <u>\$ -</u>                    | <u>\$ 62,521</u>         | <u>\$ -</u>           | <u>\$ 118,250</u>     | <u>\$ 226,305</u>       | <u>\$ 640,482</u> |

Reserve Independent Schools  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For The Fiscal Year Ended June 30, 2018

| <u>Federal Grantor/Pass-through Grantor/<br/>Program Title</u> | <u>Federal<br/>CFDA<br/>Number</u> | <u>Pass-through<br/>Grantor's<br/>Number</u> | <u>Passed<br/>Through to<br/>Subrecipients</u> | <u>Federal<br/>Expenditures</u> |
|--|------------------------------------|--|--|---------------------------------|
| <b><u>U.S. DEPARTMENT OF EDUCATION</u></b>                     |                                    |  |  |                                 |
| Passed through N.M. Department of Education:                   |                                    |  |  |                                 |
| Title I Grants to Lea's  | 84.010                             | 24.101                                       | \$ -   | \$ 95,208                       |
| Special Education Cluster:                                     |                                    |  |  |                                 |
| Special Education- Grants to States                            | 84.027                             | 24.106                                       | \$ -   | \$ 50,286                       |
| Special Education-Preschool Grants                             | 84.173                             | 24.109                                       |  | 4,119                           |
| Total Special Education Cluster                                |                                    |  | \$ -   | \$ 54,405                       |
| Teacher Quality State Grants                                   | 84.367                             | 24.154                                       | \$ -   | \$ 3,667                        |
| Rural Education  | 84.358                             | 24.160                                       |  | 3,930                           |
| Total U.S. Department of Education                             |                                    |  | \$ -   | \$ 157,210                      |
| <b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>                   |                                    |  |  |                                 |
| Direct Programs:   |                                    |  |  |                                 |
| Schools and Roads-Grants to States                             | 10.665                             | N/A  | \$ -   | \$ 540,742                      |
| Passed through N.M. Department of Education:                   |                                    |  |  |                                 |
| Child Nutrition Cluster:                                       |                                    |  |  |                                 |
| National School Lunch Program                                  | 10.555                             | N/A  | \$ -   | \$ 62,399                       |
| Summer Food Service Program For Children                       | 10.559                             | N/A  |  | -                               |
| School Breakfast Program                                       | 10.553                             | N/A  |  | -                               |
| Total Child Nutrition Cluster                                  |                                    |  | \$ -   | \$ 62,399                       |
| Total U.S. Department of Agriculture                           |                                    |  | \$ -   | \$ 603,141                      |
| Total expenditures of federal awards                           |                                    |  | \$ -   | \$ 760,351                      |

See the accompanying notes to the Schedule of Expenditures of Federal Awards.

Reserve Independent Schools  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Fiscal Year Ended June 30, 2018

Note 1      Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Reserve Independent Schools, under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Reserve Independent Schools, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Reserve Independent Schools.

Note 2      Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following cost principles contained in the Uniform Guidance.

Note 3      Non-Monetary Assistance

Non-monetary assistance is reported in the schedule at the fair market value of the USDA commodities received. The District received \$4,167 in food commodities during the 2017-2018 fiscal year.

Note 4      Indirect Costs

The District has elected not to use the de Minimis indirect cost rate as allowed under the Uniform Guidance.



Reserve Independent Schools  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
For the Fiscal Year Ended June 30, 2018

Current Status

**Findings – Financial Statement Audit**

None

**Findings and Questioned Costs – Major Federal Award Programs**

None

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LINDA STONE MCGEE, C.P.A.  
KAY STONE, C.P.A.  
KELLEY WYATT, C.P.A.

RYAN MONTOYA, 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 IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

**INDEPENDENT AUDITOR'S REPORT**

Wayne Johnson, 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, the aggregate remaining fund information, and the budgetary comparisons for the general and major special revenue funds of Reserve Independent Schools as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Reserve Independent Schools' basic financial statements, and have issued our report thereon dated November 5, 2018.

**Internal Control Over financial Reporting**

In planning and performing our audit of the financial statements, we considered Reserve Independent Schools' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of Reserve Independent Schools' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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 combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether 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, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings and questioned costs as items 2018-001, 2018-002, and 2018-003.

### **Reserve Independent Schools' Responses to Findings**

Reserve Independent Schools' responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Stone, McGee & Co CPAs*

Silver City, New Mexico  
November 5, 2018

**Stone, McGee & Co.**  
Certified Public Accountants

MIKE STONE, C.P.A.  
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**REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

**INDEPENDENT AUDITOR'S REPORT**

Wayne Johnson, State Auditor  
And  
Board of Education  
Reserve Independent Schools  
Reserve, New Mexico

**Report on Compliance for Each Major Federal Program**

We have audited Reserve Independent Schools' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Reserve Independent Schools' major federal programs for the year ended June 30, 2018. Reserve Independent Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Reserve Independent Schools' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Reserve Independent Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Reserve Independent Schools' compliance.

#### Opinion on Each Major Federal Program

In our opinion, Reserve Independent Schools complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

#### Report on Internal Control over Compliance

Management of Reserve Independent Schools is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Reserve Independent Schools' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Reserve Independent Schools' internal control over compliance.

