

VILLAGE OF MILAN, NEW MEXICO
Financial Statements, Supplementary Information
and
Independent Auditors' Report
June 30, 2011

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VILLAGE OF MILAN, NEW MEXICO

TABLE OF CONTENTS

INTRODUCTION SECTION

Page

List of Principal Officials..... i

FINANCIAL SECTION

Independent Auditors' Report..... 1

Basic Financial Statements

Statement of Net Assets..... 3

Statement of Activities.....

Balance Sheet - Governmental Funds..... 5

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets..... 6

Statement of Revenues, Expenditures
and Changes in Fund Balances - Governmental Funds..... 7

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund
Balances - Governmental Funds to the Statement of Activities..... 8

Statement of Revenues and Expenditures - Budget and Actual - (Non-GAAP
Budgetary Basis): General Fund..... 9

Balance Sheet — Proprietary Funds..... 10

Statement of Revenues, Expenses and Changes in Fund
Net Assets - Proprietary Funds..... 11

Statement of Cash Flows — Proprietary Funds..... 12

Statement of Fiduciary Net Assets — Agency Funds 13

Notes to Financial Statements..... 14

VILLAGE OF MILAN, NEW MEXICO

TABLE OF CONTENTS

Supplementary Information

Combining and Individual Fund Statements

Nonmajor Funds

	Page
Combining Balance Sheet.....	36
Combining Statement of Revenues, Expenditures and Changes in Fund Balances.....	39
Statements of Revenues and Expenditures — Budget and Actual (Non-GAAP Budgetary Basis):	
Corrections.....	42
Fire Protection.....	43
Law Enforcement Protection.....	44
Lodgers Tax.....	45
Streets.....	46
Recreation.....	47
CDBG Planning Grant.....	48
Debt Service.....	49
Street Improvement.....	50
Statements of Revenues and Expenses — Budget and Actual (Non-GAAP Budgetary Basis):	
Joint Utility.....	51

SUPPLEMENTAL SCHEDULES

Schedule of Changes in Assets and Liabilities — Agency Funds.....	53
Schedule of Deposit Accounts.....	54
Schedule of Pledged Collateral.....	55
Schedule of Joint Powers Agreements.....	56

VILLAGE OF MILAN, NEW MEXICO

TABLE OF CONTENTS

Supplementary Information (Continued)

	Page
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 <i>Governmental Auditing Standards</i>	57
Summary Schedule of Prior Audit Findings.....	59
Schedule of Findings and Responses.....	60
Exit Conference.....	61

VILLAGE OF MILAN, NEW MEXICO

List of Principal Officials

June 30, 2011

Elected Officials

Tom Ortega	Mayor
Manuel Molina	Mayor Pro-Tern
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, 2011, 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 comparisons as of and for the year ended June 30, 2011, 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 14). 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.

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, 2011, 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, 2011, 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 November 23, 2011 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, 2011, 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.

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.

Harshwal & Company LLP
Certified Public Accountants

Harshwal & Company LLP

San Diego, California
November 23, 2011

VILLAGE OF MILAN, NEW MEXICO
STATEMENT OF NET ASSETS
June 30, 2011

	Governmental Activities	Business-type Activities	Total
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and cash equivalents	\$ 2,388,774	\$ 448,507	\$ 2,837,281
Investments	21	336,641	336,662
Receivables			
Gross receipts tax	329,613	3,489	333,102
Lodgers tax	554		554
Gasoline tax	33,280		33,280
Intergovernmental	22,171		22,171
Utility billing, net of allowance		252,357	252,357
Restricted cash		84,595	84,595
Capital reserve fund		130,000	130,000
Due from other funds	2,976,001	14,905	2,990,906
Capital assets, not depreciated	2,388,960	2,556,035	4,944,995
Capital assets, net of accumulated depreciation	5,342,025	4,000,958	9,342,983
Total assets	<u>13,481,399</u>	<u>7,827,487</u>	<u>21,308,886</u>
LIABILITIES			
Accounts payable	5,175	27,402	32,577
Accrued compensation and benefits	41,315		41,315
Gross receipts tax payable		8,790	8,790
Interest payable		10,689	10,689
Deposit payable		90,696	90,696
Due to other funds	945,893	2,045,684	2,991,577
Non current liabilities:			
Compensated absences, due in one year	43,685	6,398	50,083
Long-term liabilities, due in one year	97,863	150,373	248,236
Long-term liabilities, due in more than one year			
	<u>194,080</u>	<u>1,786,693</u>	<u>1,980,773</u>
Total liabilities	<u>1,328,011</u>	<u>4,126,725</u>	<u>5,454,736</u>
NET ASSETS			
Invested in capital assets, net of related debt	4,395,380	4,619,927	9,015,307
Restricted for debt service	30,041	35,662	65,703
Unrestricted	7,727,967	(954,827)	6,773,140
Total net assets	<u>\$ 12,153,388</u>	<u>\$ 3,700,762</u>	<u>\$ 15,854,150</u>

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

VILLAGE OF MILAN, NEW MEXICO
STATEMENT OF ACTIVITIES
Year Ended June 30, 2011

<u>Functions/ Programs</u>	Expenses	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets Primary Government</u>		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Primary government:							
Governmental activities							
General government	\$ 958,770	\$ 66,733	\$ 70,800		\$ (821,237)		\$ (821,237)
Public safety	866,689	55,782	68,122		(742,785)		(742,785)
Highways and streets	270,010		394,987	\$ 546,117	671,094		671,094
Culture and recreation	463,554				(463,554)		(463,554)
Interest on long-term debt	<u>14,132</u>				<u>(14,132)</u>		<u>(14,132)</u>
Total government activities	<u>2,573,155</u>	<u>122,515</u>	<u>533,909</u>	<u>546,117</u>	<u>(1,370,614)</u>		<u>(1,370,614)</u>
Business-type activities:							
Joint Utilities	<u>1,386,521</u>	<u>1,647,679</u>				\$ 261,158	261,158
Total business-type activities	<u>1,386,521</u>	<u>1,647,679</u>				261,158	261,158
Total primary government	<u>\$ 3,959,676</u>	<u>\$ 1,770,194</u>	<u>\$ 533,909</u>	<u>\$ 546,117</u>	<u>\$ (1,370,614)</u>	<u>\$ 261,158</u>	<u>\$ (1,109,456)</u>
General Revenues:							
Franchise taxes					81,299		81,299
Gasoline taxes					178,407		178,407
Gross receipts taxes					1,908,479		1,908,479
Property taxes					314,444		314,444
Cigarette taxes					2		2
Lodgers tax					3,516		3,516
Miscellaneous					164		164
Rental income					25,179		25,179
Interest					5,432	733	6,165
Transfers in - general obligation appropriation					8,000		8,000
Transfers					<u>91,805</u>	<u>(99,805)</u>	<u>(8,000)</u>
Total general revenues and transfers					<u>2,616,727</u>	<u>(99,072)</u>	<u>2,517,655</u>
Change in net assets					1,246,113	162,086	1,408,199
Net assets, beginning of year					<u>10,907,275</u>	<u>3,538,676</u>	<u>14,445,951</u>
Net assets - end of year					<u>\$ 12,153,388</u>	<u>\$ 3,700,762</u>	<u>\$ 15,854,150</u>

