

STATE OF NEW MEXICO

VILLAGE OF QUESTA



ANNUAL FINANCIAL REPORT

JUNE 30, 2006

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INTRODUCTORY SECTION

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STATE OF NEW MEXICO
VILLAGE OF QUESTA
TABLE OF CONTENTS
June 30, 2006

	<u>Exhibit</u>	<u>Page</u>
INTRODUCTORY SECTION		
Table of Contents		i-ii
Official Roster		iii
FINANCIAL SECTION		
Independent Auditors' Report		iv-v
Management's Discussion and Analysis		vi-xii
BASIC FINANCIAL STATEMENTS		
Government-wide Financial Statements		
Statement of Net Assets	A-1	1-2
Statement of Activities	A-2	3-4
Fund Financial Statements		
Balance Sheet – Governmental Funds	B-1	5
Reconciliation of the Balance Sheet to the statement of net Assets		6
Statement of revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	B-2	7
Reconciliation of the Statement of Revenues, Expenditures, Changes in Fund Balance of Governmental Funds to the Statement of Activities		8
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	C-1	9
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – MolyCorp Fund	C-2	10
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – CDBG Water Fund	C-3	11
Statement of Net Assets-Proprietary Funds	D-1	12
Statement of Revenues, Expenses, and Changes in Net Assets-Proprietary Funds	D-2	13
Statement of Cash Flows –Proprietary Funds	D-3	14
Statement of Fiduciary Net Assets	E-1	15
NOTES TO THE FINANCIAL STATEMENTS		16-38
SUPPLEMENTARY INFORMATION		
	<u>Statement</u>	
Nonmajor Fund Descriptions		39
COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES		
Combining Balance Sheet – Nonmajor Governmental Funds	A-1	40-42
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	A-2	43-45
Statement of Revenues, Expenditures, and Changes in Fund Balances –		
Fire Protection Special Revenue Fund	B-1	46
Recreation Special Revenue Fund	B-2	47
EMS County Special Revenue Fund	B-3	48
EMS Fire Special Revenue Fund	B-4	49
Library Special Revenue Fund	B-5	50

STATE OF NEW MEXICO
VILLAGE OF QUESTA
OFFICIAL ROSTER
June 30, 2006

VILLAGE COUNCIL

Malaquais V. Rael	Mayor
Louise T. Martinez	Council Member
Robert R. Ortega, Jr.	Mayor Pro-Tem
Mark Gallegos	Council Member
Julian J. Cisneros	Council Member

VILLAGE OFFICIALS

Brent Jaramillo	Village Administrator
Nadine Varela	Village Clerk/Treasurer
Renee Martinez	Village Deputy Clerk



Griego Professional Services, LLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Malaquais V. Rael, Mayor
Village Council Members
Village of Questa
Questa, New Mexico

and

Domingo P. Martinez, CGFM
New Mexico State Auditor
Santa Fe, New Mexico

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, budgetary comparison for each major fund, budgetary comparison for each nonmajor fund and the aggregate remaining fund information of the Village of Questa as of and for the year ended June 30, 2006 which collectively comprise the Village of Questa's basic financial statements as listed in the table of contents. We have also audited the financial statements of each of the Village's nonmajor governmental and fiduciary funds presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2006 as listed in the table of contents. These financial statements are the responsibility of Village of Questa's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, budgetary comparison for each major fund, budgetary comparison for each nonmajor fund, and the aggregate remaining fund information of the Village of Questa as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof 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 respective financial position of each nonmajor governmental and fiduciary fund of the Village of Questa as of June 30, 2006 and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

9/16/07

In accordance with *Government Auditing Standards*, we have also issued our report dated July 18, 2006 on our consideration of the Village of Questa'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 *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages vi through xii is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Questa's basic financial statements and the combining and individual fund financial statements. The accompanying information listed as supporting schedules I through IV are presented for purposes of additional analysis and Schedule V, Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, 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 basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Arigo Professional Services, LLC

Albuquerque, New Mexico
November 9, 2006

Village of Questa
Management's Discussion and Analysis
June 30, 2006

As management of Village of Questa, we offer readers of Village of Questa financial statements this narrative overview and analysis of the financial activities of Village of Questa for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with the financial statements of Village of Questa and additional information provided.

