

PORCH & ASSOCIATES LLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

VILLAGE OF MILAN, NEW MEXICO

Financial Statements, Supplementary Information
and
Independent Auditors' Report

June 30, 2008

VILLAGE OF MILAN, NEW MEXICO

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VILLAGE OF MILAN, NEW MEXICO

List of Principal Officials

June 30, 2008

Elected Officials

Tom Ortega	Mayor
Manuel Molina	Mayor Pro-Tem
Vivian Brumbelow	Trustee
Ellen Baca	Trustee
George Knotts	Trustee

Administrative Officials

Marcella Sandoval	Village Manager
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Independent Auditors' Report

Mr. Hector H. Balderas, State Auditor and
Mr. Tom Ortega, Mayor and
The Village Trustees
Village of Milan, New Mexico

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, and the budgetary comparison of the general fund of the Village of Milan (Village), as of and for the year ended June 30, 2008, which collectively comprise the Village's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the Village's nonmajor governmental funds presented as supplementary information in the accompanying combining and individual fund financial statements and schedules, and budgetary comparison statements as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph we conducted our audit in accordance with auditing standards generally accepted in the United States of America and with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

During the year ending June 30, 1998, the Village entered into an Arbitration and Partial Settlement Agreement (agreement) (as described in Note 15). The agreement transferred 17.41% ownership in the Wastewater Treatment facility (facility) to the Village. The agreement requires the Village to make payments to the City of Grants. These payments should be recalculated yearly based upon flow data from the Wastewater Treatment facility. As of the date of this audit the Village has not accounted for its ownership interest in the Wastewater Treatment facility, and the yearly payments have not been adjusted based upon the flow data. It was not practicable to extend our procedures sufficiently to determine if the Village should recognize net income or loss, additional capital assets or additional liabilities from its ownership in the Waste Water Treatment Facility.

Mr. Hector H. Balderas, State Auditor and
Mr. Tom Ortega, Mayor and
The Village Trustees
Village of Milan, New Mexico

Because of the matters discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the proprietary portion of the Statement of Net Assets and Statement of Activities, and the Balance Sheet, Statement of Revenues, Expenses and Changes in Fund Net Assets, Statement of Cash Flows and Statement of Revenues and Expenses – Budget and Actual which are related to the Joint Utility enterprise fund.

In our opinion, with the exception of the statements disclaimed above, 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 Village, as of June 30, 2008, and the respective changes in financial position, and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the financial position for the nonmajor governmental funds of the Village, as of June 30, 2008, and the respective changes in financial position thereof, and the respective budgetary comparisons for the nonmajor governmental funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2009 on our consideration of the Village's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

For the year ended June 30, 2008, the Village has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Mr. Hector H. Balderas, State Auditor and
Mr. Tom Ortega, Mayor and
The Village Trustees
Village of Milan, New Mexico

Our audit was conducted for the purpose of forming opinions on the basic financial statements and the combining and individual financial statements and budgetary comparisons of the Village. The supplemental schedules, 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. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Porch & Associates LLC

Albuquerque, New Mexico
December 16, 2009

VILLAGE OF MILAN, NEW MEXICO
STATEMENT OF NET ASSETS
June 30, 2008

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,020,800	683,794	1,704,594
Investments	765,880	315,794	1,081,674
Receivables			
Taxes			
Property taxes	5,138	-	5,138
Gross receipts tax	272,413	5,591	278,004
Lodgers tax	600	-	600
Cigarette tax	1,274	-	1,274
Gasoline tax	37,100	-	37,100
Motor vehicle tax	1,490	-	1,490
Franchise tax	12,872	-	12,872
Intergovernmental	565,426	-	565,426
Other	189	-	189
Utility billing, net of allowance	-	363,307	363,307
Restricted cash	-	45,701	45,701
Capital reserve fund	-	100,000	100,000
Due from other funds	1,163,134	859,681	2,022,815
Capital assets, not depreciated	1,113,675	4,465,186	5,578,861
Capital assets, net of accumulated depreciation	2,832,769	3,352,864	6,185,633
Total assets	7,792,760	10,191,918	17,984,678
LIABILITIES			
Accounts payable	264,171	711,504	975,675
Accrued compensation and benefits	53,432	9,165	62,597
Gross receipts tax payable	-	17,772	17,772
Interest payable	-	12,285	12,285
Deposits payable	-	57,835	57,835
Due to other funds	-	2,017,897	2,017,897
Noncurrent liabilities:			
Compensated absences, due in one year	40,264	8,213	48,477
Long-term liabilities, due in one year	81,288	135,399	216,687
Long-term liabilities, due in more than one year	470,069	2,223,313	2,693,382
Total liabilities	909,224	5,193,383	6,102,607
NET ASSETS			
Invested in capital assets, net of related debt	3,395,087	5,459,338	8,854,425
Restricted for debt service	115,583	45,701	161,284
Unrestricted	3,372,866	(506,504)	2,866,362
Total net assets	\$ 6,883,536	4,998,535	11,882,071

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

VILLAGE OF MILAN, NEW MEXICO
STATEMENT OF ACTIVITIES
Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total
Primary government							
Governmental activities							
General government	\$ 779,690	118,965	102,704	450,000	(108,021)	-	(108,021)
Public safety	856,482	67,351	94,140	23,000	(671,991)	-	(671,991)
Highways and streets	276,677	-	-	567,806	291,129	-	291,129
Culture and recreation	544,103	-	-	-	(544,103)	-	(544,103)
Interest on long-term debt	23,432	-	-	-	(23,432)	-	(23,432)
Total governmental activities	2,480,384	186,316	196,844	1,040,806	(1,056,418)	-	(1,056,418)
Business-type activities							
Joint Utility	1,150,212	1,284,003	-	-	-	133,791	133,791
Total business-type activities	1,150,212	1,284,003	-	-	-	133,791	133,791
Total primary government	\$ 3,630,596	1,470,319	196,844	1,040,806	(1,056,418)	133,791	(922,627)
General Revenues							
Franchise taxes					64,982	-	64,982
Gasoline taxes					223,212	-	223,212
Gross receipts taxes					1,810,435	25,641	1,836,076
Property taxes					245,860	-	245,860
Cigarette taxes					7,357	-	7,357
Lodgers tax					3,818	-	3,818
Miscellaneous					831	(32)	799
Donations					140,000	-	140,000
Rental income					6,150	-	6,150
Interest					57,318	31,575	88,893
Transfers					395,315	(395,315)	-
Total general revenues and transfers					2,955,278	(338,131)	2,617,147
Change in net assets					1,898,860	(204,340)	1,694,520
Net assets, beginning of year					5,001,213	5,202,875	10,204,088
Restatement					(16,537)	-	(16,537)
Net assets, beginning of year					4,984,676	5,202,875	10,187,551
Net assets, end of year					\$ 6,883,536	4,998,535	11,882,071

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

**VILLAGE OF MILAN, NEW MEXICO
BALANCE SHEET -
GOVERNMENTAL FUNDS
JUNE 30, 2008**

	Major			Nonmajor	Total
	General	CDBG Planning Grant	Street Improvement	Governmental Funds	
ASSETS					
Cash and cash equivalents	\$ 594,037	8,949	26,818	390,996	1,020,800
Investments	765,419	-	-	461	765,880
Receivables					
Taxes					
Property tax	2,971	-	-	2,167	5,138
Gross receipts tax	272,413	-	-	-	272,413
Lodgers tax	-	-	-	600	600
Cigarette tax	848	-	-	426	1,274
Gasoline tax	-	-	-	37,100	37,100
Motor Vehicle tax	1,490	-	-	-	1,490
Franchise tax	12,872	-	-	-	12,872
Intergovernmental	-	-	565,426	-	565,426
Other	98	-	-	91	189
Due from other funds	892,214	450,269	925,222	151,484	2,419,189
Total assets	\$ 2,542,362	459,218	1,517,466	583,325	5,102,371
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 254,460	-	-	9,711	264,171
Accrued compensation and benefits	48,704	-	2,533	2,195	53,432
Due to other funds	354,532	164	606,507	299,770	1,260,973
Total liabilities	657,696	164	609,040	311,676	1,578,576
FUND BALANCES					
Unreserved, undesignated, reported in:					
General fund	1,884,666	-	-	-	1,884,666
Capital projects funds	-	459,054	908,426	-	1,367,480
Special revenue funds	-	-	-	206,709	206,709
Reserved for debt service	-	-	-	64,940	64,940
Total fund balances	1,884,666	459,054	908,426	271,649	3,523,795
Total liabilities and fund balances	\$ 2,542,362	459,218	1,517,466	583,325	5,102,371

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

VILLAGE OF MILAN, NEW MEXICO
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2008

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

Total fund balance - governmental funds	\$ 3,523,795
Amounts due to governmental funds from enterprise funds are recorded in the governmental fund financial statements, but not the entity wide financial statements.	4,738
Accrued compensated absences not payable from current revenues.	(40,264)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	3,946,444
Long-term liabilities, including capital leases payable, are not due and payable in the current period and, therefore, are not reported in the governmental fund.	<u>(551,357)</u>
Net assets - governmental activities	<u><u>\$ 6,883,356</u></u>

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

VILLAGE OF MILAN, NEW MEXICO
STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND
BALANCES - GOVERNMENTAL FUNDS
Year Ended June 30, 2008

	Major			Nonmajor	Total
	General	CDBG Planning Grant	Street Improvement	Governmental Funds	
Revenues					
Taxes	\$ 2,040,563	-	-	315,101	2,355,664
Licenses, permits, fees and fines	118,965	-	-	67,351	186,316
From federal sources					
Intergovernmental	-	450,000	-	-	450,000
From non-federal sources					
Intergovernmental	102,704	-	627,928	117,140	847,772
Interest	51,257	-	3,189	2,872	57,318
Donations	140,000	-	-	-	140,000
Rents	6,150	-	-	-	6,150
Miscellaneous	670	-	-	161	831
Total revenues	2,460,309	450,000	631,117	502,625	4,044,051
Expenditures					
Current					
General government	781,577	-	-	3,635	785,212
Public safety	637,200	-	-	96,731	733,931
Highways and streets	-	-	119,445	133,887	253,332
Culture and recreation	461,307	-	-	-	461,307
Debt service - principal	-	-	-	77,121	77,121
Debt service - interest	-	-	-	23,432	23,432
Capital outlay	302,245	-	-	148,169	450,414
Total expenditures	2,182,329	-	119,445	482,975	2,784,749
(Deficiency) excess of revenues over expenditures before other financings sources	277,980	450,000	511,672	19,650	1,259,302
Other Financing Sources (Uses)					
Operating transfers in	350,134	434	438,432	213,364	1,002,364
Operating transfers out	(354,870)	-	(43,685)	(208,494)	(607,049)
Total other financing sources (uses)	(4,736)	434	394,747	4,870	395,315
Net change in fund balances	273,244	450,434	906,419	24,520	1,654,617
Fund balance, beginning of year	1,611,422	8,620	2,007	247,129	1,869,178
Fund balance, end of year	\$ 1,884,666	459,054	908,426	271,649	3,523,795

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

VILLAGE OF MILAN, NEW MEXICO
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2008

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

Net changes in fund balances - governmental funds **\$ 1,654,617**

Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay in the current period

Depreciation expense	(233,897)	
Capital outlay	450,414	
Excess of capital outlay over depreciation expense		216,517

Deferred revenue is recorded as income under the accrual method, and not the modified accrual method		(60,122)
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The repayment of the principal of long-term debt (including capital leases) consumes current financial resources of governmental funds		77,121
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Accrued compensated absences are expensed under the accrual method, and not the modified accrual method		10,727