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

VILLAGE OF MILAN, NEW MEXICO
BALANCE SHEET -
GOVERNMENTAL FUNDS
June 30, 2011

	<u>Major</u>		Nonmajor	
	<u>General</u>	<u>Street Improvement</u>	<u>Governmental Fund</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 1,470,316	\$ 542,086	\$ 376,372	\$ 2,388,774
Investments			21	21
Receivables				
Taxes				
Gross receipts tax	327,273		2,340	329,613
Lodgers tax			554	554
Gasoline tax			33,280	33,280
Intergovernmental	22,171			22,171
Due from other funds	<u>1,162,635</u>	<u>1,144,712</u>	<u>668,654</u>	<u>2,976,001</u>
Total assets	<u><u>2,982,395</u></u>	<u><u>1,686,798</u></u>	<u><u>1,081,221</u></u>	<u><u>5,750,414</u></u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	5,175			5,175
Accrued compensation and benefits	41,315			41,315
Due to other funds	<u>1,924</u>	<u>691,822</u>	<u>252,148</u>	<u>945,893</u>
Total liabilities	<u>48,414</u>	<u>691,822</u>	<u>252,148</u>	<u>992,384</u>
FUND BALANCES				
Assigned for:				
General fund	2,933,981			2,933,981
Restricted for:				
Capital projects funds		994,976	508,693	1,503,669
Special revenue funds			290,339	290,339
Debt service			<u>30,041</u>	<u>30,041</u>
Total fund balances	<u>2,933,981</u>	<u>994,976</u>	<u>829,073</u>	<u>4,758,030</u>
Total liabilities and fund balances	<u><u>\$ 2,982,395</u></u>	<u><u>\$ 1,686,798</u></u>	<u><u>\$ 1,081,221</u></u>	<u><u>\$ 5,750,414</u></u>

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, 2011

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

Total fund balance - governmental funds	\$	4,758,030
Accrued compensated absences not payable from current revenues		(43,685)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		7,730,985
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>(291,942)</u>
Net assets- government activities	\$	<u>12,153,388</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, 2011

	Major		Nonmajor	
	General	Street Improvement	Governmental Fund	Total
Revenues				
Taxes	\$ 2,203,990	\$	\$ 282,157	\$ 2,486,147
Licenses, permits, fees and fines	66,734		55,780	122,514
Federal sources -				
Intergovernmental			394,987	394,987
Non-federal sources -				
Intergovernmental	385,522	168,510	131,007	685,039
Interest	3,611	1,172	649	5,432
Rent	25,179			25,179
Miscellaneous	10		154	164
Total revenues	<u>2,685,046</u>	<u>169,682</u>	<u>864,734</u>	<u>3,719,462</u>
Expenditures				
General government	885,419		1,689	887,108
Public safety	709,062		110,745	819,807
Highways and streets			182,050	182,050
Culture and recreation	430,311			430,311
Debt service - principal			91,654	91,654
Debt service - interest			14,132	14,132
Capital outlay	115,862	811,813	11,121	938,796
Total expenditures	<u>2,140,654</u>	<u>811,813</u>	<u>411,391</u>	<u>3,363,858</u>
(Deficiency) excess of revenues over expenditures before other financings sources	<u>544,392</u>	<u>(642,131)</u>	<u>453,343</u>	<u>355,604</u>
Other Financing Sources (Uses)				
Transfer in - general obligation tax appropriation	8,000			8,000
Operating transfer in		113,555	63,250	176,805
Operating transfer out			(85,000)	(85,000)
Total other financing sources (uses)	<u>8,000</u>	<u>113,555</u>	<u>(21,750)</u>	<u>99,805</u>
Net change in fund balances	552,392	(528,576)	431,593	455,409
Fund balance, beginning of year	2,381,589	1,523,552	397,480	4,302,621
Fund balance, end of year	<u>\$ 2,933,981</u>	<u>\$ 994,976</u>	<u>\$ 829,073</u>	<u>\$ 4,758,030</u>

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, 2011

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

Net changes in fund balances - governmental funds	\$	455,409
<p>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</p>		
Depreciation expense \$	(229,582)	
Capital outlay	<u>938,796</u>	
Excess of capital outlay over depreciation expense		709,214
The repayment of the principal of long-term debt (including capital leases) consumes current financial resources of governmental funds		91,654
Accrued compensated absences are expensed under the accrual method, and not the modified accrual method		(6,968)
Loss on disposal of assets under the accrual method, and not the modified accrual method		<u>(3,196)</u>
Change in net assets - governmental activities	\$	<u>1,246,113</u>

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, 2011

	<u>Budgeted Amounts</u>		Actual	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 2,270,499	\$ 2,084,325	\$ 2,203,990	\$ 119,665
Licenses, permits, fees and fine	62,450	56,650	66,733	10,083
Intergovernmental	419,087	403,008	385,522	(17,486)
Interest	3,500	5,000	3,611	(1,389)
Rent	30,000	25,200	25,179	(21)
Miscellaneous	550	500	10	(490)
Total revenues	<u>2,786,086</u>	<u>2,574,683</u>	<u>2,685,045</u>	<u>110,362</u>
EXPENDITURES				
General government	1,551,629	1,411,437	885,419	526,018
Public safety	926,005	884,875	709,062	175,813
Highways and streets				
Culture and recreation	544,102	537,432	430,311	107,121
Capital outlay	157,000	123,183	115,862	7,321
Total expenditures	<u>3,178,736</u>	<u>2,956,927</u>	<u>2,140,654</u>	<u>816,273</u>
(Deficiency) excess of revenues over (under) expenditures	<u>(392,650)</u>	<u>(382,244)</u>	<u>544,391</u>	<u>926,635</u>
Other financing sources (uses):				
Operating transfers in		85,000	8,000	(77,000)
Total other financing uses		<u>85,000</u>	<u>8,000</u>	<u>(77,000)</u>
Net changes in fund balances	(392,650)	(297,244)	552,391	849,635
Fund balance, beginning of year	<u>1,434,763</u>	<u>1,434,763</u>	<u>2,600,891</u>	<u>1,166,128</u>
Fund balance, end of year	<u>\$ 1,042,113</u>	<u>\$ 1,137,519</u>	<u>\$ 3,153,282</u>	<u>\$ 2,015,763</u>

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

VILLAGE OF MILAN, NEW MEXICO
BALANCE SHEET -
PROPRIETARY FUNDS - JOINT UTILITY
June 30, 2011

	Total
Assets	
Current Assets	
Cash and cash equivalents	\$ 448,507
Investments	336,641
Accounts receivable	
Utility billing, net of allowance	252,357
Gross receipts taxes	3,489
Restricted cash	84,595
Capital reserve fund	130,000
Due from other funds	<u>14,905</u>
Total Current Assets	1,270,494
Capital assets, not depreciated	2,556,035
Capital assets, net of accumulated depreciation	<u>4,000,958</u>
Total Assets	<u>7,827,487</u>
 LIABILITIES AND NET ASSETS	
Current Liabilities	
Accounts payable	27,402
Gross receipts tax payable	8,790
Interest payable	10,689
Deposits payable	90,696
Due to other funds	<u>2,045,684</u>
Total current liabilities	2,183,261
Non current Liabilities	
Compensated absences	6,398
Long-term liabilities, due in one year	150,373
Long-term liabilities, due in more than one year	<u>1,786,693</u>
Total noncurrent liabilities	<u>1,943,464</u>
Total liabilities	<u>4,126,725</u>
Net Assets	
Invested in Capital Assets, net of related debt	4,619,927
Restricted for debt service	35,662
Unrestricted	<u>(954,827)</u>
Total Net Assets	<u>3,700,762</u>
Total Liabilities and Net Assets	\$ <u>7,827,487</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, 2011