FINANCIAL HIGHLIGHTS

- The assets of Village of Questa exceeded its liabilities at the close of the most recent fiscal year by \$7,118,952 (*net assets*). Of this amount, (\$56,603) (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$959,813 during the fiscal year. The majority of this increase is due to the CDBG Grant and Legislative Appropriations for the upgrade of water lines for the year ended June 30, 2006 in the government activities.
- As of June 30, 2006, the Village's governmental funds reported combined ending fund balances of \$54,965, all of which is unreserved.
- At the close of the current fiscal year, unreserved, undesignated fund balance for the general fund was \$17,305, or 1 percent of total general fund expenditures.
- The Village of Questa's total debt decreased by \$57,747, as a result of payments of principal, during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Village of Questa's basic financial statements. Village of Questa's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of Village of Questa's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of Village of Questa's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Village of Questa is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of Village of Questa that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of Village of Questa include general government, public safety, public works, culture and recreation, and health and welfare. The business-type activities of the Village include joint utilities and solid waste disposal.

The government-wide financial statements can be found at Exhibits A-1 and A-2 of this report.

Village of Questa
Management's Discussion and Analysis
June 30, 2006
(continued)

Combining statements. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 40-58 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Analysis of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Village of Questa, assets exceeded liabilities by \$7,118,952 at the close of the current fiscal year.

The largest portion of Village of Questa's net assets represents the Village's investment of \$6,955,940 in capital assets (e.g., land improvements, buildings, infrastructure and machinery & equipment); less any related outstanding debt used to acquire those assets. Village of Questa uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although Village of Questa's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

VILLAGE OF QUESTA'S NET ASSETS
June 30, 2006

	<u>2006</u>			<u>2005</u> <u>Total</u>
	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>	
Assets				
Current and other assets	\$ 360,365	\$ 140,272	\$ 500,637	\$ 982,862
Capital assets, net of accumulated depreciation	<u>4,442,297</u>	<u>2,822,111</u>	<u>7,264,408</u>	<u>6,230,276</u>
Total Assets	<u>4,802,662</u>	<u>2,962,383</u>	<u>7,765,045</u>	<u>7,213,138</u>
Liabilities				
Current liabilities	296,980	70,645	367,625	717,784
Long-term liabilities outstanding	<u>158,968</u>	<u>119,500</u>	<u>278,468</u>	<u>336,215</u>
Total Liabilities	<u>455,948</u>	<u>190,145</u>	<u>646,093</u>	<u>1,053,999</u>
Net Assets				
Invested in capital assets, net of related debt	4,283,329	2,672,611	6,955,940	5,788,142
Restricted	219,615	—	219,615	15,294
Unrestricted	<u>(156,230)</u>	<u>99,627</u>	<u>(56,603)</u>	<u>355,703</u>
Total Net Assets	<u>4,346,714</u>	<u>2,772,238</u>	<u>7,118,952</u>	<u>6,159,139</u>
Total Liabilities and Net Assets	<u>\$ 4,802,662</u>	<u>\$ 2,962,383</u>	<u>\$ 7,765,045</u>	<u>\$ 7,213,138</u>

A portion of Village of Questa's net assets (3 percent) represents resources that are subject to restrictions. The restrictions relate to capital projects. The remaining balance of *unrestricted net assets* is a deficit.

At the end of the current fiscal year, Village of Questa is able to report positive balances in all but one of the categories of net assets, for the government as a whole as well as for the business-type activities.

FINANCIAL ANALYSIS OF THE VILLAGE'S FUNDS

As noted earlier, Village of Questa uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of Village of Questa's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing Village of Questa's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of Governmental funds reported by the Village include the General Fund, Special Revenue Funds, Debt Service Funds and Capital Project Funds.

As of the end of the current fiscal year, Village of Questa's governmental funds reported combined ending fund balances of \$54,965, a decrease of \$108,345 in comparison with the prior year. The decrease is primarily due to expenditures in excess of revenues. 100 percent of this total amount, \$54,965, constitutes *unreserved fund balance*, which is available for spending at the government's discretion.