Change in net assets - governmental activities **\$ 1,898,860**

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

VILLAGE OF MILAN, NEW MEXICO
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL - (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget- Positive (Negative)
Revenues				
Taxes	\$ 1,811,000	1,811,000	2,083,850	272,850
Licenses, permits, fees and fines	52,000	52,000	118,965	66,965
Intergovernmental	570,000	570,000	102,704	(467,296)
Interest	25,000	25,000	51,257	26,257
Donations	-	-	140,000	140,000
Rents	9,600	9,600	6,150	(3,450)
Miscellaneous	16,400	16,400	670	(15,730)
Total revenues	2,484,000	2,484,000	2,503,596	19,596
Expenditures				
General government	1,233,260	1,225,760	577,333	648,427
Public safety	861,093	861,093	637,200	223,893
Culture and recreation	620,964	620,964	461,307	159,657
Debt service	190,000	190,000	-	190,000
Capital outlay	198,000	198,000	302,245	(104,245)
Total expenditures	3,103,317	3,095,817	1,978,085	1,117,732
(Deficiency) excess of revenues over expenditures	(619,317)	(611,817)	525,511	1,137,328
Other financing uses				
Operating transfers in	150,000	150,000	350,134	(200,134)
Operating transfers out	(210,000)	(210,000)	(354,870)	(144,870)
Total other financing uses	(60,000)	(60,000)	(4,736)	(345,004)
Net change in fund balance	(679,317)	(671,817)	520,775	792,324
Fund balance, beginning of year	1,611,422	1,611,422	1,611,422	-
Fund balance, end of year	\$ 932,105	939,605	2,132,197	792,324
Non-GAAP change in fund balance			\$ 520,775	
Change in:				
Accounts receivable			(43,287)	
Accounts payable			219,027	
Accrued compensation and benefits			(14,783)	
GAAP change in fund balance			\$ 273,244	

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

VILLAGE OF MILAN, NEW MEXICO
BALANCE SHEET -
PROPRIETARY FUNDS - JOINT UTILITY
June 30, 2008

	Total
ASSETS	
Current Assets	
Cash and cash equivalents	\$ 683,794
Investments	315,794
Accounts receivable	
Utility billing, net of allowance	363,307
Gross receipts taxes	5,591
Restricted cash	45,701
Capital reserve fund	100,000
Due from other funds	859,681
Total current assets	<u>2,373,868</u>
Capital assets, net of accumulated depreciation	7,818,050
Total assets	<u><u>\$ 10,191,918</u></u>
LIABILITIES AND NET ASSETS	
Current Liabilities	
Accounts payable	\$ 711,504
Accrued compensation and benefits	9,165
Gross receipts tax payable	17,772
Interest payable	12,285
Deposits payable	57,835
Due to other funds	2,017,897
Compensated absences	8,213
Loans payable - current	135,399
Total current liabilities	<u>2,970,070</u>
Noncurrent Liabilities	
Loans payable	2,223,313
Total noncurrent liabilities	<u>2,223,313</u>
Total liabilities	<u>5,193,383</u>
Net Assets	
Invested in capital assets, net of related debt	5,459,338
Restricted for debt service	45,701
Unrestricted	(506,504)
Total net assets	<u>4,998,535</u>
Total liabilities and net assets	<u><u>\$ 10,191,918</u></u>

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

**VILLAGE OF MILAN, NEW MEXICO
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS
Year Ended June 30, 2008**

	Total
Operating Revenues	
Sales and services	\$ 1,284,003
Operating Expenses	
Operating expenses	839,369
Depreciation	217,595
Total operating expenses	<u>1,056,964</u>
Operating Income	<u>227,039</u>
Nonoperating Revenues (Expenses)	
Gross receipts tax	25,641
Interest income	31,575
Interest expense	(93,248)
Miscellaneous	(32)
Transfers in	4,153
Transfers out	(399,468)
Total nonoperating revenues (expenses)	<u>(431,379)</u>
Net income	(204,340)
Net assets, beginning of year	<u>5,202,875</u>
Net assets, end of year	<u>\$ 4,998,535</u>

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

VILLAGE OF MILAN, NEW MEXICO
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
Year Ended June 30, 2008

	Total
Cash Flows From Operating Activities	
Cash received from customers	\$ 1,047,260
Cash payments to vendors and employees	(807,398)
Net cash provided by operating activities	<u>239,862</u>
Cash Flows From Noncapital and Related Financing Activities	
Gross receipts tax revenue	25,641
Miscellaneous revenue	(32)
Net change in deposits payable	(3,718)
Net change in due to/due from other funds	1,082,548
Operating transfers, net	(395,315)
Net cash provided by noncapital financing activities	<u>709,124</u>
Cash Flows From Capital and Related Financing Activities	
Purchase of capital assets	(1,423,465)
Principle payment on loans	(132,106)
Interest payment on loans and capital leases	(93,248)
Net cash used by capital and related financing activities	<u>(1,648,819)</u>
Cash Flows From Investing Activities	
Transfers from investments to cash	73,105
Interest income	31,575
Net cash provided by investing activities	<u>104,680</u>
Net increase in cash	(595,153)
Cash, beginning of year	<u>1,324,648</u>
Cash, end of year	<u><u>\$ 729,495</u></u>

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

**VILLAGE OF MILAN, NEW MEXICO
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS (CONTINUED)
Year Ended June 30, 2008**

	Total
Operating income	\$ 227,039
Adjustments to reconcile operating income to net cash flows:	
Depreciation expense	217,595
Changes in assets and liabilities:	
Accounts receivable	(236,743)
Accounts payable	18,611
Accrued expenses	11,595
Compensated absences	1,765
Net cash provided by operating activities	<u><u>\$ 239,862</u></u>

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

**VILLAGE OF MILAN, NEW MEXICO
STATEMENT OF FIDUCIARY NET ASSETS -
AGENCY FUNDS
June 30, 2008**

ASSETS

Cash	\$ 5,549
Total assets	<u>\$ 5,549</u>

LIABILITIES

Due to other entities	\$ 5,549
Total liabilities	<u>\$ 5,549</u>

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

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Entity. The Village of Milan, Inc. (Village) was incorporated under provisions of Chapter 3, Article 2, NMSA 1978. The Village operates under the Mayor-Trustee-Manager form of government and provides the following services as provided for by law: public safety (police and fire), highways and streets, sanitation, health and social services, culture and recreation, public works, planning and zoning, economic development and general administrative services.

The financial statements of the Village have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental entities.

A. Financial Reporting Entity

As required by GAAP, the financial statements present the Village and entities for which the Village is considered to be financially accountable. There are no component units for the fiscal year ended June 30, 2008.

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the Village. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

Separate financial statements are provided for governmental funds and enterprise funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

A. Financial Reporting Entity (Continued)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Enterprise funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary fund's principle ongoing operations.

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

Governmental financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period. For this purpose, the Village considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is made.

The Village follows the following revenue recognition principles applied to nonexchange transactions which are in accordance with GASB *Statement 33, Accounting and Reporting for Nonexchange Transactions*:

Derived tax revenues are recognized as revenue in the period when the underlying exchange transaction has occurred and the resources are available. Derived tax revenues include gross receipts tax, gasoline taxes, and cigarette taxes.

Imposed nonexchange revenues – property taxes are recognized in the period for which the taxes are levied, provided the available criteria are met.

Imposed nonexchange revenue other than property taxes are recognized in the period when an enforceable legal claim has arisen and the resources are available.

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

A. Financial Reporting Entity (Continued)

Government-mandated nonexchange transactions and voluntary nonexchange transactions are recognized when all applicable eligibility requirements have been met and the resources are available. These include grant revenues, state shared taxes and intergovernmental revenue. Grant revenues are recognized as revenues when the related costs are incurred.

Other revenues susceptible to accrual are investment income and charges for services. All other revenues are recognized when they are received and are not susceptible to accrual because they are usually not measurable until payment is actually received.

The Village reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise when resources are received by the Village before it has legal claim to the resources, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods when both revenue recognition criteria are met, or when the Village has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

The Village reports the following major governmental funds:

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

CDBG Planning Grant. This capital project fund is used to account for the revenues and expenditures from Community Development Block Grant funds.

Street Improvement. This capital project fund is used to account for costs associated with the improvements to Village streets. Funding is primarily through cooperative agreements with the state of New Mexico Highway and Transportation Department.

Proprietary funds are accounted for on the flow of economic resources measurement focus (all assets and all liabilities associated with the operation of these funds are included on the balance sheet) and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The Village applies all applicable GASB pronouncements in accounting and reporting for its proprietary operations.

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

A. Financial Reporting Entity (Continued)

Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The Village reports the following major enterprise fund:

Joint Utility. To account for the provision of water, waste water and solid waste services to the residents of the Village. All activities necessary to provide such services are accounted for in this fund including, but not limited to, administration, operations, maintenance billing, and collection.

The Village reports the following fund types:

General Fund is the general operating fund of the Village. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. Many of the more important functions of the Village, including the Village's general services and administration, are accounted for in this fund.

Special Revenue Funds are used to account for revenues derived from specific sources, which are usually required by law or regulation to be accounted for in separate funds.

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those constructed for proprietary funds.

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term principal, interest and related costs.

Agency Funds are used to account for monies held by the Village in a custodial capacity on behalf of third parties or other agencies.

B. Cash, Cash Equivalents and Investments

Cash and cash equivalents include amounts in demand deposits, savings accounts and certificates of deposit with an original maturity of three months or less from the date of acquisition. Cash deposits are reported at carrying amount, which reasonably estimates fair value.

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

The Village does not have an investment policy. Village funds are invested in accordance with New Mexico State Statute 6-10-36 which provides for the following investments:

1. United States Treasury Securities (Bills, Notes and Bonds) and other securities issued by the United States government or its agencies or instrumentalities that are either direct obligations of the United States of America, the Federal Home Loan Mortgage Corp., the Federal National Mortgage Association, the Federal Farm Credit Bank, or the Student Loan Marketing Association, or are backed by the full faith and credit of the United States government.
2. Insured and/or collateralized (with U.S. Government Securities and/or New Mexico Bonds) certificates of deposit of banks, savings and loan associations, and credit unions, pursuant to State Board of Finance Collateral Policies.
3. Money market funds whose portfolios consist entirely of United States Government Securities or agencies sponsored by the United States government.
4. Investments in the New Mexico State Treasurer external investment pool (Local Government investment Pool).

C. Capital Assets

Capital assets, which include software, property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

Governmental Accounting Standards Board (GASB) 34 *Basic Financial Statements and Managements Discussion and Analysis for State and Local Governments* allows phase III governments an exemption from the retroactive application of the capitalization requirements to major general infrastructure assets. The Village has elected not retroactively record infrastructure assets.

Assets are recorded at historical cost or estimated historical cost if purchased or construction. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

C. Capital Assets (Continued)

value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets in governmental funds are depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	40 years
Equipment	3 – 10 years
Vehicles	5 – 7 years
Infrastructure	50 years
Software	5 years

Capital Assets in proprietary funds are depreciated using the straight-line method over the estimated useful lives of the assets as follows:

Underground plant	30 – 33 ½ years
Buildings and other improvements	33 ½ years
Shared plant	30 years
Heavy equipment	15 years
Machinery and equipment	5 – 10 years
Wells	33 ½ years
Vehicles	5 – 8 years
Computers and software	3 – 5 years

The Audit Act, 12-6-10, NMSA 1978, requires all assets which cost more than \$5,000 and have a life greater than one year to be added to the General Fixed Asset Account Group and a yearly inventory of those assets must be taken.