	Total
Operating Revenues	
Sales and services	\$ <u>1,647,679</u>
Operating Expenses	
Operating expenses	1,033,670
Depreciation	<u>272,333</u>
Total operating expenses	<u>1,306,003</u>
Operating income	<u>341,676</u>
Nonoperating Revenues (Expenses)	
Interest income	734
Interest expense	(80,517)
Transfer out	<u>(99,805)</u>
Total Non-Operating Revenue (Expense)	<u>(179,588)</u>
Net income	162,088
Net assets, beginning of year	3,538,676
Total net assets, end of year	\$ <u><u>3,700,764</u></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, 2011

Cash Flows From Operating Activities	
Cash received from customers	\$ 1,630,065
Cash payments to vendors and employees	<u>(1,056,888)</u>
Net cash used by operating activities	<u>573,177</u>
 Cash Flows From Noncapital and Related Financing Activities	
Net change in deposits payable	5,297
Net change in due to/due from other funds	461,866
Operating transfers, net	<u>(99,805)</u>
Net cash used by noncapital financing activities	<u>367,358</u>
 Cash Flows From Capital and Related Financing Activities	
Purchase of capital assets	(252,139)
Principle payment on loans	(144,520)
Interest payment on loans and capital leases	(80,517)
Additions to capital reserve account	<u>(10,000)</u>
Net cash provided by capital and related financing activities	<u>(487,176)</u>
 Cash Flows From Investing Activities	
Interest income	<u>734</u>
Net cash provided by investing activities	<u>734</u>
 Net change in cash	454,093
Cash, beginning of year	<u>79,009</u>
 Cash, end of year	<u>\$ 533,102</u>
 Operating income	341,676
 Adjustments to reconcile operating income to net cash flows:	
Depreciation expense	272,333
Changes in assets and liabilities:	
Accounts receivable	(17,614)
Accounts payable	(25,581)
Accrued expenses	2,692
Compensated absences	<u>(329)</u>
Net cash used by operating activities	<u>\$ 573,177</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, 2011

ASSETS

Cash	\$	4,892
Due from other funds		<u>671</u>
Total assets	\$	<u><u>5,563</u></u>

LIABILITIES

Due to other entities	\$	<u>5,563</u>
Total liabilities	\$	<u><u>5,563</u></u>

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

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Entity. The Village of Milan, Inc. (Village) was incorporated under provisions 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, 2011

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.

Private-sector standards of accounting and financial reporting issued prior to December 01, 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.

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Financial Reporting Entity (Continued)

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.

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.

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Financial Reporting Entity (Continued)

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.

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.

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.

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Financial Reporting Entity (Continued)

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.

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.

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Capital Assets (Continued)

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 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 1/2 years
Buildings and other improvements	33 1/2 years
Shared plant	30 years
Heavy equipment	15 years
Machinery and equipment	5 - 10 years
Wells	33 1/2 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.

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 yearend.

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, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Implementation of New Accounting Standards

During the year ended June 30, 2011, the Village adopted Government Accounting Standards Board Statement (GASB) No. 52, *Land and Other Real Estate Held as Investments by Endowments* (GASB 52). GASB 52 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, 2011, the Village's bank balance total of \$3,281,196 was exposed to credit risk in the amount of \$2,663,819 as follows:

Uninsured and collateral held by pledging bank's trust department or agent but not in the Village's name	<u>\$ 2,663,819</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 \$250,000 at each financial institution.

The total balance in any single financial institution may at times exceed the \$250,000 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.

The Village does not have a deposit or 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.

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 2. CASH AND INVESTMENTS (Continued)

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).

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.

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, 2011:

Accounts receivable	\$ 277,770
Allowance for uncollectible accounts	<u>(25,413)</u>
	<u>\$ 252,357</u>

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 4. CAPITAL ASSETS

Governmental fund capital asset activity for the year ending June 30, 2011 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustment</u>	<u>Ending Balance</u>
Governmental Activities					
Capital assets, not depreciated					
Land	\$ 594,006				\$ 594,006
Construction in process	<u>1,262,068</u>	<u>\$ 532,886</u>			<u>1,794,954</u>
Total, not depreciated	<u><u>1,856,074</u></u>	<u><u>532,886</u></u>			<u><u>2,388,960</u></u>
Capital assets, depreciated:					
Buildings and improvements	3,853,415	60,486	\$ (4,000)		3,909,901
Furniture, fixtures and equipment	1,007,754	6,100	(18,314)		995,541
Vehicles	538,420	28,850	(124,141)		443,129
Infrastructure	<u>3,153,508</u>	<u>310,474</u>		<u>\$ 10</u>	<u>3,463,991</u>
Total, depreciated	<u><u>8,553,097</u></u>	<u><u>405,910</u></u>	<u><u>(146,455)</u></u>	<u><u>10</u></u>	<u><u>8,812,562</u></u>
Accumulated depreciation for:					
Buildings and improvements	1,955,344	87,212	(1,447)		2,041,109
Furniture, fixtures and equipment	885,094	21,160	(17,655)		888,598
Vehicles	431,617	36,286	(124,141)		343,762
Infrastructure	<u>112,142</u>	<u>84,925</u>			<u>197,067</u>
Total accumulated depreciation	<u><u>3,384,197</u></u>	<u><u>229,582</u></u>	<u><u>(143,243)</u></u>		<u><u>3,470,536</u></u>
Total capital assets, depreciated, net	<u><u>5,168,900</u></u>	<u><u>176,328</u></u>	<u><u>(3,212)</u></u>	<u><u>10</u></u>	<u><u>5,342,026</u></u>
Total capital assets, net	<u><u>\$ 7,024,974</u></u>	<u><u>\$ 709,214</u></u>	<u><u>\$ (3,212)</u></u>	<u><u>\$ 10</u></u>	<u><u>\$ 7,730,986</u></u>

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

General government	\$ 64,709
Public safety	46,882
Highways and streets	87,960
Culture and recreation	<u>30,031</u>
Total depreciation expense	<u>229,582</u>

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 4. CAPITAL ASSETS (CONTINUED)

Enterprise fund capital asset activity for the year ending June 30, 2011 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>Ending Balance</u>
Business-type Activities					
Capital assets, not depreciated:					
Land	\$ 927,000				\$ 927,000
Water rights	1,413,000				1,413,000
Construction in process	9,920	\$ 206,115			216,035
Total, not depreciated	<u>2,349,920</u>	<u>206,115</u>			<u>2,556,035</u>
Capital assets, depreciated:					
Plant and system	8,130,282	46,024			8,176,306
Buildings and improvements	131,057				131,057
Furniture, fixtures and equipment	977,025		\$ (3,342)		973,683
Total, depreciated	<u>9,238,364</u>	<u>46,024</u>	<u>(3,342)</u>		<u>9,281,046</u>
Accumulated depreciation for:					
Plant and system	4,292,744	209,155		\$ 1,532	4,503,432
Buildings and improvements	54,035	3,190			57,225
Furniture, fixtures and equipment	664,319	58,455	(3,342)		719,432
Total accumulated depreciation	<u>5,011,098</u>	<u>270,800</u>	<u>(3,342)</u>	<u>\$ 1,532</u>	<u>5,280,088</u>
Total capital assets, depreciated, net	<u>4,227,266</u>	<u>(224,776)</u>		<u>(1,532)</u>	<u>4,000,958</u>
Total capital assets, net	<u>\$ 6,577,186</u>	<u>\$ (18,661)</u>		<u>\$ (1,532)</u>	<u>\$ 6,556,993</u>