Revenues for governmental functions overall totaled approximately \$4,734,779 in the fiscal year ended June 30, 2006, which represents an increase of \$1,116,984 from the fiscal year ended June 30, 2005. Expenditures for governmental functions, totaling \$4,844,173, increased by approximately \$1,290,126 from the fiscal year ended June 30, 2005. In the fiscal year ended June 30, 2006, expenditures for governmental functions exceeded revenues by approximately \$109,394.

The General Fund is the chief operating fund of Village of Questa. At the end of the current fiscal year, *unreserved* fund balance of the general fund was \$17,305. As a measure of the general fund's liquidity, it may be useful to compare the unreserved fund balance to the total fund expenditures. Unreserved fund balance represents 1 percent of total general fund expenditures of \$2,522,451.

The fund balance of Village of Questa's general fund decreased by \$876 during the current fiscal year due to expenditures and operating transfers in excess of revenues. Overall, the general fund's performance resulted in revenues over expenditures in the fiscal year ended June 30, 2006 of \$25,255, a decrease of \$93,213 over the comparable figure from the prior year of \$118,468.

The Molycorp Fund has a total fund balance of \$40, which is unreserved. The net decrease in fund balance during the current year in the Molycorp Fund was \$152,688 due to expenditures and transfers out in excess of revenues.

The CDBG Water Fund has a total fund balance of \$2, which is unreserved. The net increase in fund balance during the current year in the CDBG Water Fund was \$64,272 due to revenues and transfers in exceeding expenditures.

Proprietary Funds. The Village's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

At the end of the fiscal year, the unrestricted net assets for Joint Utility and Solid Waste were \$137,957 and \$(38,330) respectively with net assets invested in capital assets net of related debt in the Joint Utility fund of \$2,672,611. The total increase in net assets for the enterprise funds was \$1,104,653. Factors concerning the finances of this fund have been addressed previously in the discussion of the Village's business-type activities.

Fiduciary Funds. The Village maintains fiduciary funds for the assets of the Motor Vehicle Department funds. Changes to the fiduciary funds were immaterial for the fiscal year.

Village of Questa
Management's Discussion and Analysis
June 30, 2006
(continued)

Debt Administration. At the end of the current fiscal year, Village of Questa had total long-term obligations outstanding of \$278,468. Of this amount, \$119,500 is revenue bonds with the gross revenue from utility operations pledged to pay the payments.

Village of Questa's Outstanding Debt
As of June 30, 2006

	<u>Governmental Activities</u>	<u>Business-like Activities</u>	<u>Total</u>
Revenue Bonds	\$ —	\$ 119,500	\$ 119,500
NMFA notes	<u>158,968</u>	<u>—</u>	<u>158,968</u>
Total long-term liabilities	<u>\$ 158,968</u>	<u>\$ 119,500</u>	<u>\$ 278,468</u>

See Note 7 in the accompanying Notes to the Financial Statements for further information regarding Village of Questa's long-term debt.

The Village's total long-term debt decreased by \$57,747 during fiscal year 2006. There were no new debt agreements in the current year and the only activity was principal payments on existing debt.

Economic Factors and Next Year's Budgets and Rates

- The mining operations at Molycorp remains closed.
- Inflationary trends in the region compare favorably to national indices.

The above factors were considered in preparing Village of Questa's budget for the 2006 fiscal year.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Village of Questa's finances for all of those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Village of Questa Administration, Village of Questa, P. O. Box 260, Questa, New Mexico, 87556.

STATE OF NEW MEXICO

Exhibit A-1

Village of Questa
Statement of Net Assets
June 30, 2006

	Governmental Activities	Business-type Activities	Total
Liabilities			
Current Liabilities			
Accounts payable	\$ 272,292	\$ 17,446	\$ 289,738
Accrued expenses	20,121	7,147	27,268
Accrued interest	1,063	901	1,964
Accrued compensated absences	3,504	20,920	24,424
Deposits payable	-	24,050	24,050
Due to other funds	-	181	181
Current portion of bonds payable	-	16,250	16,250
Current portion of loans and notes payable	42,339	-	42,339
Total Current Liabilities	<u>339,319</u>	<u>86,895</u>	<u>426,214</u>
Noncurrent Liabilities			
Bonds payable	-	103,250	103,250
Loans and notes payable	116,629	-	116,629
Total Noncurrent Liabilities	<u>116,629</u>	<u>103,250</u>	<u>219,879</u>
Total Liabilities	<u>455,948</u>	<u>190,145</u>	<u>646,093</u>
Net Assets			
Invested in capital assets, net of related debt	4,283,329	2,672,611	6,955,940
Restricted for:			
Capital projects	219,615	-	219,615
Unrestricted	(156,230)	99,627	(56,603)
Total Net Assets	<u>4,346,714</u>	<u>2,772,238</u>	<u>7,118,952</u>
Total liabilities and net assets	<u>\$ 4,802,662</u>	<u>\$ 2,962,383</u>	<u>\$ 7,765,045</u>