D. Accrued Employee Benefits

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the general long-term debt account group. No expenditure is reported for these amounts. Vested or accumulated vacation leave for proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees.

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

E. Fund Equity

Reservations of fund balance represent amounts that are not appropriated or are legally segregated for a specific purpose. Restrictions of net assets are limited to outside third-party restrictions. Fund equity and net assets were reported as follows:

Debt Service - Amounts legally restricted for the payment of long-term debt.

Unreserved, undesignated - Amounts which have not been reserved or designated for any purpose. These funds are available for unrestricted usage by the Village.

F. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. Net assets invested in capital assets, net of related debt excludes unspent debt proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Village or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

G. Interfund Transactions

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

H. Cash Flows

For purposes of the Statement of Cash Flows, the various enterprise funds consider all highly liquid assets with a maturity of three months or less when purchased to be cash equivalents.

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

I. Budgetary Information

Actual amounts for the budgetary basis are prepared on the cash basis of accounting for governmental funds. The cash basis method recognizes revenues when received and expenditures when paid. Actual amounts for proprietary funds are prepared using the full accrual method. The full accrual method recognizes revenues when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Annual budgets are adopted for the general, special revenue, capital projects and enterprise funds.

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

1. Prior to June 1, the Village Administrator submits to the Village Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them based on previous year's history. Public hearings are conducted at the Village Hall to obtain taxpayer comments. Prior to July 1, the budget is legally enacted through passage of an ordinance.
2. The Village Administrator is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any funds must be approved by the Village Council and New Mexico State Department of Finance, Division of Local Governments.
3. Formal budgetary integration is employed as a management control device during the year for the general fund, special revenue funds, capital projects fund and enterprise funds.
4. The level of classification detail in which expenditures of expenses may not legally exceed appropriations for each budget is in fund total. Appropriations lapse at year-end.

J. Use of Estimates

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

**VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

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

K. Implementation of New Accounting Standards

During the year ended June 30, 2008, the Village adopted Government Accounting Standards Board Statement (GASB) No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* (GASB 48), GASB No. 49, *Pollution Remediation Obligations*, and GASB 50, *Pension Disclosures*. The GASBs will not have a material impact on the Village's financial statements.

NOTE 2. CASH AND INVESTMENTS

Deposits

Custodial Credit Risk - Deposits. Custodial credit risk is, in the event of the failure of a depository financial institution, the Village will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Village does not have a deposit policy for custodial credit risk. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are (1) uncollateralized, (2) collateralized with securities held by the pledging financial institution, or (3) collateralized with securities held by the pledging financial institution's trust department or agent but not in the Village's name. As of June 30, 2008, the Village's bank balance total of \$2,617,770 was exposed to credit risk in the amount of \$2,217,770 as follows:

Uninsured and collateral held by pledging bank's trust department or agent but not in the Village's name	<u>\$ 2,217,770</u>
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In accordance with Section 6-10-17, NMSA, 1978 Compilation, the Village is required to collateralize an amount equal to one-half of the public money in excess of \$100,000 at each financial institution.

The total balance in any single financial institution may at times exceed the \$100,000 in FDIC coverage available to individual depositors. The Village is required to obtain from each bank that is a depository for public funds pledged collateral in an aggregate amount equal to one half of the public money in each account.

Investments

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributable to the magnitude of the Village's investment in a single issuer. The Village has no formal policy limiting the amount of investments or deposits at any single institution or with any single issuer.

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 2. CASH AND INVESTMENTS (Continued)

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Village does not have a policy for managing interest rate risk.

Investments held at the Bank of Albuquerque are invested in dollar denominated US Treasury funds. The funds invest in instruments with maturities of 90 days or less.

NOTE 3. ACCOUNTS RECEIVABLE – PROPRIETARY FUNDS

Accounts receivable represents billings for water, waste water and solid waste fees. It is management's policy to cut off water and waste water service for non-payment. A lien is placed on the properties which have outstanding water bills. Accounts receivable is comprised of the following at June 30, 2008:

Accounts receivable	\$ 403,307
Allowance for uncollectible accounts	<u>(40,000)</u>
	<u>\$ 363,307</u>

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 4. CAPITAL ASSETS

Governmental fund capital asset activity for the year ending June 30, 2008 was as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Governmental Activities					
Capital assets, not depreciated:					
Land	\$ 446,506	147,500	-	-	594,006
Construction in process	545,123	83,988	-	(109,442)	519,669
Total, not depreciated	\$ 991,629	231,488	-	(109,442)	1,113,675
Capital assets, depreciated:					
Buildings and improvements	\$ 3,747,025	90,209	-	-	3,837,234
Furniture, fixtures and equipment	972,811	34,943	-	-	1,007,754
Vehicles	463,618	17,034	-	-	480,652
Infrastructure	240,956	76,740	-	109,442	427,138
Total, depreciated	5,424,410	218,926	-	109,442	5,752,778
Accumulated depreciation for:					
Buildings and improvements	1,737,241	70,661	-	-	1,807,902
Furniture, fixtures and equipment	624,645	110,773	-	-	735,418
Vehicles	318,294	40,840	-	-	359,134
Infrastructure	5,932	11,623	-	-	17,555
Total accumulated depreciation	2,686,112	233,897	-	-	2,920,009
Total capital assets, depreciated, net	\$ 2,738,298	(14,971)	-	109,442	2,832,769
Total capital assets, net	\$ 3,729,927	216,517	-	-	3,946,444

Depreciation expense for governmental funds was charged to functions/programs of the government as follows:

General government	\$ 5,205
Public safety	122,551
Highways and streets	23,345
Culture and recreation	82,796
Total depreciation expense	\$ 233,897

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 4. CAPITAL ASSETS (CONTINUED)

Enterprise fund capital asset activity for the year ending June 30, 2008 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Business-type Activities				
Capital assets, not depreciated:				
Land	\$ 927,000	-	-	927,000
Water rights	1,413,000	-	-	1,413,000
Construction in process	40,808	2,084,378	-	2,125,186
Total, not depreciated	\$ 2,380,808	2,084,378	-	4,465,186
Capital assets, depreciated:				
Plant and system	\$ 6,768,431	15,598	-	6,784,029
Buildings and improvements	129,956	-	-	129,956
Furniture, fixtures and equipment	958,536	-	-	958,536
Total, depreciated	7,856,923	15,598	-	7,872,521
Accumulated depreciation for:				
Plant and system	3,717,984	178,393	-	3,896,377
Buildings and improvements	44,492	3,162	-	47,654
Furniture, fixtures and equipment	539,587	36,039	-	575,626
Total accumulated depreciation	4,302,063	217,594	-	4,519,657
Total capital assets, depreciated, net	\$ 3,554,860	(201,996)	-	3,352,864
Total capital assets, net	\$ 5,935,668	1,882,382	-	7,818,050

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 5. LONG-TERM OBLIGATIONS – GOVERNMENTAL FUNDS

During the year ended June 30, 2008, the following changes occurred:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Governmental activities					
General Obligation					
bonds	\$ 559,000	-	(66,000)	493,000	70,000
Notes payable	69,478	-	(11,121)	58,357	11,288
Compensated Absences	29,537	37,854	(27,127)	40,264	40,264
Total	\$ 658,015	37,854	(104,248)	591,621	121,552

General Obligation Bonds. The Village had general obligation bond series outstanding during the fiscal year ending June 30, 2008.

2002 General Obligation Refunding Bonds

On June 20, 2002, the Village Trustees approved Ordinance No. 193 authorizing the issuance of the Series 2002 General Obligation Refunding Bonds in an amount of \$690,000. The purpose of the issuance was to refund the callable portions of the Series 1992 G.O. Bonds and the callable portions of the Series 1994 G.O. Bonds (the “Refunded Bonds”).

The Series 2002 G.O. Refunding Bonds are payable in annual installments on August 1 and interest is payable on February 1 and August 1 at rates ranging from 1.97% to 4.52% per annum. The future requirements for bonds payable are as follows:

Year Ending June 30	Principal	Interest	Total
2009	\$ 70,000	19,766	89,766
2010	75,000	16,821	91,821
2011	80,000	13,572	93,572
2012	86,000	10,010	96,010
2013	92,000	6,106	98,106
2014	90,000	2,034	92,034
	<u>\$ 493,000</u>	<u>68,309</u>	<u>561,309</u>

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 5. LONG-TERM OBLIGATIONS – GOVERNMENTAL FUNDS
(CONTINUED)

Notes Payable. The Village entered into a loan agreement with the New Mexico Finance Authority on August 16, 2002 wherein the Village pledged revenue derived from its annual State Fire Allotment to cover debt service. The revenue is subject to an intercept agreement. The proceeds from the note were used to purchase a fire pumper/tanker.

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>	<u>Term</u>
Purchase Fire Equipment	1.97 – 4.43%	\$ 112,631	10years

The future requirements for notes payable are as follows:

Year Ending June 30	Principal	Interest	Fees	Total
2009	\$ 11,288	1,012	174	12,474
2010	11,467	873	146	12,486
2011	11,659	723	118	12,500
2012	11,863	560	89	12,512
2013	12,080	386	60	12,526
	<u>\$ 58,357</u>	<u>3,554</u>	<u>587</u>	<u>62,498</u>

Accrued Compensated Absences. Employees accrue either eight or ten hours per pay period depending on if the employee has been with the village less than or more than ten years, respectively. The maximum number of annual leave hours which may be accrued is 120 hours. Compensated absence balances have been liquidated with general fund money in prior years.

Village employees accrue vacation leave as follows:

Total Years of Village Service	Yearly Accumulation
0-10 (inclusive)	96 hours
11 - or more	120 hours

Defeased Debt – In prior years, the Village defeased their Series 2002 General Obligations Refunding Bonds by placing the proceeds of a new bond issued in an irrevocable trust to provide for all future debt service payments on the defeased bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the Village’s financial statements. As of June 30, 2008, \$690,000 of bonds outstanding are considered defeased.

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 6. LONG-TERM DEBT - ENTERPRISE FUNDS

During the year ended June 30, 2008, the following changes occurred:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Business-type activities					
Notes payable	\$ 2,490,818	-	(132,106)	2,358,712	135,399
Compensated absences	6,448	8,213	(6,448)	8,213	8,213
Total	\$ 2,497,266	8,213	(138,554)	2,366,925	143,612

Notes payable. The Village had two notes payable outstanding during the fiscal year ending June 30, 2008.

1. *Note Payable to the City of Grants*

In the year ended June 30, 1998, pursuant to an arbitration and partial settlement agreement, the Village agreed to purchase a 17.41% ownership interest in the wastewater treatment facility from the City of Grants. The purchase price was \$1,590,000. The Village paid \$850,000 at closing and is making monthly principal and interest payments of \$3,083. The note matures December 2018.

The future requirements for the note payable are as follows:

Year Ending June 30	Principal	Interest	Total
2009	\$ 20,756	16,244	37,000
2010	22,126	14,874	37,000
2011	23,587	13,413	37,000
2012	25,144	11,856	37,000
2013	26,805	10,195	37,000
2014 to 2018	145,847	22,219	168,066
	<u>\$ 264,265</u>	<u>88,801</u>	<u>353,066</u>

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 6. LONG-TERM DEBT - ENTERPRISE FUNDS (CONTINUED)

2. Note Payable to the New Mexico Finance Authority

The Village's Joint Utility has entered into a loan agreement pursuant to ordinance No. 200 dated August 4, 2003 between the Village and the New Mexico Finance Authority (NMFA). The proceeds of the note were used to acquire land and appurtenant water rights. The principal amount of the loan was \$2,583,926 of which \$2,400,000 was used to purchase the land and water rights, and \$183,926 was used to establish a reserve account. Interest is at 3.792%, which includes a 0.25% administrative fee for NMFA. Interest and principal payments are due May 1st and November 1st of each year. The note matures May 1, 2023. The loan is collateralized by the Village's gross receipt tax.