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 5. LONG-TERM OBLIGATIONS - GOVERNMENTAL FUNDS

During the year ended June 30, 2011, the following changes occurred:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities					
General Obligation					
bonds	\$ 348,000		\$ (80,000)	\$ 268,000	\$ 86,000
Notes payable	35,602		(11,659)	23,943	11,863
Compensated Absences	<u>36,717</u>	<u>\$ 10,374</u>	<u>(3,406)</u>	<u>43,685</u>	<u>43,685</u>
Total	<u>\$ 420,319</u>	<u>\$ 10,374</u>	<u>\$ (95,065)</u>	<u>\$ 335,628</u>	<u>\$ 141,548</u>

General Obligation Bonds: The Village had general obligation bond series outstanding during the fiscal year ending June 30, 2011

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:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 86,000	\$ 10,010	\$ 96,010
2013	92,000	6,106	98,106
2014	<u>90,000</u>	<u>2,034</u>	<u>92,034</u>
	<u>\$ 268,000</u>	<u>\$ 18,150</u>	<u>\$ 286,150</u>

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

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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

The future requirements for notes payable are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>fees</u>	<u>Total</u>
2012	\$ 11,863	\$ 386	\$ 60	\$ 12,308
2013	12,080	199	30	12,309
	<u>\$ 23,943</u>	<u>\$ 585</u>	<u>\$ 90</u>	<u>\$ 24,617</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:

<u>Total Years of Village Service</u>	<u>Yearly Accumulation</u>
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, 2011, \$690,000 of bonds outstanding are considered defeased.

NOTE 6. LONG-TERM DEBT - ENTERPRISE FUNDS

During the year ended June 30, 2011, the following changes occurred:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due within one year</u>
Business-type activities					
Notes payable	\$ 2,081,587	\$ 25,144	\$ (169,664)	\$ 1,937,067	\$ 150,373
Compensated absences	6,727	955	(1,284)	6,398	6,398
Total	<u>\$ 2,088,314</u>	<u>\$ 26,099</u>	<u>\$ (170,948)</u>	<u>\$ 1,943,465</u>	<u>\$ 156,771</u>

Notes payable. The Village had two notes payable outstanding during the fiscal year ending June 30, 2011

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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

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:

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 25,144	\$ 11,856	\$ 37,000
2013	26,805	10,195	37,000
2014	28,574	8,426	37,000
2015	30,461	6,539	37,000
2016	32,472	4,528	37,000
2017	34,616	2,727	37,343
2018	18,245	2,727	20,972
	<u>\$ 196,318</u>	<u>\$ 46,998</u>	<u>\$ 243,316</u>

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 04, 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 \$2,583,296 of which \$240,000 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 01, 2023. The loan is collateralized by the Village's gross receipt tax.

The future requirements for the note payable are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Fees</u>	<u>Total</u>
2012	\$ 125,229	\$ 64,133	\$ 4,352	\$ 193,714
2013	128,642	60,269	4,039	192,950
2014	133,526	56,146	3,717	193,390
2015	137,421	51,731	3,383	192,535
2016	141,517	47,046	3,040	191,603
2017 to 2021	749,666	155,613	9,748	915,026
2022 to 2025	324,747	20,299	1,222	346,268
	<u>\$ 1,740,748</u>	<u>\$ 455,238</u>	<u>\$ 29,500</u>	<u>\$ 2,225,486</u>

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 7. CONTINGENT DEBT OBLIGATION

On June 01, 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.

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, 2011, the management of NWNMRSWA and the Village do not anticipate any additional significant liability to the Village for closure/post closure costs.

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 8. INTERFUND OPERATING TRANSFERS

Interfund transfers for the year ended June 30, 2011 consisted of the following:

Transfers to the street improvement fund from:	
Nonmajor funds	\$ 85,000.00
Joint Utility	<u>28,555.00</u>
Total transfers to street improvement	<u><u>\$ 113,555.00</u></u>
Transfers from Joint Utility fund to:	
General fund	\$ 8,000
Non major fund	<u>63,250</u>
Total transfers from Joint Utility	<u><u>\$ 71,250</u></u>

NOTE 9. INTERFUND BALANCES

Interfund balances at June 30, 2011 consisted of the following amounts:

Due to General Fund from:	
Nonmajor funds	\$ 252,148
Street improvement fund	691,822
Joint utility fund	<u>218,665</u>
Total due to the general fund	<u><u>1,162,635</u></u>
Due to street improvement fund from:	
Joint Utility fund	1,144,712
Due to Nonmajor funds from:	
Joint utility fund	666,730
General funds	<u>1,924</u>
Total due to Non major Fund	<u><u>668,654</u></u>
Due from Joint utility to:	
General fund	218,665
Street improvement fund	1,144,712
Non major Fund	666,730
Joint utility internal balances	14,906
Agency	<u>671</u>
Total due to joint utility fund	<u><u>\$ 2,045,684</u></u>

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

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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, 2011, 2010, and 2009 were \$83,872, \$84,852, and, \$88,948, respectively, equal to the amount of the required contributions for each year.

NOTE 12. POST-EMPLOYMENT BENEFITS

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

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 12. POST-EMPLOYMENT BENEFITS (CONTINUED)

Eligible retirees are: (1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the 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 01, 1990; and (3) former governing authority members who served at four years.

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

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

The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. During the fiscal year ending June 30, 2011, the statute required each participating employer contribute 1.3% of each participating employee's annual salary; each participating employee was required to contribute 0.65% of their salary. In the fiscal years ending June 30, 2012 through June 30, 2014, the contribution rates for employees and employers will raise as follows:

For employees who are not members of an enhanced retirement plan the contribution rates will be:

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
FY12	1.834%	0.917%
FY13	2.000%	1.000%

For employees who are members of an enhanced retirement plan (state police and adult correctional officer plan 1; municipal police member plans 3, 4, and 5; municipal fire members coverage plan 3, 4, and 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act [10-12B-1 NMSA 1978] the contribution rates will be:

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
FY12	2.292%	1.146%
FY13	2.500%	1.250%

VILLAGE OF MILAN, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 12. POST-EMPLOYMENT BENEFITS (CONTINUED)

Also, employers joining the program after 1/1/98 are required to make a surplus-amount contribution to the RHCA based on one of the two formulas at agreed upon intervals.

The RHCA plan is financed on a pay-as-you-go basis. The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the contributions can be changed by the New Mexico State legislature.

The Village's contributions to the RHCA for the fiscal years ended June 30, 2011, 2010 and 2009 were \$6,403, \$7,907 and \$12,789, respectively, which equal the required contributions for each year.

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 \$1,000,000 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, 2011

NOTE 14. 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 the operation 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.