The accompanying notes are an integral part of these financial statements

Statement of Activities
For the Year Ending June 30, 2006

Net (Expense) Revenue and Changes in Net Assets

<u>Primary Government</u>		
<u>Government Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ (1,190,266)	\$ -	\$ (1,190,266)
(212,661)	-	(212,661)
161,041	-	161,041
(10,024)	-	(10,024)
(1,251,910)	-	(1,251,910)
-	(50,154)	(50,154)
-	9,201	9,201
-	(40,953)	(40,953)
<u>\$ (1,251,910)</u>	<u>\$ (40,953)</u>	<u>\$ (1,292,863)</u>
49,103	-	49,103
39,369	-	39,369
434,634	-	434,634
44,538	-	44,538
605	1,774	2,379
537,772	3,352	541,124
1,049	(1,049)	-
1,107,070	4,077	1,111,147
(144,840)	(36,876)	(181,716)
(144,840)	(36,876)	(181,716)
4,491,554	1,667,585	6,159,139
-	1,141,529	1,141,529
<u>\$ 4,346,714</u>	<u>\$ 2,772,238</u>	<u>\$ 7,118,952</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Village of Questa

Governmental Funds

Reconciliation of the Balance Sheet to the Statement of Net Assets

June 30, 2006

Exhibit B-1

Page 2 of 2

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

Fund balances - total governmental funds	\$	58,469
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds		4,442,297
Other long-term assets are not available to pay for current period expenditures and therefore, are deferred in the funds:		
Deferred property taxes		9,483
Accrued compensatd absences		(3,504)
Accrued interest		(1,063)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds		<u>(158,968)</u>
Net assets of governmental activities	\$	<u>4,346,714</u>

The accompanying notes are an integral part of these financial statements

Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ending June 30, 2006

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

Net change in fund balances - total governmental funds	\$	(104,841)
--	----	-----------

Governmental funds report capital outlays as expenditures. However in
the statement of activities, the cost of those assets is allocated over their
estimated useful lives and reported as depreciation expense:

Capital expenditures		45,237
Depreciation expense		(127,652)

Revenues in the statement of activities that do not provide current financial
resources are not reported as revenue in the funds:

Property taxes (increase in deferred property taxes from prior year)		3,778
--	--	-------

The issuance of long-term debt (e.g. bonds, notes, leases) provides current financial
resources to governmental funds, while the repayment of the principal of long-term
debt consumes the current financial resources of governmental funds. Neither
transaction, however, has any effect on net assets. Also, governmental funds
report the effect of issuance costs, premiums, discounts, and similar items when
debt is first issued, whereas these amounts are deferred and amortized in the
statement of activities:

Principal payments on notes payable		41,497
Increase in accrued compensated absences payable		(3,504)
Decrease in accrued interest payable		645
		645

Change in net assets of governmental activities	\$	(144,840)
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The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
Village of Questa
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual
For the Year Ending June 30, 2006