The future requirements for the note payable are as follows:

Year Ending June 30	Principal	Interest	Fees	Total
2009	\$ 114,643	73,713	5,236	193,592
2010	118,123	70,913	4,950	193,986
2011	120,933	67,699	4,654	193,286
2012	125,229	64,133	4,352	193,714
2013	128,642	60,269	4,039	192,950
2014 to 2018	705,643	233,859	15,151	954,653
2019 to 2022	781,234	96,977	5,758	883,969
	<u>\$ 2,094,447</u>	<u>667,563</u>	<u>44,140</u>	<u>2,806,150</u>

NOTE 7. CONTINGENT DEBT OBLIGATION

On June 1, 1993 the Village entered into a joint powers agreement to establish the Northwest New Mexico Solid Waste Authority (NWNMRSWA). The participants in the agreement are McKinley County, Cibola County, the City of Grants, the City of Gallup and the Village of Milan. NWNMRSWA's separately issued financial statements may be obtained from NWNMRSWA at P.O. Box 1330, Thoreau, New Mexico, 87323.

On May 18, 1995, the Village Trustees approved Ordinance 171 which authorized the execution and delivery of a loan agreement and intercept agreement by and between the Village and the New Mexico Finance Authority (NMFA), evidencing a special limited obligation of the Village to pay a principal amount not to exceed \$8,250,000 together with interest thereon, for the purpose of acquiring and constructing a solid waste disposal facility as a member of the NWNMRSWA.

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 7. CONTINGENT DEBT OBLIGATION (CONTINUED)

On February 18, 1998, the Village Trustees approved Ordinance 177 which authorized the execution and delivery of a loan agreement and intercept agreement by and between the Village and NMFA, evidencing a special limited obligation of the Village to pay a principal amount not to exceed \$1,615,353 together with interest thereon, for the purpose of acquiring and constructing a solid waste disposal facility and refinancing certain lease purchase agreements, as a member of the NWNMRSWA.

Ordinance 194 was approved on November 21, 2002 by the Village Trustees, authorizing the execution and delivery of a loan agreement by and between the Village and the NMFA. The loan agreement called for the issuance of a limited obligation to refund the note approved above by Ordinance 171 as described above. The obligation amount authorized by Ordinance 194 was in the amount of \$5,600,000.

The debt obligations above are payable solely from the net revenues of NWNMRSWA as well as the Environmental Gross Receipts Tax Revenues imposed on the participating entities.

The NWNMRSWA has agreed to assist the Village in testing and monitoring the Village's closed solid waste disposal site. At June 30, 2008, the management of NWNMRSWA and the Village do not anticipate any additional significant liability to the Village for closure/post closure costs.

NOTE 8. INTERFUND OPERATING TRANSFERS

Interfund transfers for the year ended June 30, 2008 consisted of the following:

Transfers to the general fund from:	
Nonmajor funds	\$ 208,494
Street improvement fund	43,685
General fund internal transfers	97,955
Total transfers to the general fund	<u>\$ 350,134</u>
Transfers from the general fund to:	
Nonmajor funds	\$ 213,364
General fund internal transfers	97,955
Street improvement fund	38,964
CDBG planning grant fund	434
Joint utility fund	4,153
Total transfers from the general fund	<u>\$ 354,870</u>
Transfers to the CDBG planning fund from:	
General fund	<u>\$ 434</u>

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 8. INTERFUND OPERATING TRANSFERS (CONTINUED)

Transfers to the street improvement fund from:	
Joint utility fund	\$ 399,468
General fund	<u>38,964</u>
Total transfers to the street improvement fund	<u>\$ 438,432</u>
Transfers from the street improvement fund to:	
General fund	<u>\$ 43,685</u>
Transfers from the joint utility fund to:	
Street improvement fund	<u>\$ 399,468</u>

The primary purpose of the transfers was to fund the debt service fund and to transfer to the General fund gross receipts tax revenue received by the Joint Utility fund. Transfers also were made to reimburse funds for capital project money spent from other funds.

NOTE 9. INTERFUND BALANCES

Interfund balances at June 30, 2008 consisted of the following amounts:

Due to general fund from:	
Joint utility fund	<u>\$ 892,214</u>
Due from general fund to:	
Street improvement fund	<u>\$ 354,532</u>
Due to CDBG planning grant fund from:	
Street improvement fund	<u>\$ 450,269</u>
Due from CDBG planning grant fund to:	
Street improvement fund	<u>\$ 164</u>
Due to the street improvement fund from:	
General fund	354,532
Joint utility fund	270,920
Nonmajor funds	<u>299,770</u>
Total due to the street improvement fund	<u>\$ 925,222</u>
Due from the street improvement fund from:	
CDBG planning grant fund	450,269
Joint utility fund	4,754
Nonmajor funds	<u>151,484</u>
Total due from the street improvement fund	<u>\$ 606,507</u>

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 9. INTERFUND BALANCES (CONTINUED)

Due to the joint utility from:	
General fund	\$ 892,214
Street improvement fund	270,920
Joint utility internal fund balance	<u>854,763</u>
Total due to the joint utility fund	<u>\$ 2,017,897</u>
Due to the joint utility fund to:	
Joint utility fund	<u>\$ 854,763</u>

The due to/due from balances have been caused by capital projects expenses being paid from incorrect funds.

NOTE 10. PROPERTY TAXES

Cibola County is responsible for assessing, collecting and distributing property taxes for the Village. Property taxes are assessed on November 1 of each year based on the assessed value on the prior January 1 and are payable in two equal installments by November 10 of the year in which the tax bill is prepared and by May 10 of the following year. Property taxes are delinquent if not paid by December 10 and June 10. Taxes on real property are liened on January 1 of the year for which the taxes are imposed.

NOTE 11. PERA PENSION PLAN

Plan Description: Substantially all of the Village's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11 NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to PERA, PO Box 2123, Santa Fe, New Mexico 87504-2123.

Funding Policy. Plan members are required to contribute 7.00% (for police and regular employees) to 8.00% (for fire employees) of their gross salary and the Village is required to make a matching contribution of 7.00% for regular employees, 10.00% for police personnel, and 11.00% for fire personnel. The contribution requirements of plan members and the Village are established under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The Village's contributions to PERA for the years ending June 30, 2008, 2007, and 2006 were \$70,538, \$77,473, and, \$121,734, respectively, equal to the amount of the required contributions for each year.

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 12. POST-EMPLOYMENT BENEFITS

The Retiree Health Care Act (Act) (Chapter 10, Article 7C NMSA 1978) provides comprehensive core group health insurance for persons who have retired from certain public service in New Mexico. The Retiree Health Care Authority is the administrator of the plan. The purpose is to provide eligible retirees, their spouses, dependents, and surviving spouses and dependents, with health insurance consisting of a plan, or optional plans, of benefits that can be purchased by funds flowing into the Retiree Health Care Fund and by co-payments or out-of-pocket payments of eligible retirees.

Monies flow to the Retiree Health Care Fund on a pay-as-you-go basis from eligible employers and eligible retirees. Eligible employers are institutions of higher education, school districts, or other entities participating in the public school insurance authority and state agencies, state courts, magistrate courts, municipalities or counties, which are affiliated under or covered by the Education Retirement Act, the Public Employees Retirement Act, Volunteer Firefighters Retirement Act, Judicial Retirement Act or the Magistrate Retirement Act.

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

Fund Contributions: Each participating employer makes contributions to the fund in the amount of 7.675% of each participating employee's annual salary. Each participating employee contributes to the fund an employee contribution in an amount equal to 9.4% of the employee's annual salary. Employer and employee contributions will increase annually through the year 2011. Each participating retiree pays a monthly premium of \$94.08 for the basic single plan and an additional \$5.00 if eligible participant retired prior to the employer's NMRHCA effective date or is a former legislator. Participants may also enroll in optional plans of coverage.

Contributions from participating employers and participating employees become the property of the Retiree Health Care Fund and are not refundable under any circumstances, including termination of employment or termination of the participating employer's operation or participation in the Retiree Health Care Act. The employer, employee, and retiree contributions are required to be remitted to the Retiree Health Care Authority on a monthly basis.

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 12. POST-EMPLOYMENT BENEFITS (CONTINUED)

The Retiree Health Care Authority issues a separate, publicly available audited financial report that included post employment benefit expenditures of premiums and claims paid, participant contributions (employer, employee, and retiree), and net expenditures for the fiscal year. The report also included the approximate number of retirees participating in the plan. That report may be obtained by writing to the Retiree Health Care Authority, 4308 Carlisle Blvd N.E., Suite 104, Albuquerque, New Mexico 87107.

For the fiscal years ended June 30, 2008, 2007, and 2006, the Village remitted \$7,907, \$12,789 and \$10,658, respectively, in employer contributions to the Retiree Health Care Authority.

NOTE 13. RISK MANAGEMENT

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions and natural disasters for which the government carries commercial insurance. The Village participates in the State of New Mexico Self-Insurers Fund for workers' compensation claims and employers' liability insurance including general, auto, uninsured motorist, law enforcement, and public official's errors and omissions liabilities. The policy limits for workers' compensation is unlimited and \$1,050,000 per occurrence for employer's liability. There is no deductible. Liability policy limits range from \$100,000 to \$750,000 per occurrence, with a \$4,000,000 annual aggregate per policy. Deductibles range from \$500 to \$5,000.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The liability for claims and judgments is reported in the General Long-Term Debt Account Group because it is not expected to be liquidated with expendable available financial resources.

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 14. SPECIAL APPROPRIATIONS

The Village has received the following special appropriations:

	Original Appropriation	Expended	Appropriation Period
05-L-G-275 Park improvements and equipment	\$ 50,000	36,768	2005 - 2010
07-L-G-3374 Sprinkler system at the soccer fields	40,000	-	2007 - 20011
07-L-G-5124 Multipurpose building	<u>200,000</u>	<u>-</u>	2007 - 2011
Total	<u>\$ 290,000</u>	<u>36,768</u>	

NOTE 15. ARBITRATION AGREEMENT AND PARTIAL SETTLEMENT WITH THE CITY OF GRANTS

The Village and the City of Grants entered into an Arbitration and Partial Settlement Agreement during the year ending June 30, 1998. The Village purchased a 17.41% interest in the Wastewater Treatment plant for \$1,590,000, including interest and charges. The parties agreed that the Village of Milan will pay for 17.41% of the existing debt on the Wastewater Treatment facility. The Village paid \$850,000 after signing the agreement and financed the remainder. The Village will make payments for 20 years starting January 10, 1998. The payment amount is \$3,083.34, or \$37,000 per year.

In addition to the payments for the debt, the City and Village agreed to share the costs of the following components of pertain and management of the Wastewater Treatment Plant:

1. Operation and management contract (OMI costs).
2. Electrical costs.
3. Capital reserve fund.

The Agreement stipulates the payments to be made each year beginning 1992/93 up to the end of the fiscal year 1998/99. The Agreement does not stipulate the payment amounts to be made after June 30, 1999, but gives a formula for calculating the payments.