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 01, 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 checked 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, 2011

NOTE 15. 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, 2011, management estimates that no material liabilities will result from such audits.

NOTE 16. DEFICIT FUND BALANCE

The Village had a deficit fund balance of \$32,124 in the Fire 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.

VILLAGE OF MILAN, NEW MEXICO
NONMAJOR FUNDS
June 30, 2011

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.

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.

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

CAPITAL PROJECT FUNDS

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

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, 2011

	Special Revenue			
	Corrections	Fire Protection	Law Enforcement Protection	Lodgers Tax
ASSETS				
Cash and cash equivalents	\$ 48,962	\$ 56,713	\$ 7,129	\$ 20,745
Investments		20		
Receivables Taxes				
Property tax				
Lodger's tax				554
Gross receipts tax				
Gasoline tax				
Other				
Due from other funds	<u>70,000</u>		<u>194</u>	<u>831</u>
Total assets	<u><u>118,962</u></u>	<u><u>56,733</u></u>	<u><u>7,323</u></u>	<u><u>22,130</u></u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable				
Accrued compensation and benefits				
Due to other funds	<u>71,805</u>	<u>88,857</u>	<u>1,938</u>	
Total liabilities	<u><u>71,805</u></u>	<u><u>88,857</u></u>	<u><u>1,938</u></u>	
FUND BALANCES				
Unreserved, undesignated, reported in				
Capital projects funds				
Special revenue funds	47,157	(32,124)	5,385	22,130
Reserved for debt service				
Total fund balances	<u><u>47,157</u></u>	<u><u>(32,124)</u></u>	<u><u>5,385</u></u>	<u><u>22,130</u></u>
Total liabilities and fund balances	<u><u>\$ 118,962</u></u>	<u><u>\$ 56,733</u></u>	<u><u>\$ 7,323</u></u>	<u><u>\$ 22,130</u></u>

VILLAGE OF MILAN, NEW MEXICO
COMBINING BALANCE SHEET
NONMAJOR FUNDS
June 30, 2011

	Special Revenue		
	Streets	Recreation	Total Special Revenue
ASSETS			
Cash and cash equivalents	\$ 75,228	\$ 23,162	\$ 231,939
Investments			20
Receivables Taxes			
Property tax			
Lodger's tax			554
Gross receipts tax			
Gasoline tax	33,280		33,280
Other			
Due from other funds	<u>126,858</u>		<u>197,883</u>
Total assets	<u><u>235,366</u></u>	<u><u>23,162</u></u>	<u><u>463,676</u></u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable			
Accrued compensation and benefits			
Due to other funds	<u>246</u>	<u>10,491</u>	<u>173,337</u>
Total liabilities	<u><u>246</u></u>	<u><u>10,491</u></u>	<u><u>173,337</u></u>
FUND BALANCES			
Unreserved, undesignated, reported in			
Capital projects funds			
Special revenue funds	235,120	12,671	290,339
Reserved for debt service			
Total fund balances	<u><u>235,120</u></u>	<u><u>12,671</u></u>	<u><u>290,339</u></u>
Total liabilities and fund balances	<u><u>\$ 235,366</u></u>	<u><u>\$ 23,162</u></u>	<u><u>\$ 463,676</u></u>

VILLAGE OF MILAN, NEW MEXICO
COMBINING BALANCE SHEET
NONMAJOR FUNDS
June 30, 2011

	Capital Projects <u> </u> CDBG Planning Grant <u> </u>	Debt Service Fund <u> </u> Debt Service <u> </u>	Total Nonmajor <u> </u>
ASSETS			
Cash and cash equivalents	\$ 37,923	\$ 106,510	\$ 376,372
Investments		1	21
Receivables Taxes			
Property tax			
Lodger's tax			554
Gross receipts tax		2,340	2,340
Gasoline tax			33,280
Other			
Due from other funds	<u>470,770</u>		<u>668,653</u>
Total assets	<u><u>508,693</u></u>	<u><u>108,851</u></u>	<u><u>1,081,220</u></u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable			
Accrued compensation and benefits			
Due to other funds		<u>78,810</u>	<u>252,147</u>
Total liabilities		<u><u>78,810</u></u>	<u><u>252,147</u></u>
FUND BALANCES			
Unreserved, undesignated, reported in			
Capital projects funds	508,693		508,693
Special revenue funds			290,339
Reserved for debt service		<u>30,041</u>	<u>30,041</u>
Total fund balances	<u><u>508,693</u></u>	<u><u>30,041</u></u>	<u><u>829,073</u></u>
Total liabilities and fund balances	<u><u>\$ 508,693</u></u>	<u><u>\$ 108,851</u></u>	<u><u>\$ 1,081,220</u></u>

VILLAGE OF MILAN, NEW MEXICO
COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND
BALANCES - NONMAJOR FUNDS
Year Ended June 30, 2011

	Special Revenue			
	Corrections	Fire Protection	Law Enforcement Protection	Lodgers Tax
Revenues				
Taxes				\$ 3,516
Licenses, permits, fees and fines	\$ 55,782			
From non - federal sources				
Intergovernmental		\$ 108,607	\$ 22,400	
Interest	159	240	33	31
Miscellaneous			113	
Total revenues	<u>55,941</u>	<u>108,847</u>	<u>22,546</u>	<u>3,547</u>
Expenditures				
Current				
General government				733
Public safety	20,064	80,269	10,412	
Highways and streets				
Debt service - principal		11,654		
Debt service - interest		560		
Capital outlay		6,100	5,020	
Total expenditures	<u>20,064</u>	<u>98,583</u>	<u>15,432</u>	<u>733</u>
Excess of revenues over expenditures				
before other financing (uses) sources	<u>35,877</u>	<u>10,264</u>	<u>7,114</u>	<u>2,814</u>
Other Financing (Uses) Sources				
Operating transfers in				
Operating transfers out	<u>(35,000)</u>			
Total other financing (uses) sources	<u>(35,000)</u>			
Net change in fund balances	877	10,264	7,114	2,814
Fund balance, beginning of year	46,280	(42,388)	(1,729)	19,317
Fund balance, end of year	<u>\$ 47,157</u>	<u>\$ (32,124)</u>	<u>\$ 5,385</u>	<u>\$ 22,131</u>

**VILLAGE OF MILAN, NEW MEXICO
COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND
BALANCES - NONMAJOR FUNDS
Year Ended June 30, 2011**

	<u>Special Revenue</u>		Total Special Revenue
	<u>Streets</u>	<u>Recreation</u>	
Revenues			
Taxes	\$ 178,407	\$ 1	\$ 181,924
Licenses, permits, fees and fines			55,782
From non - federal sources			
Intergovernmental			131,007
Interest	148	38	649
Miscellaneous	41		154
Total revenues	<u>178,596</u>	<u>39</u>	<u>369,516</u>
Expenditures			
Current			
General government			733
Public safety			110,745
Highways and streets	182,050		182,050
Debt service - principal			11,654
Debt service - interest			560
Capital outlay			11,120
Total expenditures	<u>182,050</u>	<u></u>	<u>316,862</u>
Excess of revenues over expenditures			
before other financing (uses) sources	<u>(3,454)</u>	<u>39</u>	<u>52,654</u>
Other Financing (Uses) Sources			
Operating transfers in			
Operating transfers out			<u>(35,000)</u>
Total other financing (uses) sources	<u></u>	<u></u>	<u></u>
Net change in fund balances	(3,454)	39	52,654
Fund balance, beginning of year	238,574	12,633	272,687
Fund balance, end of year	<u>\$ 235,120</u>	<u>\$ 12,672</u>	<u>\$ 325,341</u>