	Budgeted Amounts		Actual	Variances Favorable (Unfavorable)
	Original	Final	(Non-GAAP Basis)	Final to Actual
<i>Revenues:</i>				
Taxes	\$ 403,350	\$ 403,350	\$ 471,576	\$ 68,226
Intergovernmental Income	1,502,154	1,508,007	890,727	(617,280)
Charges For Services	320,600	320,600	574,289	253,689
Licenses and Fees	54,690	47,876	45,147	(2,729)
Investment Income(Loss)	300	300	504	204
Miscellaneous	496,867	546,952	515,847	(31,105)
<i>Total revenues</i>	<u>2,777,961</u>	<u>2,827,085</u>	<u>2,498,090</u>	<u>(328,995)</u>
<i>Expenditures:</i>				
Current:				
General Government	2,538,863	2,574,027	2,102,978	471,049
Public Safety	230,646	223,929	161,958	61,971
Public Works	-	-	-	-
Culture and Recreation	-	-	-	-
Health and Welfare	-	-	-	-
Capital Outlay	-	25,118	-	(20,119)
Debt Service:			45,237	
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>2,769,509</u>	<u>2,823,074</u>	<u>2,310,173</u>	<u>512,901</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>8,452</u>	<u>4,011</u>	<u>187,917</u>	<u>183,906</u>
<i>Other financing sources (uses)</i>				
Designated Cash	-	4,441	-	(4,441)
Transfers In	-	-	195,574	195,574
Transfers Out	(8,452)	(8,452)	(221,705)	(213,253)
<i>Total other financing sources (uses)</i>	<u>(8,452)</u>	<u>(4,011)</u>	<u>(26,131)</u>	<u>(22,120)</u>
<i>Excess (deficiency) of revenues and other financing sources over expenditures and other financing (uses)</i>	-	-	161,786	161,786
<i>Fund Balance - Beginning of Year</i>	<u>-</u>	<u>-</u>	<u>82,454</u>	<u>82,454</u>
<i>Fund Balance - End of Year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 244,240</u>	<u>\$ 244,240</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
 Village of Questa
 CDBG Water Fund
 Statement of Revenues, Expenditures and Changes in Fund Balance
 Budget (Non-GAAP Basis) and Actual
 For the Year Ending June 30, 2006

	Budgeted Amounts		Actual	Variences
	Original	Final	(Non-GAAP Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental Income	1,127,000	1,127,000	914,315	(212,685)
Charges For Services	-	-	-	-
Licenses and Fees	-	-	-	-
Investment Income(Loss)	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>1,127,000</u>	<u>1,127,000</u>	<u>914,315</u>	<u>(212,685)</u>
<i>Expenditures:</i>				
Current:				
General Government	125	125	216	(91)
Public Safety	-	-	-	-
Public Works	1,151,875	1,151,875	875,210	276,665
Culture and Recreation	-	-	-	-
Health and Welfare	-	-	-	-
Capital Outlay	-	-	-	-
Debt Service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>1,152,000</u>	<u>1,152,000</u>	<u>875,426</u>	<u>276,574</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(25,000)</u>	<u>(25,000)</u>	<u>38,889</u>	<u>63,889</u>
<i>Other financing sources (uses)</i>				
Designated Cash	-	-	-	-
Transfers In	25,000	25,000	25,383	383
Transfers Out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>25,000</u>	<u>25,000</u>	<u>25,383</u>	<u>383</u>
<i>Excess (deficiency) of revenues and other financing sources over expenditures and other financing (uses)</i>	-	-	64,272	64,272
<i>Fund Balance - Beginning of Year</i>	-	-	(64,270)	(64,270)
<i>Fund Balance - End of Year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2</u>	<u>\$ 2</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Village of Questa
 Proprietary Funds
 Statement of Net Assets
 June 30, 2006