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

**NOTE 15. ARBITRATION AGREEMENT AND PARTIAL SETTLEMENT
WITH THE CITY OF GRANTS (CONTINUED)**

Paragraph five of the agreement states:

“5. The parties agree that beginning with Fiscal Year 1998/99, the Village of Milan will pay the agreed upon operation and maintenance components of electrical costs and OMI costs based upon the following formula:

- a. The parties will each obtain a record of the Village of Milan monthly sewage flow for the period of January 1, 1997, through December 31, 1997. This record flow data will be obtained from two calibrated meters. The first meter is located at the main sewer trunk line where the Village of Milan sewage is placed into the City of Grants sewage flow. This meter is located approximately between the western boundary of the City of Grants, and the eastern boundary of the Village of Milan. The second meter is located at the Wastewater Plant. The calibration of the meter will be check by a third party. At this point in time, the parties agree upon the qualification of OMI to be the third party documenting the calibration of the two meters.
- b. The meter information will provide the Village of Milan percentage flow of sewage into the total amount of sewage treated by the Wastewater Treatment Plant Facility. The Village of Milan percentage will be applied towards the operation and maintenance costs for Fiscal Year 1998/99.

6. The parties agree that future calculations of the Village of Milan’s percentage of responsibility will be the same as outlined in paragraph 5 above.”

As of the date of this audit, the Village has not received the required flow data necessary to recalculate the payments. It is not practicable to determine if the Village overpaid or underpaid in the years after June 30, 1999. It is necessary to have the flow data in order to determine the payment the Village is required to make.

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 16. CONTINGENCIES

Litigation. The Village is a defendant in a small number of lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Village Attorney, the resolution of these matters will not give a material adverse effect on the financial condition of the Village.

Grant Compliance. The Village receives significant financial assistance from the State and U.S. Government. Entitlement to the resources is generally based on compliance with terms and conditions of the grant agreements and applicable state and federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantor. As of June 30, 2008, management estimates that no material liabilities will result from such audits.

NOTE 17. DEFICIT FUND BALANCE

The Village had a deficit fund balance of \$30,610 in the Fire Protection Fund and \$4,800 in the Law Enforcement Protection fund. The cause of the deficit is unknown. Money will be transferred to the fund to increase the fund balance and eliminate the deficit.

NOTE 18. RESTATEMENT

The due to/due from accounts did not balance in the prior year. A correction has been made to the accounts and, as a result, there is a restatement in the amount of \$16,537 to the current year's statement of activities.

VILLAGE OF MILAN, NEW MEXICO
NONMAJOR FUNDS
June 30, 2008

SPECIAL REVENUE FUNDS

Corrections. To establish an additional sources of funds for municipalities to offset the costs of corrections. The source of funds is a five-dollar fee which must be paid by all persons violating laws relating the operations of a motor vehicle. Authority is NMSA 33-9-3.

Fire Protection. To account for the operations and maintenance of the fire department. The operations are financed by an allotment from the annual fire grant from the State of New Mexico. Authority is NMSA 59-A-53-1.

Law Enforcement Protection. To account for the expenditures from the State of New Mexico for training, equipment and capital outlay. Authority is NMSA 29-13-4.

Lodgers Tax Reserve. To account for lodgers tax collections. The tax is to be used for cultural and recreational activities. Authority is NMSA 3-38-14.

Recreation. To account for revenues and expenditures relating to village recreational facilities and programs. Financing is provided by the State. Such revenue provides for payment of all current operating costs and may be used for that purpose only. Authority is NMSA 7-12-15.

Street Fund. To account for funds used to maintain road for which the Village is responsible. Financing sources include gasoline taxes imposed by Chapter 7, Article 12, NMSA 1978 and distributed to the village pursuant to 7-1-6.9, NMSA 1978. Funding is also provided by the New Mexico State Highway Department's Cooperative Agreement Grant per 67-3-28, NMSA 1978. Expenditures are restricted for the purpose of construction, reconstruction, resurfacing and other improvements of public roads, streets, alleys and bridges, including right-of-way acquisition.

DEBT SERVICE FUNDS

Debt Service. To accumulate monies for payment of principal and interest due on general obligation bonds. Financing is provided by a special tax levy approved by the voters.

**VILLAGE OF MILAN, NEW MEXICO
 COMBINING BALANCE SHEET
 NONMAJOR FUNDS
 June 30, 2008**

	Special Revenue		
	Corrections	Fire Protection	Law Enforcement Protection
ASSETS			
Cash and cash equivalents	\$ 108,152	55,127	5,712
Investments	-	461	-
Receivables			
Taxes			
Property tax	-	-	-
Lodger's tax	-	-	-
Cigarette tax	-	-	-
Gasoline tax	-	-	-
Other	91	-	-
Due from other funds	52,636	-	-
Total assets	\$ 160,879	55,588	5,712
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	-	133	-
Accrued compensation and benefits	-	-	-
Due to other funds	20,038	86,065	10,512
Total liabilities	20,038	86,198	10,512
FUND BALANCES			
Unreserved, undesignated, reported in:			
Special revenue funds	140,841	(30,610)	(4,800)
Reserved for debt service	-	-	-
Total fund balances	140,841	(30,610)	(4,800)
Total liabilities and fund balances	\$ 160,879	55,588	5,712

**VILLAGE OF MILAN, NEW MEXICO
 COMBINING BALANCE SHEET
 NONMAJOR FUNDS
 June 30, 2008**

	Special Revenue		
	Lodgers Tax	Streets	Recreation
ASSETS			
Cash and cash equivalents	\$ 12,207	76,760	17,455
Investments	-	-	-
Receivables			
Taxes			
Property tax	-	-	-
Lodger's tax	600	-	-
Cigarette tax	-	-	426
Gasoline tax	-	37,100	-
Other	-	-	-
Due from other funds	814	20,708	-
Total assets	\$ 13,621	134,568	17,881
 LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	-	9,578	-
Accrued compensation and benefits	-	2,195	-
Due to other funds	-	53,019	-
Total liabilities	-	64,792	-
 FUND BALANCES			
Unreserved, undesignated, reported in:			
Special revenue funds	13,621	69,776	17,881
Reserved for debt service	-	-	-
Total fund balances	13,621	69,776	17,881
 Total liabilities and fund balances	 \$ 13,621	 134,568	 17,881

**VILLAGE OF MILAN, NEW MEXICO
 COMBINING BALANCE SHEET
 NONMAJOR FUNDS
 June 30, 2008**

	Total Special Revenue	Debt Service	Total Nonmajor
ASSETS			
Cash and cash equivalents	\$ 275,413	115,583	390,996
Investments	461	-	461
Receivables			
Taxes			
Property tax	-	2,167	2,167
Lodger's tax	600	-	600
Cigarette tax	426	-	426
Gasoline tax	37,100	-	37,100
Other	91	-	91
Due from other funds	74,158	77,326	151,484
Total assets	\$ 388,249	195,076	583,325
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	9,711	-	9,711
Accrued compensation and benefits	2,195	-	2,195
Due to other funds	169,634	130,136	299,770
Total liabilities	181,540	130,136	311,676
FUND BALANCES			
Unreserved, undesignated, reported in:			
Special revenue funds	206,709	-	206,709
Reserved for debt service	-	64,940	64,940
Total fund balances	206,709	64,940	271,649
Total liabilities and fund balances	\$ 388,249	195,076	583,325

**VILLAGE OF MILAN, NEW MEXICO
COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND
BALANCES - NONMAJOR FUNDS
Year Ended June 30, 2008**

	Special Revenue		
	Corrections	Fire Protection	Law Enforcement Protection
Revenues			
Taxes	\$ -	-	-
Licenses, permits, fees and fines	67,351	-	-
From non-federal sources			
Intergovernmental	-	94,140	23,000
Interest	883	972	112
Miscellaneous	161	-	-
Total revenues	68,395	95,112	23,112
Expenditures			
Current			
General government	-	-	-
Public safety	25,335	60,871	10,525
Highways and streets	-	-	-
Debt service - principal	-	11,121	-
Debt service - interest	-	1,012	-
Capital outlay	-	76,740	17,034
Total expenditures	25,335	149,744	27,559
Excess of revenues over expenditures before other financing (uses) sources	43,060	(54,632)	(4,447)
Other Financing (Uses) Sources			
Operating transfers in	-	19,159	15,666
Operating transfers out	-	(19,159)	(10,796)
Total other financing (uses) sources	-	-	4,870
Net change in fund balances	43,060	(54,632)	423
Fund balance, beginning of year	97,781	24,022	(5,223)
Fund balance, end of year	\$ 140,841	(30,610)	(4,800)

**VILLAGE OF MILAN, NEW MEXICO
COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND
BALANCES - NONMAJOR FUNDS
Year Ended June 30, 2008**

	Special Revenue		
	Lodgers Tax	Streets	Recreation
Revenues			
Taxes	\$ 3,817	223,212	2,458
Licenses, permits, fees and fines	-	-	-
From non-federal sources			
Intergovernmental	-	-	-
Interest	107	629	124
Miscellaneous	-	-	-
Total revenues	3,924	223,841	2,582
Expenditures			
Current			
General government	2,293	-	-
Public safety	-	-	-
Highways and streets	-	133,887	-
Debt service - principal	-	-	-
Debt service - interest	-	-	-
Capital outlay	-	54,395	-
Total expenditures	2,293	188,282	-
Excess of revenues over expenditures before other financing (uses) sources	1,631	35,559	2,582
Other Financing (Uses) Sources			
Operating transfers in	-	100,000	-
Operating transfers out	-	(100,000)	-
Total other financing (uses) sources	-	-	-
Net change in fund balances	1,631	35,559	2,582
Fund balance, beginning of year	11,990	34,217	15,299
Fund balance, end of year	\$ 13,621	69,776	17,881

**VILLAGE OF MILAN, NEW MEXICO
 COMBINING STATEMENT OF REVENUES,
 EXPENDITURES AND CHANGES IN FUND
 BALANCES - NONMAJOR FUNDS
 Year Ended June 30, 2008**

	Total Special Revenue	Debt Service	Total Non-major
Revenues			
Taxes	\$ 229,487	85,614	315,101
Licenses, permits, fees and fines	67,351	-	67,351
From non-federal sources			
Intergovernmental	117,140	-	117,140
Interest	2,827	45	2,872
Miscellaneous	161	-	161
Total revenues	416,966	85,659	502,625
Expenditures			
Current			
General government	2,293	1,342	3,635
Public safety	96,731	-	96,731
Highways and streets	133,887	-	133,887
Debt service - principal	11,121	66,000	77,121
Debt service - interest	1,012	22,420	23,432
Capital outlay	148,169	-	148,169
Total expenditures	393,213	89,762	482,975
Excess of revenues over expenditures before other financing (uses) sources	23,753	(4,103)	19,650
Other Financing (Uses) Sources			
Operating transfers in	134,825	78,539	213,364
Operating transfers out	(129,955)	(78,539)	(208,494)
Total other financing (uses) sources	4,870	-	4,870
Net change in fund balances	28,623	(4,103)	24,520
Fund balance, beginning of year	178,086	69,043	247,129
Fund balance, end of year	\$ 206,709	64,940	271,649

VILLAGE OF MILAN, NEW MEXICO
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
CORRECTIONS
Year Ended June 30, 2008

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Licenses, permits, fees and fines	\$ 88,300	88,300	67,346	(20,954)
Interest	500	500	883	
Miscellaneous	-	-	161	161
Total revenues	88,800	88,800	68,390	(20,793)
Expenditures				
Public safety	41,000	41,000	25,335	15,665
Total expenditures	41,000	41,000	25,335	15,665
Net change in fund balance	47,800	47,800	43,055	(5,128)
Fund balance, beginning of year	97,781	97,781	97,781	-
Fund balance, end of year	\$ 145,581	145,581	140,836	(5,128)
Non-GAAP change in fund balance			\$ 43,055	
Change in:				
Accounts receivable			<u>5</u>	
GAAP change in fund balance			<u>\$ 43,060</u>	