**VILLAGE OF MILAN, NEW MEXICO
 COMBINING STATEMENT OF REVENUES,
 EXPENDITURES AND CHANGES IN FUND
 BALANCES - NONMAJOR FUNDS
 Year Ended June 30, 2011**

	<u>Capital Projects</u> CDBG Planning Grant	<u>Debt Service</u>	<u>Total Non-major</u>
Revenues			
Taxes		\$ 100,233	\$ 282,157
Licenses, permits, fees and fines			55,782
From non - federal sources	\$ 394,987		525,994
Intergovernmental			
Interest			649
Miscellaneous			154
Total revenues	<u>394,987</u>	<u>100,233</u>	<u>864,736</u>
Expenditures			
Current			
General government		956	1,689
Public safety			110,745
Highways and streets			182,050
Debt service - principal		80,000	91,654
Debt service - interest		13,572	14,132
Capital outlay			11,120
Total expenditures		<u>94,528</u>	<u>411,390</u>
Excess of revenues over expenditures			
before other financing (uses) sources	<u>394,987</u>	<u>5,705</u>	<u>453,346</u>
Other Financing (Uses) Sources			
Operating transfers in	63,250		63,250
Operating transfers out		(50,000)	(85,000)
Total other financing (uses) sources	<u>63,250</u>	<u>(50,000)</u>	<u>(21,750)</u>
Net change in fund balances	458,237	(44,295)	431,596
Fund balance, beginning of year	50,457	74,336	397,480
Fund balance, end of year	<u>\$ 508,694</u>	<u>\$ 30,041</u>	<u>\$ 829,076</u>

VILLAGE OF MILAN, NEW MEXICO
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
CORRECTIONS
Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Licenses, permits, fees and fines	\$ 60,650	\$ 73,650	\$ 55,782	\$ (17,868)
Miscellaneous	600	600		(600)
Interest	200	250	159	(91)
Total revenues	<u>61,450</u>	<u>74,500</u>	<u>55,941</u>	<u>(18,559)</u>
Expenditures				
Public safety	<u>33,500</u>	<u>44,500</u>	<u>20,064</u>	<u>24,436</u>
Total expenditures	<u>33,500</u>	<u>44,500</u>	<u>20,064</u>	<u>24,436</u>
Other financing sources				
Operating transfers out		(35,000)	(35,000)	
Total other financing sources		(35,000)	(35,000)	
Net change in fund balance	27,950	(5,000)	877	5,877
Fund balance, beginning of year	<u>56,465</u>	<u>46,465</u>	<u>46,280</u>	<u>(185)</u>
Fund balance, end of year	<u>\$ 84,415</u>	<u>\$ 41,465</u>	<u>\$ 47,157</u>	<u>\$ 5,692</u>

VILLAGE OF MILAN, NEW MEXICO
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FIRE PROTECTION
Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$ 163,152		\$ 108,607	\$ 108,607
Interest		\$ 400	240	(160)
Miscellaneous		108,814		(108,814)
Total revenues	<u>163,152</u>	<u>109,214</u>	<u>108,847</u>	<u>(367)</u>
Expenditures				
Public safety	80,610	95,553	80,269	15,284
Debt service - principal	12,288	11,851	11,654	197
Debt service - interest		560	560	
Capital outlay	<u>70,254</u>	<u>42,408</u>	<u>6,100</u>	<u>36,308</u>
Expenditures	<u>163,152</u>	<u>150,372</u>	<u>98,583</u>	<u>51,789</u>
Excess of revenues over expenditures		<u>(41,158)</u>	<u>10,264</u>	<u>51,422</u>
Net change in fund balance		(41,158)	10,264	51,422
Fund balance, beginning of year	<u>(51,181)</u>	<u>(51,181)</u>	<u>(42,388)</u>	<u>8,793</u>
Fund balance, end of year	<u>(51,181)</u>	<u>(92,339)</u>	<u>(32,124)</u>	<u>60,215</u>

VILLAGE OF MILAN, NEW MEXICO
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
LAW ENFORCEMENT PROTECTION
Year Ended June 30, 2011

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	Actual Amounts	
Revenues				
Intergovernmental	\$ 29,529	\$ 22,400	\$ 22,400	
Interest			33	\$ 33
Miscellaneous			113	113
Total revenues	<u>29,529</u>	<u>22,400</u>	<u>22,546</u>	<u>146</u>
Expenditures				
Public safety			10,412	(10,412)
Capital outlay	<u>29,529</u>	<u>22,400</u>	<u>5,020</u>	<u>17,380</u>
Total expenditures	<u>29,529</u>	<u>22,400</u>	<u>15,432</u>	<u>6,968</u>
Excess of revenues over expenditures			<u>7,114</u>	<u>7,114</u>
Net change in fund balance			7,114	7,114
Fund balance, beginning of year	<u>(2,554)</u>	<u>(2,704)</u>	<u>(1,729)</u>	<u>975</u>
Fund balance, end of year	<u><u>\$ (2,554)</u></u>	<u><u>\$ (2,704)</u></u>	<u><u>\$ 5,385</u></u>	<u><u>\$ 8,089</u></u>

VILLAGE OF MILAN, NEW MEXICO
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
LODGERS TAX
Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 3,500	\$ 3,200	\$ 3,516	\$ 316
Interest	50	75	31	(44)
Total revenues	<u>3,550</u>	<u>3,275</u>	<u>3,547</u>	<u>272</u>
Expenditures				
General government	4,500	4,500	733	3,767
Total expenditures	<u>4,500</u>	<u>4,500</u>	<u>733</u>	<u>3,767</u>
Excess of revenues over expenditures	<u>(950)</u>	<u>(1,225)</u>	<u>2,814</u>	<u>4,039</u>
Net change in fund balance	(950)	(1,225)	2,814	4,039
Fund balance, beginning of year	<u>14,393</u>	<u>14,393</u>	<u>19,317</u>	<u>4,924</u>
Fund balance, end of year	<u>\$ 13,443</u>	<u>\$ 13,168</u>	<u>\$ 22,131</u>	<u>\$ 8,963</u>

VILLAGE OF MILAN, NEW MEXICO
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
STREETS
Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 166,000	\$ 174,000	\$ 178,407	\$ 4,407
Interest	200	200	148	(52)
Miscellaneous			41	41
Total revenues	<u>166,200</u>	<u>174,200</u>	<u>178,596</u>	<u>4,396</u>
Highways and streets	216,443	230,050	182,050	48,000
Capital outlay	11,500	10,750		10,750
Total expenditures	<u>227,943</u>	<u>240,800</u>	<u>182,050</u>	<u>58,750</u>
Excess of revenues over expenditures	<u>(61,743)</u>	<u>(66,600)</u>	<u>(3,454)</u>	<u>63,146</u>
Net change in fund balance	(61,743)	(66,600)	(3,454)	63,146
Fund balance, beginning of year	<u>208,249</u>	<u>208,249</u>	<u>238,574</u>	<u>30,325</u>
Fund balance, end of year	<u>\$ 146,506</u>	<u>\$ 141,649</u>	<u>\$ 235,120</u>	<u>\$ 93,471</u>