	<u>Joint Utility</u>	<u>Solid Waste</u>	<u>Total</u>
<i>Assets</i>			
<i>Current assets</i>			
Cash	\$ 136,755	\$ 6,617	\$ 143,372
Investments	-	-	-
Accounts receivable (less allowance for doubtful accounts of \$19,790 and \$5,000)	11,989	14,911	26,900
Due from other funds	47,191	-	47,191
Inventory	-	-	-
<i>Total current assets</i>	<u>195,935</u>	<u>21,528</u>	<u>217,463</u>
<i>Noncurrent assets</i>			
Capital assets	4,708,940	-	4,708,940
Accumulated depreciation	(1,916,829)	-	(1,916,829)
<i>Total Capital assets</i>	<u>2,792,111</u>	<u>-</u>	<u>2,792,111</u>
<i>Total Assets</i>	<u>\$ 2,988,046</u>	<u>\$ 21,528</u>	<u>\$ 3,009,574</u>
<i>Liabilities and Net Assets</i>			
<i>Liabilities:</i>			
<i>Current liabilities</i>			
Accounts payable	\$ 5,468	\$ 11,978	\$ 17,446
Accrued expenses	28,460	508	28,968
Due to other funds	-	47,372	47,372
Customer deposits	24,050	-	24,050
Current maturity of bonds payable	16,250	-	16,250
<i>Total current liabilities</i>	<u>74,228</u>	<u>59,858</u>	<u>134,086</u>
<i>Noncurrent liabilities</i>			
Bonds payable	103,250	-	103,250
<i>Total noncurrent liabilities</i>	<u>103,250</u>	<u>-</u>	<u>103,250</u>
<i>Total liabilities</i>	<u>177,478</u>	<u>59,858</u>	<u>237,336</u>
<i>Net Assets:</i>			
Invested in capital assets, net of related debt	2,672,611	-	2,672,611
Unrestricted	137,957	(38,330)	99,627
<i>Total net assets</i>	<u>2,810,568</u>	<u>(38,330)</u>	<u>2,772,238</u>
<i>Total Liabilities and Net Assets</i>	<u>\$ 2,988,046</u>	<u>\$ 21,528</u>	<u>\$ 3,009,574</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
Village of Questa
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended June 30, 2006

Exhibit D-2

	<u>Joint Utility</u>	<u>Solid Waste</u>	<u>Total</u>
<i>Operating revenues:</i>			
Charges for services	\$ 295,259	\$ 152,019	\$ 447,278
<i>Total operating revenues</i>	<u>295,259</u>	<u>152,019</u>	<u>447,278</u>
<i>Operating expenses:</i>			
Depreciation	84,739	-	84,739
Personnel services	162,746	-	162,746
Contractual services	109,676	94,478	204,154
Supplies and purchased power	90,345	48,340	138,685
Maintenance and materials	1,400	-	1,400
Miscellaneous	1,000	-	1,000
Heat, light and power	20,923	-	20,923
<i>Total operating expenses</i>	<u>470,829</u>	<u>142,818</u>	<u>613,647</u>
<i>Operating income (loss)</i>	<u>(175,570)</u>	<u>9,201</u>	<u>(166,369)</u>
<i>Non-operating revenues (expenses):</i>			
Interest income	1,703	71	1,774
Government contributions	125,416	-	125,416
Miscellaneous income	3,352	-	3,352
Transfers in	9,602	-	9,602
Transfers (out)	(10,651)	-	(10,651)
<i>Total non-operating revenues (expenses)</i>	<u>129,422</u>	<u>71</u>	<u>129,493</u>
<i>Change in net assets</i>	<u>(46,148)</u>	<u>9,272</u>	<u>(36,876)</u>
<i>Total net assets, beginning of year</i>	1,715,187	(47,602)	1,667,585
Contributed Capital	<u>1,141,529</u>	<u>-</u>	<u>1,141,529</u>
<i>Total net assets, end of year</i>	<u>\$ 2,810,568</u>	<u>\$ (38,330)</u>	<u>\$ 2,772,238</u>