VILLAGE OF MILAN, NEW MEXICO
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FIRE PROTECTION
Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$ 84,279	84,279	94,140	9,861
Interest	400	400	972	572
Miscellaneous	1,000	1,000	-	(1,000)
Total revenues	85,679	85,679	95,112	9,433
Expenditures				
Public safety	66,179	66,179	61,137	5,042
Debt service	12,400	12,400	12,133	267
Capital outlay	5,000	88,579	76,740	11,839
Total expenditures	83,579	167,158	150,010	17,148
Excess of revenues over expenditures	2,100	(81,479)	(54,898)	26,581
Other financing sources (uses)				
Operating transfers in	-	-	19,159	19,159
Operating transfers out	-	-	(19,159)	(19,159)
Total other financing sources (uses)	-	-	-	-
Net change in fund balance	2,100	(81,479)	(54,898)	26,581
Fund balance, beginning of year	24,022	24,022	24,022	-
Fund balance, end of year	\$ 26,122	(57,457)	(30,876)	26,581
Prior year cash appropriated		57,457	30,876	
		-	-	
Non-GAAP change in fund balance			\$ (54,898)	
Change in:				
Accounts payable			(266)	
GAAP change in fund balance			\$ (54,632)	

VILLAGE OF MILAN, NEW MEXICO
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
LAW ENFORCEMENT PROTECTION
Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget- Positive (Negative)
Revenues				
Intergovernmental	\$ 22,400	22,400	23,000	600
Interest	100	100	112	12
Total revenues	22,500	22,500	23,112	612
Expenditures				
Public safety	-	-	10,525	(10,525)
Capital outlay	22,500	22,500	17,034	5,466
Total expenditures	22,500	22,500	27,559	(5,059)
Excess of revenues over expenditures	-	-	(4,447)	(4,447)
Other financing sources (uses)				
Operating transfers in	-	-	15,666	15,666
Operating transfers out	-	-	(10,796)	(10,796)
Total other financing sources (uses)	-	-	4,870	4,870
Net change in fund balance	-	-	423	423
Fund balance, beginning of year	(5,223)	(5,223)	(5,223)	-
Fund balance, end of year	(5,223)	(5,223)	(4,800)	423
Prior year cash appropriated	5,223	5,223	4,800	
\$	-	-	-	

VILLAGE OF MILAN, NEW MEXICO
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
LODGERS TAX
Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 3,500	3,500	4,008	508
Interest	100	100	107	7
Total revenues	3,600	3,600	4,115	515
Expenditures				
General government	3,200	3,200	2,293	907
Total expenditures	3,200	3,200	2,293	907
Net change in fund balance	400	400	1,822	1,422
Fund balance, beginning of year	11,990	11,990	11,990	-
Fund balance, end of year	\$ 12,390	12,390	13,812	1,422
Non-GAAP change in fund balance			\$ 1,822	
Change in:				
Accounts receivable			(191)	
GAAP change in fund balance			<u>\$ 1,631</u>	

VILLAGE OF MILAN, NEW MEXICO
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
STREETS
Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget- Positive (Negative)
Revenues				
Taxes	\$ 195,000	195,000	205,427	10,427
Interest	-	-	629	629
Miscellaneous	500	500	-	(500)
Total revenues	195,500	195,500	206,056	10,556
Expenditures				
Highways and streets	175,365	175,365	107,186	68,179
Capital outlay	118,000	118,000	54,395	63,605
Total expenditures	293,365	293,365	161,581	131,784
Excess of revenues over expenditures	(97,865)	(97,865)	44,475	142,340
Other financing sources (uses)				
Operating transfers in	20,000	20,000	100,000	80,000
Operating transfers in	-	-	(100,000)	(100,000)
Total other financing sources (uses)	20,000	20,000	-	(20,000)
Net change in fund balance	(97,865)	(97,865)	44,475	122,340
Fund balance, beginning of year	34,217	34,217	34,217	-
Fund balance, end of year	(63,648)	(63,648)	78,692	122,340
Prior year cash appropriated	63,648	63,648		
	\$ -	-		
Non-GAAP change in fund balance			\$ 44,475	
Change in:				
Accounts receivable			17,785	
Accounts payable			(24,001)	
Accrued compensation and benefits			(2,700)	
GAAP change in fund balance			\$ 35,559	

VILLAGE OF MILAN, NEW MEXICO
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
RECREATION
Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 2,000	2,000	2,431	431
Interest	-	-	124	124
Total revenues	2,000	2,000	2,555	555
Expenditures				
Culture and recreation	2,000	2,000	-	2,000
Total expenditures	2,000	2,000	-	2,000
Net change in fund balance	-	-	2,555	2,555
Fund balance, beginning of year	15,299	15,299	15,299	-
Fund balance, end of year	\$ 15,299	15,299	17,854	2,555
Non-GAAP change in fund balance			\$ 2,555	
Change in:				
Accounts receivable			27	
GAAP change in fund balance			<u>\$ 2,582</u>	

VILLAGE OF MILAN, NEW MEXICO
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
DEBT SERVICE
Year Ended June 30, 2008

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 32,578	32,578	84,894	52,316
Interest	-	-	45	45
Total revenues	<u>32,578</u>	<u>32,578</u>	<u>84,939</u>	<u>52,361</u>
Expenditures				
General government	2,000	2,000	1,342	658
Debt service - principal	68,000	68,000	66,000	2,000
Debt service - interest	20,000	20,000	22,420	(2,420)
Total expenditures	<u>90,000</u>	<u>90,000</u>	<u>89,762</u>	<u>238</u>
Excess of revenues over expenditures	<u>(57,422)</u>	<u>(57,422)</u>	<u>(4,823)</u>	<u>52,599</u>
Other financing sources (uses)				
Operating transfers in	64,000	64,000	78,539	14,539
Operating transfers out	-	-	(78,539)	(78,539)
Total other financing sources (uses)	<u>64,000</u>	<u>64,000</u>	<u>-</u>	<u>(64,000)</u>
Net change in fund balance	6,578	6,578	(4,823)	(11,401)
Fund balance, beginning of year	69,043	69,043	69,043	-
Fund balance, end of year	<u>\$ 75,621</u>	<u>75,621</u>	<u>64,220</u>	<u>(11,401)</u>
Non-GAAP change in fund balance			\$ (4,823)	
Change in:				
Accounts receivable			<u>720</u>	
GAAP change in fund balance			<u>\$ (4,103)</u>	

VILLAGE OF MILAN, NEW MEXICO
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
CDBG PLANNING GRANT
Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$ 1,160,426	1,160,426	450,000	(710,426)
Total revenues	1,160,426	1,160,426	450,000	(710,426)
Expenditures				
Capital outlay	1,398,902	500,000	-	500,000
Total expenditures	1,398,902	500,000	-	500,000
Excess of revenues over expenditures	(238,476)	660,426	450,000	(210,426)
Other financing sources				
Operating transfers in	238,476	238,476	434	(238,042)
Total other financing sources	238,476	238,476	434	(238,042)
Net change in fund balance	-	898,902	450,434	(448,468)
Fund balance, beginning of year	8,620	8,620	8,620	-
Fund balance, end of year	\$ 8,620	907,522	459,054	(448,468)

VILLAGE OF MILAN, NEW MEXICO
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
STREET IMPROVEMENT
Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$ 75,000	75,000	62,502	(12,498)
Interest	-	-	3,189	3,189
Total revenues	<u>75,000</u>	<u>75,000</u>	<u>65,691</u>	<u>(9,309)</u>
Expenditures				
Highways and streets	100,000	1,719,722	116,912	1,602,810
Total expenditures	<u>100,000</u>	<u>1,719,722</u>	<u>116,912</u>	<u>1,602,810</u>
Excess of revenues over expenditures	<u>(25,000)</u>	<u>(1,644,722)</u>	<u>(51,221)</u>	<u>1,593,501</u>
Other financing sources (uses)				
Operating transfers in	25,000	25,000	438,432	413,432
Operating transfers out	-	-	(43,685)	(43,685)
Total other financing sources (uses)	<u>25,000</u>	<u>25,000</u>	<u>394,747</u>	<u>369,747</u>
Net change in fund balance	-	(1,619,722)	343,526	1,963,248
Fund balance, beginning of year	<u>2,007</u>	<u>2,007</u>	<u>2,007</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 2,007</u></u>	<u><u>(1,617,715)</u></u>	<u><u>345,533</u></u>	<u><u>1,963,248</u></u>
Prior year cash appropriated		<u>1,617,715</u>		
		<u>-</u>		
Non-GAAP change in fund balance			\$ 343,526	
Change in:				
Accounts receivable			565,426	
Accrued compensation and benefits			<u>2,533</u>	
GAAP change in fund balance			<u>\$ 906,419</u>	

VILLAGE OF MILAN, NEW MEXICO
STATEMENT OF REVENUES AND EXPENSES -
BUDGET AND ACTUAL
JOINT UTILITY
Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues				
Sales and services	\$ 1,249,000	1,249,000	1,284,003	35,003
Gross receipts tax	20,000	20,000	25,641	5,641
Intergovernmental	781,000	781,000	-	(781,000)
Interest	5,000	5,000	31,575	26,575
Miscellaneous	-	-	(32)	(32)
Total revenues	2,055,000	2,055,000	1,341,187	(713,813)
Expenses				
Operating	1,053,909	772,934	839,369	(66,435)
Capital outlay	995,500	149,680	-	149,680
Debt service - principal	45,001	46,877	-	46,877
Debt service - interest	-	17,724	93,248	(75,524)
Total expenditures	2,094,410	987,215	932,617	54,598
Excess of revenues over expenditures	(39,410)	1,067,785	408,570	(659,215)
Other financing sources (uses)				
Operating transfers in	-	-	4,153	4,153
Operating transfers out	(263,476)	(263,476)	(399,468)	(135,992)
Total other financing sources (uses)	(263,476)	(263,476)	(395,315)	(131,839)
Net change in net assets	(302,886)	804,309	13,255	(791,054)
Net assets, beginning of year	5,202,875	5,202,875	5,202,875	-
Net assets, end of year	\$ 4,899,989	6,007,184	5,216,130	(791,054)
Change in net assets above			13,255	
Expenses not budgeted:				
Depreciation			217,595	
Net income per the statement of revenues and expenses			<u>\$ (204,340)</u>	

VILLAGE OF MILAN, NEW MEXICO
AGENCY FUNDS
June 30, 2008

Police Bonds. To account for the receipt and disbursement of bond funds collected through the Municipal Judicial System and held for refund or conversion to pay fines and fees.