VILLAGE OF MILAN, NEW MEXICO
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
RECREATION
Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes			\$ 1	\$ 1
Interest			38	38
Total revenues			<u>39</u>	<u>39</u>
Expenditures				
Culture and recreation				
Total expenditures				
Excess of revenues over expenditures			39	39
Net change in fund balance			39	39
Fund balance, beginning of year	<u>12,987</u>	<u>12,987</u>	<u>12,633</u>	<u>(354)</u>
Fund balance, end of year	<u><u>\$ 12,987</u></u>	<u><u>\$ 12,987</u></u>	<u><u>\$ 12,672</u></u>	<u><u>\$ (315)</u></u>

VILLAGE OF MILAN, NEW MEXICO
TATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
CDBG PLANNING GRANT
Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget Positive (Negative)
Revenues				
Intergovernmental	\$ 237,500	\$ 734,250	\$ 394,987	\$ (339,263)
Total revenues	<u>237,500</u>	<u>734,250</u>	<u>394,987</u>	<u>(339,263)</u>
Expenditures				
Highway and Streets	250,000	760,000		760,000
Total expenditures	<u>250,000</u>	<u>760,000</u>		<u>760,000</u>
Excess of revenues over expenditures	(12,500)	(25,750)	394,987	420,737
Other financing sources				
Operating transfers in		63,250	63,250	
Total other financing sources		<u>63,250</u>	<u>63,250</u>	
Net change in fund balance	(12,500)	37,500	458,237	420,737
Fund balance, beginning of year	8,784	8,784	50,457	41,673
Fund balance, end of year	<u>\$ (3,716)</u>	<u>\$ 46,284</u>	<u>\$ 508,694</u>	<u>\$ 462,410</u>

VILLAGE OF MILAN, NEW MEXICO
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
DEBT SERVICE
Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 127,000	\$ 139,000	\$ 100,233	\$ (38,767)
Miscellaneous	150	100		(100)
Total revenues	<u>127,150</u>	<u>139,100</u>	<u>100,233</u>	<u>(38,867)</u>
Expenditures				
General government	713	870	956	(86)
Debt service - principal	86,000	80,000	80,000	
Debt service - interest	10,010	13,572	13,572	
Total expenditures	<u>96,723</u>	<u>94,442</u>	<u>94,528</u>	<u>(86)</u>
Excess of revenues over expenditures	<u>30,427</u>	<u>44,658</u>	<u>5,705</u>	<u>(38,953)</u>
Other financing sources (uses)				
Operating transfers out		(50,000)	(50,000)	
Total other financing sources (uses)		<u>(50,000)</u>	<u>(50,000)</u>	
Net change in fund balance	30,427	(5,342)	(44,295)	(38,953)
Fund balance, beginning of year	<u>95,901</u>	<u>95,901</u>	<u>74,336</u>	<u>(21,565)</u>
Fund balance, end of year	<u>\$ 126,328</u>	<u>\$ 90,559</u>	<u>\$ 30,041</u>	<u>\$ (60,518)</u>

VILLAGE OF MILAN, NEW MEXICO
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
STREET IMPROVEMENT
Year Ended June 30, 2011

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Intergovernmental	\$ 558,467	\$ 998,665	\$ 168,510	\$ (830,155)
Interest			<u>1,172</u>	<u>1,172</u>
Total revenues	<u>558,467</u>	<u>998,665</u>	<u>169,682</u>	<u>(828,983)</u>
Expenditures				
Highways and streets				
Capital outlay	<u>871,689</u>	<u>784,220</u>	<u>811,813</u>	<u>(27,593)</u>
Total expenditures	<u>871,689</u>	<u>784,220</u>	<u>811,813</u>	<u>(27,593)</u>
Excess of revenues over expenditures	<u>(313,222)</u>	<u>214,445</u>	<u>(642,131)</u>	<u>(856,576)</u>
Other financing sources (uses)				
Operating transfers in		213,555	113,555	(100,000)
Operating transfers out		<u>(100,000)</u>		<u>100,000</u>
Total other financing sources (uses)		<u>113,555</u>	<u>113,555</u>	
Net change in fund balance	<u>(313,222)</u>	<u>328,000</u>	<u>(528,576)</u>	<u>(856,576)</u>
Fund balance, beginning of year	<u>1,407,819</u>	<u>1,854,611</u>	<u>1,279,860</u>	<u>(574,751)</u>
Fund balance, end of year	<u>\$ 1,094,597</u>	<u>\$ 2,182,611</u>	<u>\$ 751,284</u>	<u>\$ (1,431,327)</u>

VILLAGE OF MILAN, NEW MEXICO
STATEMENT OF REVENUES AND EXPENSES -
BUDGET AND ACTUAL
JOINT UTILITY
Year Ended June 30, 2011

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Sales and services	\$ 1,606,500	1,559,596	1,647,679	88,083
Interest	<u>50</u>	<u> </u>	<u>734</u>	<u>734</u>
Total revenues	<u>1,606,550</u>	<u>1,559,596</u>	<u>1,648,413</u>	<u>88,817</u>
Expenses				
Operating	1,586,293	1,602,029	1,053,864	548,165
Capital Outlay			252,139	(252,139)
Debt service- interest	<u>76,913</u>	<u>80,383</u>	<u>80,517</u>	<u>(134)</u>
Total expenditures	<u>1,663,206</u>	<u>1,682,412</u>	<u>1,386,520</u>	<u>295,892</u>
Excess of revenues over expenditures	<u>(56,656)</u>	<u>(122,816)</u>	<u>261,893</u>	<u>384,709</u>
Other financing sources (uses)				
Operating transfers in	300,000			
Operating transfers out	<u>(350,000)</u>	<u>(99,805)</u>	<u>(99,805)</u>	<u> </u>
Total other financing sources (uses)	<u>(50,000)</u>	<u>(99,805)</u>	<u>(99,805)</u>	<u> </u>
Net change in net assets	(106,656)	(222,621)	162,088	384,709
Net assets, beginning of year	<u>3,446,994</u>	<u>3,446,994</u>	<u>3,538,676</u>	<u>91,682</u>
Net assets, end of year	<u>\$ 3,340,338</u>	<u>3,224,373</u>	<u>3,700,764</u>	<u>476,391</u>

VILLAGE OF MILAN, NEW MEXICO
AGENCY FUNDS
June 30, 2011

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, 2011

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
POLICE BONDS				
ASSETS				
Cash	\$ 4,883	\$ 763	\$ 754	\$ 4,892
Due from other funds	671			671
Total assets	<u>\$ 5,554</u>	<u>\$ 763</u>	<u>\$ 754</u>	<u>\$ 5,563</u>
LIABILITIES				
Deposits held in trust	\$ 5,554	\$ 763	\$ 754	\$ 5,563
Total liabilities	<u>\$ 5,554</u>	<u>\$ 763</u>	<u>\$ 754</u>	<u>\$ 5,563</u>