The accompanying notes are an integral part of these financial statements

Statement of Cash Flows - Proprietary Funds
For the Year Ended June 30, 2006

	<u>Joint Utility</u>	<u>Solid Waste</u>	<u>Total</u>
<i>Cash flows from operating activities:</i>			
Cash received from user charges	\$ 310,520	\$ 152,396	\$ 462,916
Cash payments to employees for services	(154,636)	(30)	(154,666)
Cash payments to suppliers for goods and services	<u>(224,087)</u>	<u>(153,100)</u>	<u>(377,187)</u>
<i>Net cash used for operating activities</i>	<u>(68,203)</u>	<u>(734)</u>	<u>(68,937)</u>
<i>Cash flows from noncapital financing activities:</i>			
Government contributions	125,416	-	125,416
Decrease in customer deposits	(9,575)		
Miscellaneous income	3,352	-	3,352
Transfers to other funds	<u>(1,049)</u>	<u>-</u>	<u>(1,049)</u>
<i>Net cash provided from noncapital financing activities:</i>	<u>118,144</u>	<u>-</u>	<u>127,719</u>
<i>Cash flows from capital and related financing activities:</i>			
Acquisition of capital assets	(29,757)	-	
Principal payments on bonds payable	<u>(16,250)</u>	<u>-</u>	<u>(16,250)</u>
<i>Net cash provided from capital and related financing activities:</i>	<u>(46,007)</u>	<u>-</u>	<u>(16,250)</u>
<i>Cash flows from investing activities:</i>			
Interest on investments	<u>1,703</u>	<u>71</u>	<u>1,774</u>
<i>Net cash provided from investing activities:</i>	<u>1,703</u>	<u>71</u>	<u>1,774</u>
<i>Net increase in cash and cash equivalents</i>	5,637	(663)	44,306
<i>Cash and cash equivalents - beginning of year</i>	<u>131,118</u>	<u>7,280</u>	<u>138,398</u>
<i>Cash and cash equivalents - end of year</i>	<u>\$ 136,755</u>	<u>\$ 6,617</u>	<u>\$ 182,704</u>
<i>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</i>			
Operating income (loss)	\$ (175,570)	\$ 9,201	\$ (166,369)
Adjustments to reconcile operating (loss) to net cash (used) by operating activities			
Depreciation	84,739	-	84,739
Changes in assets and liabilities			
Receivables	15,261	377	15,638
Accrued expenses	8,110	(30)	8,080
Accounts payable	<u>(743)</u>	<u>(10,282)</u>	<u>(11,025)</u>
<i>Net cash (used) by operating activities</i>	<u>\$ (68,203)</u>	<u>\$ (734)</u>	<u>\$ (68,937)</u>

The accompanying notes are an integral part of these financial statements

Fiduciary Funds
Statement of Fiduciary Net Assets
June 30, 2006

	<u>Agency Funds</u>
<i>Assets</i>	
Cash	<u>\$ 171</u>
<i>Total assets</i>	<u> 171</u>
<i>Liabilities</i>	
Due to other taxing units	<u> 171</u>
<i>Total liabilities</i>	<u>\$ 171</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Village of Questa

Notes to Financial Statements

June 30, 2006

NOTE 1. Summary of Significant Accounting Policies

The Village of Questa (Village) was incorporated under provisions of Chapter 3, Article 2, NMSA, 1978 as amended. The Village operates under a Council-Mayor form of government and provides the following services as authorized by its charter: public safety (police and fire); highways and streets; water and sewer services; refuse collection; health and social services; culture-recreation; public improvements; planning and zoning; and general administrative services.

The Village of Questa is a body politic and corporate under the name and form of government selected by its qualified electors. The Village may:

1. Sue or be sued;
2. Enter into contracts and leases;
3. Acquire and hold property, both real and personal;
4. Have common seal, which may be altered at pleasure;
5. Exercise such other privileges that are incident to corporations of like character or degree that are not inconsistent with the laws of New Mexico;
6. Protect generally the property of its municipality and its inhabitants;
7. Preserve peace and order within the municipality; and
8. Establish rates for services provided by municipal utilities and revenue-producing projects, including amounts which the governing body determines to be reasonable in the operation of similar facilities.

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

A. *Financial Reporting Entity*

In evaluating how to define the Village, for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in GASB-14. The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters.

STATE OF NEW MEXICO
Village of Questa
Notes to Financial Statements
June 30, 2006

NOTE 1. Summary of Significant Accounting Policies (continued)

C. Measurement focus, basis of accounting, and financial statement presentation (continued)

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

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Sales and use taxes are classified as derived tax revenues and are recognized as revenue when the underlying exchange takes place and the revenues are measurable and available. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met and the susceptible to accrual criteria have been met.

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

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Revenues are provided through property and other taxes, federal sources, state sources, charges for services, licenses and fees, and other miscellaneous recoveries and revenue. Expenditures include all costs associated with the daily operation of the Village except for items included in other funds.

The *Special Revenue Funds* account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

The *Debt Service Funds* account for the services of general long-term debt not being financed by proprietary or nonexpendable trust funds.

The *Capital Projects Funds* account for the acquisition of fixed assets or construction of major capital projects not being financed by proprietary or nonexpendable trust funds.