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

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Stone, McGee & Co., CPAs*

Silver City, New Mexico  
November 5, 2018

**Stone, McGee & Co.**  
Certified Public Accountants

Reserve Independent Schools  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Fiscal Year Ended June 30, 2018

**SUMMARY OF AUDIT RESULTS**

1. The auditor's report expresses an unmodified opinion on whether the financial statements of Reserve Independent Schools were prepared in accordance with Generally Accepted Accounting Principles.
2. No significant deficiencies relating to the audit of the financial statements are reported in the *Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of Reserve Independent Schools, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies in internal control over major federal award programs are reported in the *Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance*.
5. The auditor's report on compliance for the major federal award programs for Reserve Independent Schools expresses an unmodified opinion on all major programs.
6. No audit findings that are required to be reported in accordance with 2 CFR Section 200.516(a) were noted during the audit.
7. The programs tested as major programs included: Schools and Roads – Grants to States, CFDA No. 10.665.
8. The threshold for distinguishing types A and B programs was \$750,000.
9. Reserve Independent Schools is not a low-risk auditee.

**FINDINGS – FINANCIAL STATEMENT AUDIT**

2018-001 Procurement (Other Noncompliance)

Condition – In a total of 62 disbursement tested, we noted the District had 14 instances, totaling \$24,207, where the purchase order was dated subsequent to the date of the invoice.

Criteria – Sound internal control and Sections 13-1-1 through 13-1-199, NMSA 1978 require in part that expenditures be properly authorized by the appropriate personnel prior to commitment of resources.

Effect – The District risks expenditures without proper authorization, and there is an increased likelihood of non-priority or unnecessary expenditures, as well as violation of New Mexico Statutes.

Finally, the internal control over budgeted expenditures is compromised if purchase orders are not obtained prior to purchases.

Cause – The District has allowed purchases to be made on an “as needed” basis, without prior written authorization in the form of a purchase order.

Recommendation – We recommend that the District communicate, to all personnel, the need for authorization prior to the expenditure commitment, and that the District hold training sessions with the appropriate personnel to remind them of the need for purchase order authorization.

Agency Response – The District will continue to provide training to staff, and it is expected that the finding will be alleviated by January 1, 2018. The Director of Finance will be involved in this process.

#### 2018-002 Expenditures in Excess of Budgetary Authority (Other Noncompliance)

Condition – The District incurred expenditures in excess of budgetary authority in the following funds and functions:

|                       |          |
|-----------------------|----------|
| Title I – Instruction | \$ 1,391 |
|-----------------------|----------|

Criteria – Sections 6-3-1 through 6-3-25 NMSA 1978 require, in part, that expenditures not exceed budgetary authority. The function is the legal level of control for public schools.

Effect – The internal controls established by adherence to budgets has been compromised, and excess spending could result. In addition, New Mexico statutes have been violated.

Cause – The District did not make the necessary year-end budget adjustments to alleviate these over-expenditures.

Recommendation – We recommend that the District continue to emphasize its policy of making year-end adjustments to budgets to alleviate excess expenditures. Supervisory personnel should be involved in the year-end budgetary adjustment process.

Agency Response – The District continues to emphasize year-end budget adjustments. This was an unusual circumstance in which the District incurred expenditures near year end and was unable to get a budget adjustment request approved in a timely manner. The Director of Finance is charged with budget adjustments, and it is anticipated that all adjustments will be made in the June 30, 2019 fiscal year.

#### 2018-003 Restatement Errors (Finding that does not rise to the level of a Significant Deficiency)

Condition – During the year ended June 30, 2017, during the conversion of the District’s fund financial statements to the Government-Wide financial statements, an overstatement of compensated absences of \$10,215, an understatement of property taxes not collected within sixty days of \$88,475, and an understatement of accrued interest of \$17,357 were not discovered. This resulted in a restatement of beginning net position in the Government-Wide financial statements of \$81,333 for the year ended June 30, 2018.

Criteria – Sound accounting practice requires a secondary review of financial statements, to ensure that all recorded transactions are accurate and appropriate.

Effect – The District’s June 30, 2017 net position was understated by \$81,333 in the audited financial statements.

Cause – The District utilizes a third party provider to prepare the financial statements. Although the District has policies and procedures in effect to provide a review of the financial statements at the District level, the aforementioned errors were not discovered during the initial review, and no secondary review was performed.

Recommendation – We recommend that the District conduct a secondary review of the financial statements provided by the third party preparer to ensure that all financial statement items are accurate and appropriate.

Agency Response – The District has a review policy in place. However, in this instance, there was time pressure to provide the State Auditor a copy by the Audit Rule mandated deadline, so a secondary review was not performed. Our policy has been changed to require, no matter what the circumstances, a secondary review of the financial statements.

## **FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS**

None

## **OTHER – FINANCIAL STATEMENT PREPARATION**

The financial statements were prepared by Stone, McGee & Co., C.P.A.’s, with substantial assistance from District personnel, who have acknowledged and accepted responsibility for the financial statements.

## **EXIT CONFERENCE**

The contents of this report were discussed November 5, 2018. Present at this exit conference were:

| <u>Name</u>     | <u>Title</u>     | <u>Affiliation</u>          |
|-----------------|------------------|-----------------------------|
| Sam Nicholds    | Board Member     | Reserve Independent Schools |
| Cindy Shellhorn | Superintendent   | Reserve Independent Schools |
| Odelia Delgado  | Business Manager | Reserve Independent Schools |
| Mike Stone, CPA | Shareholder      | Stone, McGee & Co., CPAs    |