VILLAGE OF MILAN, NEW MEXICO
SCHEDULE OF DEPOSIT ACCOUNTS
June 30, 2011

Depository	Account Name	Type	Depository Balance	Reconciled Balance
Grants State Bank	General	Checking	\$ 951,987	\$ 821,103
Grants State Bank	Payroll	Checking	18,269	18,269
Grants State Bank	Correction	Checking	48,962	48,962
Grants State Bank	Fire Protection	Checking	40,752	40,589
Grants State Bank	Law Enforcement	Checking	15,887	7,129
Grants State Bank	Lodgers Tax	Checking	20,745	20,745
Grants State Bank	Street	Checking	82,913	75,228
Grants State Bank	Recreation	Checking	23,162	23,162
Grants State Bank	CDBG Planning	Checking	37,923	37,923
Grants State Bank	Co-Op Street	Checking	542,086	542,086
Grants State Bank	Joint Utility	Checking	1,476	1,476
Grants State Bank	Water Deposit	Checking	50,395	49,955
Grants State Bank	Savings - General Fund	Saving	329,352	329,352
Grants State Bank	Savings- Fire Fund	Saving	16,124	16,124
Grants State Bank	Savings-1977 Debt Service	Saving	9,906	9,906
Grants State Bank	Savings- Enterprise Fund	Saving	124	124
First Community Bank	Operating-Pooled cash	Checking	894,996	748,250
First Community Bank	Savings - fund 705	Saving	13,867	13,867
Wells Fargo Bank	GO Bonds	Checking	117,377	117,377
Total deposit accounts			3,216,304	2,921,627
Petty cash	General			100
Petty cash	Joint Utility Window			150
			<u>3,216,304</u>	<u>2,921,877</u>
Investment Accounts				
First Community Bank	Enterprise Fund CD	CD	60,000	60,000
Bank of Albuquerque	U.S. Treasury Money Market Fund	Investment		183,954
NM Finance Authority	U.S. Treasury Money Market Fund	Investment		92,687
NM Finance Authority	U.S. Treasury Money Market Fund	Investment		20
Total investment accounts			<u>60,000</u>	<u>336,661</u>
Total deposit and investment accounts - non-agency			<u>\$ 3,276,304</u>	<u>\$ 3,258,538</u>
Agency funds cash accounts:				
Grants State Bank	Police Bonds	Checking	\$ 4,892	\$ 4,892

VILLAGE OF MILAN, NEW MEXICO
SCHEDULE OF PLEDGED COLLATERAL
June 30, 2011

	Grants State Bank	First Community Bank	Wells Fargo Bank	Total
Deposits at June 30, 2011	\$ 2,268,823	\$ 894,996	\$ 117,377	\$ 3,281,196
Less: FDIC coverage	<u>250,000</u>	<u>250,000</u>	<u>117,377</u>	<u>617,377</u>
Uninsured public funds	2,018,823	644,995	-	2,663,819
Pledged collateral held by the pledging bank's trust department or agent but not in the Village's name	<u>1,175,000</u>	<u>155,000</u>	<u>-</u>	<u>1,330,000</u>
50% pledged collateral requirement per statute	1,009,412	322,498	-	1,331,910
Total pledged collateral	<u>1,175,000</u>	<u>155,000</u>	<u>-</u>	<u>1,330,000</u>
Pledged collateral over the requirement	<u>\$ (165,588)</u>	<u>\$ 167,498</u>	<u>\$ 167,498</u>	<u>\$ 1,910</u>

Pledged collateral at June 30, 2011 consists of the following:

Security	CUSIP	Maturity	Market Value	Market Value	Market Value	Total
Hobbs SD Call FR	433866BS8	7/1/2012	\$ 100,000			\$ 100,000
Gadsden NM ISD BQ Call GO	362550KRS	8/15/2018	500,000			500,000
Curry Cnty Call FR	231327BB2	8/1/2013	275,000			275,000
Gadsden ISD Call FR	362550JL0	8/15/2013	300,000			300,000
FNMA POOL 988885	31415TREZ	10/1/2025		\$ 155,000		155,000
Total pledged collateral			<u>\$ 1,175,000</u>	<u>\$ 155,000</u>	<u>\$ -</u>	<u>\$ 1,330,000</u>

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

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, 2011

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	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 of operating and maintenance costs	\$5,200	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.	None	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.	None	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 indefinite to contribute 50% of its Environmental Gross Receipts Tax.	\$45,989	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	\$4,000	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 Indefinite	None	\$4,400	City of Grants	City of Grants
Mosquito Control	Village of Milan, Cibola County	Cibola County	Mosquito Control	Unknown Indefinite	The Village is required to contribute 26% of the yearly operating costs	\$7,195	Cibola County	Cibola County
Prisoner Housing	Cibola County, Village of Milan	Cibola County	To provide housing of municipal prisoners arrested by the Village and confuted in the Cibola County Detention Cater.	7/08 to 7/10	\$54 per day Per inmate	\$14,103	Cibola County	Cibola County
Transit	Village of Milan, City of Grants, Cibola County	Cibola County	To jointly crate and operate a municipal transit authority providing transportation between various points within the City. the Village, the County and surrounding areas.	9/06 to indefinite	The Village is required to contribute 15% of the yearly Operating costs	\$8,848	Village of Milan	Village of Milan

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, each major fund, the aggregate remaining fund information, the budgetary comparisons of the general fund and streets fund, and the combining and individual funds and related budgetary comparisons presented as supplemental information of the Village of Milan, New Mexico (Village), as of and for the year ended June 30, 2011, and have issued our report thereon dated November 23, 2011. 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, 2011, as listed in the table of contents. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control 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 and correct 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.

A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Village's financial statements will not be prevented, or detected and corrected on a timely basis. 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 no instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and recommendations as item 08-01.

The Village's responses to the findings identified in our audit are described in the accompanying schedule of findings and recommendations. We did not audit the Village's response 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.

Harshwal & Company LLP
Certified Public Accountants

Harshwal & Company LLP

San Diego, California
November 23, 2011

VILLAGE OF MILAN, NEW MEXICO
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2011

07-5	Fund Accounting Related to Business-Type Activities	Resolved
08-1	Late Audit Report	Repeat and Modified

VILLAGE OF MILAN, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2011

Late Audit Report
(08-01)

CONDITION	The June 30, 2010 audit report was not submitted by the required deadline of December 01, 2010. The audit report was submitted to the Office of the State Auditor on April 29th, 2011.
CRITERIA	All audit reports should be submitted to the State Auditors Office by the December 1 following the fiscal year-end according to the State auditors Rule 2.2.2.9 A(1) {d}.
CAUSE	A new auditor was hired to replace the original auditor during the FY 2010 audit and therefore the submission of the audit report was delayed.
EFFECT	The Village was not in compliance with the State Auditor rule NMAC 2.2.2.9.A(1) {d} for the fiscal year ended June 30, 2010. The Village could not provide audited financial statements for use in borrowing, bonds and grant applications.
RECOMMENDATION	None.
RESPONSE	The FY 2011 audit report is being submitted to the Office of the State Auditor by December 1, 2011.

VILLAGE OF MILAN, NEW MEXICO
EXIT CONFERENCE
Year Ended June 30, 2011

An exit conference was held on September 23, 2011, and attended by the following:

Village of Milan, New Mexico

Tom Ortega, Mayor
Marcella Sandoval, Village Administrator
Esther Barnes, Payroll Clerk and Human Resources

Harshwal & Company LLP

Sanwar Harshwal, Partner
Deepa Adhikari, Senior Auditor
Pankhudy Jain, Staff Auditor

The financial statements were prepared by Harshwal & Company LLP 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.