VILLAGE OF MILAN, NEW MEXICO
SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES -
AGENCY FUNDS
Year Ended June 30, 2008

	Beginning Balance	Additions	Deductions	Ending Balance
POLICE BONDS				
ASSETS				
Cash	\$ 3,616	41,575	39,642	5,549
Total assets	<u>\$ 3,616</u>	<u>41,575</u>	<u>39,642</u>	<u>5,549</u>
 LIABILITIES				
Deposits held in trust	\$ 3,616	41,575	39,642	5,549
Total liabilities	<u>\$ 3,616</u>	<u>41,575</u>	<u>39,642</u>	<u>5,549</u>

VILLAGE OF MILAN, NEW MEXICO
SCHEDULE OF DEPOSIT ACCOUNTS
June 30, 2008

Depository	Account Name	Type	Depository Balance	Reconciled Balance
Deposit Accounts				
Grants State Bank	General	Checking	\$ 355,534	355,097
Grants State Bank	Payroll	Checking	17,971	8,108
Grants State Bank	Correction	Checking	1,883	1,883
Grants State Bank	Fire Protection	Checking	30,649	30,000
Grants State Bank	Law Enforcement	Checking	(1)	(1)
Grants State Bank	Lodgers Tax	Checking	9,179	9,179
Grants State Bank	Street	Checking	82,432	82,366
Grants State Bank	Recreation	Checking	16,932	16,932
Grants State Bank	CDBG Planning	Checking	57,168	8,784
Grants State Bank	Co-Op Street	Checking	16,057	11,140
Grants State Bank	Joint Utility	Checking	36,057	36,033
Grants State Bank	Water Deposit	Checking	30,503	29,929
Grants State Bank	Savings - 1977 Debt Service	Savings	9,827	9,827
Grants State Bank	Savings - Enterprise Fund	Savings	41,524	41,524
Grants State Bank	Savings - General Fund	Savings	42,739	42,739
First Community Bank	Operating - Pooled Cash	Checking	328,378	362,155
First Community Bank	Certificate of deposit - pooled	CD	454,824	454,824
First Community Bank	Certificate of deposit - pooled	CD	11,236	11,236
First Community Bank	Savings - fund 101	Savings	76,400	76,400
First Community Bank	Savings - fund 705	Savings	3,555	3,555
First Community Bank	Savings - fund 705	Savings	6,878	6,878
Wells Fargo Bank	GO Bonds	Checking	162,626	151,457
Total deposit accounts			1,792,351	1,750,045
Petty cash	General			100
Petty cash	Joint Utility Window		-	150
			1,792,351	1,750,295
Investment Accounts				
First Community Bank	Enterprise Fund CD	CD	60,000	60,000
First Community Bank	Pooled CD	CD	78,990	78,990
First Community Bank	Pooled CD	CD	350,000	350,000
First Community Bank	Pooled CD	CD	336,429	336,429
Bank of Albuquerque	U.S. Treasury Money Market Fund	Investment	184,429	184,429
NM Finance Authority	U.S. Treasury Money Market Fund	Investment	461	461
NM Finance Authority	U.S. Treasury Money Market Fund	Investment	71,365	71,365
Total investment accounts			1,081,674	1,081,674
Total deposit and investment accounts - non-agency			\$ 2,874,025	2,831,969
Agency funds cash accounts:				
Grants State Bank	Police Bonds	Checking	\$ 4,878	5,549

VILLAGE OF MILAN, NEW MEXICO
SCHEDULE OF PLEDGED COLLATERAL
June 30, 2008

	First			Total
	Grants	Community	Wells	
	State Bank	Bank	Fargo Bank	
Deposits at June 30, 2008	\$ 748,454	1,706,690	162,626	2,617,770
Less: FDIC coverage	200,000	100,000	100,000	400,000
Uninsured public funds	548,454	1,606,690	62,626	2,217,770
Pledged collateral held by the pledging bank's trust department or agent but not in the Village's name	1,600,000	1,087,679	81,644	2,769,323
Uninsured and uncollateralized	\$ -	-	-	-
50% pledged collateral requirement per statute	\$ 274,227	803,345	31,313	1,108,885
Total pledged collateral	1,600,000	1,087,679	81,644	2,769,323
Pledged collateral over the requirement	\$ (1,325,773)	(284,334)	(50,331)	(1,660,438)

Pledged collateral at June 30, 2008 consists of the following:

Security	CUSIP	Maturity	Market Value	Market Value	Market Value	Total
Santa Rosa Noncall FR	802751CS4	7/1/2008	45,000	-	-	45,000
Jemez Sch Noncall FR	475868CY9	8/1/2008	70,000	-	-	70,000
Belen Cons SD Noncall FR	077581KA3	8/1/2009	100,000	-	-	100,000
Otero Cnty Jail Bond Nonc FR	688868CQ9	8/1/2009	100,000	-	-	100,000
Lincoln Cnty Noncall FR	533277AH2	6/1/2010	50,000	-	-	50,000
Socorro SD Call FR	83368PAR7	8/1/2010	210,000	-	-	210,000
Bloomfield SD Call FR	094143AH7	10/1/2010	200,000	-	-	200,000
Hobbs SD Call FR	433866BS8	7/1/2012	100,000	-	-	100,000
Dona Ana Brh Comm Call FR	257578CG7	8/1/2012	150,000	-	-	150,000
Curry Cnty Call FR	231327BB2	8/1/2013	275,000	-	-	275,000
Gadsden ISD Call FR	362550JL0	8/15/2013	300,000	-	-	300,000
FHLB Agency Note	3133X8CS9	8/14/2009	-	100,979	-	100,979
Portales NM Muni SD #1	736151CV1	1/15/2015	-	500,000	-	500,000
MBS FHLMC Gold 15 yr	3128M1ET2	12/1/2020	-	270,530	-	270,530
FHR 2802 NK	31394YP24	7/15/2023	-	192,151	-	192,151
FHR 2802 NK	31394YP24	7/15/2023	-	24,019	-	24,019
WFBS/WFBNW	31410TBR5	7/1/2036	-	-	81,644	81,644
Total pledged collateral			\$ 1,600,000	1,087,679	81,644	2,769,323

The custodian of the pledged securities for Grants State Bank is Independent Bankers Bank, in Dallas, Texas.

The custodian of the pledged securities for Wells Fargo Bank is Wells Fargo Bank Safekeeping/Custodial Services in San Francisco, California.

The custodian of the pledged securities for First Community Bank is the Federal Home Loan Bank in Dallas, Texas.

VILLAGE OF MILAN, NEW MEXICO
SCHEDULE OF JOINT POWERS AGREEMENTS
June 30, 2008

Joint Power Agreement	Participants	Responsible Party	Description	Beginning and Ending Dates	Total estimated project amount and amount applicable to Village	Amount contributed by Village during fiscal year	Audit Responsibility	Fiscal agent and responsible reporting entity
Grants Airport	Village of Milan City of Grants	City of Grants	To provide for the management, operation, maintenance, improvement and financing of the Grants-Milan municipal airport	08/96 to indefinite	None	\$ -	City of Grants	City of Grants
Animal Control	Village of Milan City of Grants	City of Grants	Collect and keep custody of animals	09/76 to indefinite	The Village will reimburse the City of Grants for 35% of net operating and maintenance costs	\$ 9,200	City of Grants	City of Grants
Rio San Jose Flood Control	Village of Milan Rio San Jose Flood Control Authority	Rio San Jose Flood Control Authority	To provide for administrative space, personnel, furniture, equipment and utilities for the operation of the District.	01/86 to indefinite	The Village provides 160 square feet of office space including utilities; the Village employs one person who is directed by the District. The District reimburses the Village for the salary and payroll costs.	\$ - The District reimbursed the Village \$14,746	Rio San Jose Flood Control Authority	Rio San Jose Flood Control Authority
Wildlife Protection Activities	State of New Mexico Energy, Minerals and Natural Resources Department Village of Milan	State of New Mexico Energy, Minerals and Natural Resources Department	To provide a cooperative fire protection system covering any or all private, County, non-municipal, and State lands within or adjacent to the Village.	Indefinite	Payments are on a reimbursement basis.	\$ -	State of New Mexico Energy, Minerals and Natural Resources Department	State of New Mexico Energy, Minerals and Natural Resources Department
Northwest New Mexico Regional Solid Waste Authority	Village of Milan City of Grants City of Gallup County of McKinley Cibola County	Northwest New Mexico Regional Solid Waste Authority	To provide for the disposition of solid waste by establishing a modern solid waste disposal facilities.	05/06 to indefinite	The Village is required to contribute 50% of its Environmental Gross Receipts Tax.	\$ 12,818	Northwest New Mexico Regional Solid Waste Authority	Northwest New Mexico Regional Solid Waste Authority
Library	Village of Milan City of Grants City of Grants	City of Grants	Establishment of a library program	07/81 to indefinite	Contribute 20% of the yearly operating costs	\$ -	City of Grants	City of Grants
Senior Citizens Center	Village of Milan City of Grants County of Valencia	City of Grants	Establishment of a senior center	Unknown to indefinite	None	\$ 4,400	City of Grants	City of Grants
Mosquito Control	Village of Milan Cibola County	Cibola County	Mosquito Control	Unknown to indefinite	The Village is required to contribute 26% of the yearly operating costs	\$9,217	Cibola County	Cibola County

PORCH & ASSOCIATES LLC

CERTIFIED PUBLIC ACCOUNTANTS
3915 CARLISLE BLVD NE
ALBUQUERQUE, NM 87107

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Governmental Auditing Standards*

Mr. Hector H. Balderas, State Auditor and
Mr. Tom Ortega, Mayor and
The Village Trustees
Village of Milan, New Mexico

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, and budgetary comparisons of the general fund, of the Village of Milan (Village), as of and for the year ended June 30, 2008, which collectively comprise the Village's basic financial statements as listed in the table of contents, and have issued our report thereon dated December 16, 2009. We also have audited the financial statements of each of the Village's nonmajor governmental funds presented as supplementary information in the accompanying combining and individual fund financial statements and schedules, and budgetary comparisons, as of and for the year ended June 30, 2008, as listed in the table of contents. Our report expressed a disclaimer of opinion on the Statement of Net Assets, the Statement of Activities, the Balance Sheet – Proprietary Funds, the Statement of Revenue, Expenses and Changes in Fund Net Assets – Proprietary Funds, the Statement of Cash Flows and the Statement of Revenues and Expenses – Budget and Actual relative to the Joint Utility Fund. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

Mr. Hector H. Balderas, State Auditor and
Mr. Tom Ortega, Mayor and
The Village Trustees
Village of Milan, New Mexico

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting: 05-1, 05-2, 05-3, 05-4, 07-3, 07-5, 08-1, and 08-2.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and are described in the accompanying schedule of findings and responses as items 08-1 and 08-2.

Mr. Hector H. Balderas, State Auditor and
Mr. Tom Ortega, Mayor and
The Village Trustees
Village of Milan, New Mexico

The Village's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Village's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Village of Milan's management, Village Trustees, the New Mexico Legislature, the New Mexico Department of Finance and Administration and the Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Porch & Associates LLC

Albuquerque, New Mexico
December 16, 2009

VILLAGE OF MILAN, NEW MEXICO
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2008

03-03	Capital Asset Records	Resolved
04-01	Incomplete Accounting Records	Resolved
04-06	Travel and Per Diem Disbursements	Resolved
05-1	Cash Disbursements and Procurement	Updated and included
05-2	Payroll Disbursements	Updated and included
05-3	Joint Utility Billing	Updated and included
05-4	Disaster Recovery Plan	Updated and included
05-5	Bank Reconciliations, Stale Dated Checks and Other Outstanding Bank and investment items	Resolved
05-6	Intercept Revenue	Resolved
05-8	Tracking of Agency Funds	Resolved
05-9	Interfund Balances	Resolved
05-10	Accounts Payable	Resolved
07-1	Preparation of Financial Statements	Resolved
07-2	Prior Written Approval for Contracting With Independent Public Accountants	Resolved
07-3	Internal Controls at the Swimming Pool and Golf Course	Updated and included
07-4	Segregation of Duties	Resolved
07-5	Fund Accounting Related to Business- Type Activities	Updated and included

**VILLAGE OF MILAN, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2008**

FINDINGS – FINANCIAL STATEMENTS AUDIT

05-1 Cash Disbursements and Procurement

CONDITION

We tested 32 cash disbursements and 12 large disbursements as part of our audit. We noted the following:

- One of the items tested did not have any supporting documentation for the disbursement. The disbursement was for \$185.
- Seven of the items tested did not have an authorizing signature on the purchase requisition or voucher. The total disbursed was \$14,530.
- Three of the items tested had no purchase order or requisition. The total of the three items was \$187.
- For one of the items tested the disbursement did not agree with the supporting documentation. The total of the disbursement was \$698.

CRITERIA

State Auditor Rule 2.2.2.10 I, and Section 12-6-5, NMSA 1978, requires good accounting practices to be followed. Cash disbursements should be reviewed and approved before payment. Items should have proof or receipt before invoices are paid.

EFFECT

The Village may be paying for services and goods that have not been received.

CAUSE

Inadequate review and approval of cash disbursements and payment processing.

RECOMMENDATION

The Village should consider reviewing cash disbursements and the state procurement code more thoroughly to ensure that errors are caught and corrected before goods and services are procured and final checks are processed.

**VILLAGE OF MILAN, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2008**

FINDINGS - FINANCIAL STATEMENTS AUDIT (CONTINUED)

05-1 Cash Disbursements and Procurement (Continued)

MANAGEMENT RESPONSE

The Village is having the former accounts payable clerk check all check runs, as well as the Village Manager before they are signed.

**VILLAGE OF MILAN, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2008**

FINDINGS - FINANCIAL STATEMENTS AUDIT (CONTINUED)

05-2 Payroll Disbursements and PERA Processing and Reporting

CONDITION

We tested 32 payroll disbursements as part of our audit. We noted the following:

- For two of the items tested the hours on the timecard did not match the hours paid. The amount overpaid was \$5.63.
- For thirteen of the items tested we could not find evidence that the pay rate was authorized in personnel files.
- For eight of the items tested the timecard was not approved.
- For two of the items tested we could not locate a timecard for the payroll disbursement.
- For three of the items tested we could not locate leave records for the pay period being tested.
- For two of the items tested there was no PERA application or exclusion form in the personnel file.

CRITERIA

State Auditor Rule 2.2.2.10 I, and Section 12-6-5, NMSA 1978, requires good accounting practices to be followed. Pay rate increases should not only be input into the payroll system, but should be documented in the employee's personnel files. Payroll should be reviewed sufficiently to be sure it does not contain errors in PERA, leave accrual and that the time cards are calculated correctly and approved.

EFFECT

Payroll errors may occur and not be caught by the internal controls in place. The result would be incorrect payroll expense and related leave accruals.

CAUSE

The Village has inadequate procedures over the maintenance of personnel files. There is insufficient review of payroll.

**VILLAGE OF MILAN, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2008**

FINDINGS - FINANCIAL STATEMENTS AUDIT (CONTINUED)

05-2 Payroll Disbursements (Continued)

RECOMMENDATION

The Village should consider performing a personnel file audit in order to correct any deficiencies. It should also consider implementing procedures to ensure that the files are maintained.

The Village should consider reviewing payroll more thoroughly to ensure that errors in PERA, time cards and payroll processing are caught and corrected before final checks are processed.

MANAGEMENT RESPONSE

The Village is conducting yearly audits when we request new W-2 forms for the file. This was completed in April 2008, March 2009, and is currently in process. The human resources clerk is reviewing payroll as well.

**VILLAGE OF MILAN, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2008**

FINDINGS - FINANCIAL STATEMENTS AUDIT (CONTINUED)

05-3 Joint Utility Billing

CONDITION

We tested 24 utility billings as part of our audit. We noted the following:

- The utility billing system does not show a teller ID for employees making entries or adjustments to the accounts receivable system.
- Adjustments to accounts receivable may be made without supervisory approval.

CRITERIA

Proper segregation of duties requires the ability to track transactions by person entering them.

Adjustments to accounts receivable should be reviewed and approved before they are entered into the system.

EFFECT

Payments on accounts receivable could be stolen and covered up in the accounts receivable system thru adjustments or by using a different person's ID.

CAUSE

The Village does not have a policy in place requiring approval of accounts receivable adjustments or the use of IDs.

RECOMMENDATION

The Village should consider using IDs for people making entries to the accounts receivable system. The Village should require review and approval of all accounts receivable adjustments.

MANAGEMENT RESPONSE

Any adjusting entries made to accounts need supervisory approval prior to entering. We are researching authority controls within Caselle software to further enforce adjusting entries.

**VILLAGE OF MILAN, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2008**

FINDINGS - FINANCIAL STATEMENTS AUDIT (CONTINUED)

05-4 Disaster Recovery Plan

CONDITION

The disaster recovery plan in place is inadequate for the size and operations of the Village. A disaster recovery plan should be a map for reestablishing operations after a disaster. This map should include details of, at minimum, the following:

- What hardware and software are in place and which vendors may be used to replace the hardware and software.
- Potential off-site locations for running operations.
- Names and telephone numbers of critical operations personnel that should be contacted during a disaster.
- Backup and recovery procedures for data.
- The location of the offsite data backups.
- A detailed list of instructions to be followed in order to reestablish operations.

CRITERIA

Section 12-6-5, NMSA 1978, requires the annual financial and compliance audit of agencies to detail any violation of law or good accounting practices found by the audit. An adequate disaster recover plan is a requirement for continuing operations after a disaster.

EFFECT

The Village may not be able to continue operations in the event of a disaster.

CAUSE

The Village had not developed a detailed disaster recovery plan.

RECOMMENDATION

We recommend that the Village prepare a detailed disaster recovery plan.

MANAGEMENT RESPONSE

The Village purchased a scanner and is in the process of scanning all permanent documents. A backup is monitored and performed nightly. The disaster recovery plan is still in process.

**VILLAGE OF MILAN, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2008**

FINDINGS - FINANCIAL STATEMENTS AUDIT (CONTINUED)

07-3 Internal Controls at the Swimming Pool and Golf Course

CONDITION

We performed internal control testwork at the Pool and Golf Course. We noted the following:

We tested 9 deposits from the swimming pool and noted the following:

- For four of the deposits tested the deposit was not taken to the Village accounting office for deposit within one business day of receipt. The total of the deposits was \$2,018.

We tested 9 deposits from the golf course and noted the following:

- For seven of the deposits tested the deposit was not taken to the Village accounting office for deposit within one business day of receipt. The total of the deposits was \$2,202.
- For one of the deposits tested a receipt was missing for the sale of a monthly greens fee. The total amount of the greens fee was \$265.

Golf Course:

- A sign is not posted asking the customers to ask for a receipt on all transactions. Cash could be taken, and there would be no record of the transaction to identify the missing cash.

CRITERIA

Generally Accepted Accounting Principles are built around proper internal controls. If internal controls are missing or not functioning, then the amounts recorded in the financial statements may not reflect the true income or expenses of the entity. Internal controls over cash and sales should be sufficient to ensure that all sales are recorded, and that all cash is accounted for.

The Public Moneys Act (6-10-2 NMSA 1978) requires deposits to be made within one business day of receipt.

**VILLAGE OF MILAN, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2008**

FINDINGS - FINANCIAL STATEMENTS AUDIT (CONTINUED)

07-3 Internal Controls at the Swimming Pool and Golf Course (Continued)

EFFECT

Cash may be stolen without the Village knowing. Sales may be understated. Cash over and under are not being recorded.

CAUSE

Inadequate consideration of internal controls at the Swimming Pool and Golf Course.

RECOMMENDATION

The Village should conduct an internal control review at the Swimming Pool and Golf Course. Internal controls over sales and cash should be strengthened.

MANAGEMENT RESPONSE

The Village purchased new cash registers and is utilizing double tapes to crosscheck deposit amounts. The department heads have been instructed to bring all monies to the Village hall on a daily basis for receipt and deposit.

**VILLAGE OF MILAN, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2008**

FINDINGS - FINANCIAL STATEMENTS AUDIT (CONTINUED)

07-5 Fund Accounting Related to Business-Type Activities

CONDITION

The Village accounts for both the water and sewer activities in a single fund. Expenses have not been separately tracked by business-type activity.

CRITERIA

Governmental Accounting Standards Board Statement 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus (GASB 37) paragraph 40 states:

Paragraph 39 of Statement 34 established *segments* as the minimum level of detail required in the government-wide statement of activities for activities accounted for in enterprise funds. The Board’s intent in Statement 34 was to “disaggregate” enterprise funds that include more than one significant activity, such as a fund that accounts for both water and electric utility, and to require separate reporting of those activities...

GASB 37 requires the Village to account the water and sewer activities in separate funds.

EFFECT

The Village does not have specific operating information for each identifiable activity. The Village cannot determine the extent of the net increase or decrease in net assets from each activity which means the Village cannot make fully informed management decisions.

CAUSE

The Village has not changed their business-type fund structure to be compliant with GASB 37.

RECOMMENDATION

The Village should separate the water and sewer activities into separate funds. This should include both the balance sheet and income statement.

**VILLAGE OF MILAN, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2008**

FINDINGS - FINANCIAL STATEMENTS AUDIT (CONTINUED)

07-5 Fund Accounting Related to Business-Type Activities (Continued)

MANAGEMENT RESPONSE

With the assistance of the REDW Accounting firm, the Village has separated the water and sewer activities into separate funds.

**VILLAGE OF MILAN, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2008**

08-1 Late Audit Report

CONDITION

The June 30, 2008 audit report was not filed timely as required by State Auditor Rule NMAC 2.2.2.9.A. The audit report was submitted to the Office of the State Auditor on December 4, 2010.

CRITERIA

According to State Auditor Rule NMAC 2.2.2.9.A, the audited financial statements are due by December 1 following the fiscal year-end, thus requiring the June 30, 2008 to be filed by December 1, 2008.

CAUSE

The books and records of the Village were not ready for audit until the 2009 year.

EFFECT

The Village is not in compliance with State Auditor rule NMAC 2.2.2.9.A for the fiscal year ended June 30, 2008. The Village does not have audited financial statements for use in borrowing, bonds, and grant applications.

RECOMMENDATION

The Village should use an outside Independent Public Accountant to prepare for year-end audits.

MANAGEMENT RESPONSE

The Village contracted with REDW to assist in preparing for the FY 2008 and FY 2009 audits.

**VILLAGE OF MILAN, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2008**

FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)

08-2 Excess of Expenditures Over Authorized Budget

CONDITION

The Village's expenditures exceeded the authorized budget in the law enforcement fund by \$5,059.

CRITERIA

Section 6-6-6, NMSA 1978, requires the Village to keep expenditures within budgeted amounts.

CAUSE

The overage was caused by the purchase of police vehicles financed with capital leases. The expenditures of the lease money was not budgeted.

EFFECT

The Village may not have precise information for planning the activities and cash flows in the funds that are over budget.

RECOMMENDATION

The Village should develop a process to ensure that funds do not exceed their budgets.

MANAGEMENT RESPONSE

This was caused by an accounting error by the Village. Money was transferred in to correct the error. We now check our line items to ensure the budget is not overspent.

**VILLAGE OF MILAN, NEW MEXICO
EXIT CONFERENCE
Year Ended June 30, 2008**

An exit conference was held on February 2, 2010, and attended by the following:

Village of Milan, New Mexico

Vivian Brumbelow, Trustee
Marcella Sandoval, Village Administrator
Esther Barnes, Payroll Clerk and Human Resources

Porch & Associates LLC

Thad Porch, Partner

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The financial statements were prepared by Porch & Associates LLC from the books and records of the Village of Milan. However, the contents of these financial statements remain the responsibility of the Village's management.