Under the requirements of GASB No. 34, the Village is required to present certain of its governmental funds as major based upon certain criteria. The major funds presented in the fund financial statements include only the General Fund, the Molycorp Oversight Fund, and the CDBG Water fund. No other funds were required to be presented as major at the discretion of management.

STATE OF NEW MEXICO
Village of Questa
Notes to Financial Statements
June 30, 2006

NOTE 1. Summary of Significant Accounting Policies (continued)

D. Implementation of New Accounting Principles

The Village adopted the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. This statement affects the manner in which the Village records transactions and presents financial information. State and local governments have traditionally used a financial reporting model substantially different from the one used to prepare private-sector financial reports. GASB Statement No. 34 established new requirements and a new reporting model for the annual financial reports of state and local governments. The statement was developed to make annual reports of state and local governments easier to understand and more useful to the people who use governmental financial information to make decisions, and include the following sections, which were not previously included in the basic financial statements. The governmental fund financial statements continue to be presented as a building block for the new GASB Statement No. 34 statements.

a. Management’s Discussion and Analysis – GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the Village’s financial activities in the form of “management’s discussion and analysis” (MD&A). This analysis is similar to the analysis provided in the annual reports of private-sector organizations.

b. Government-Wide Financial Statements – The reporting model includes financial statements prepared using full accrual accounting for all of the Village’s activities. This approach includes not just current assets and liabilities but also capital and other long-term assets as well as long-term liabilities. Accrual accounting also reports all of the revenues and costs of providing services each year, not just those received or paid in the current year or soon thereafter.

Statement of Net Assets – The statement of net assets is designed to display the financial position of the primary government (government and business-type activities). The Village now reports all capital assets in the government-wide statement of net assets and reports depreciation expense – the cost of “using up” capital assets – in the statement of activities. The net assets of the Village are broken down into three categories – 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Statement of Activities – The government-wide statement of activities reports expenses and revenues in a format that focuses on the cost of each of the Village’s functions. The expense of individual functions is compared to the revenue generated directly by the function. Accordingly, the Village has recorded capital and certain other long-term assets and liabilities in the statement of net assets, and has reported all revenues and the cost of providing services under the accrual basis of accounting in the statement of activities.

E. Assets, Liabilities and Net Assets or Equity

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

State statutes authorize the Village to invest in Certificates of Deposit, obligations of the U.S. Government, and the State Treasurer’s Investment Pool.

Investments for the Village are reported at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

STATE OF NEW MEXICO

Village of Questa

Notes to Financial Statements

June 30, 2006

NOTE 1. Summary of Significant Accounting Policies (continued)

E. Assets, Liabilities and Net Assets or Equity (continued)

Deferred Revenues: Accounting principles generally accepted in the United States of America require that grant revenue be recognized at the time the related expense is made if the expenditure of funds is the prime factor for determining eligibility for reimbursement; therefore, amounts received and not expended in the Special Revenue Funds are shown as deferred revenues. In addition, property taxes receivable but uncollected within sixty (60) days of year-end are classified as deferred revenue.

Compensated Absences: Qualified employees are entitled to accumulate annual leave according to a graduated leave schedule of nine days to eighteen days per year, depending on length of service. Employees may accumulate unlimited of annual leave and carry that leave forward from calendar year to calendar year. Upon termination, employees will be paid for all days of accrued annual leave.

Qualified employees are entitled to accumulate sick leave at a rate of twelve days per year. Sick leave can be carried over from year to year. Upon termination employees receive no pay for sick time accumulated.

Vested or accumulated vacation leave that is expected to be liquidated within the next twelve months 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 within the next twelve months are reported in the government-wide statement of net assets.

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

Fund Equity: In the fund financial statements, governmental funds report reservations of fund balance that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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

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

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

STATE OF NEW MEXICO

Village of Questa

Notes to Financial Statements

June 30, 2006

NOTE 2. Stewardship, Compliance and Accountability (continued)

Budgetary Information (continued)

The following is reconciliation between the Non-GAAP budgetary basis amounts and the financial statements on the GAAP basis by fund type.

	General Fund	Molycorp Fund	CDBG Water Fund	Other Funds
Excess (deficiency) of revenues and other sources (uses) over expenditures (GAAP basis)	\$ (876)	\$ (152,688)	\$ 64,272	\$ (19,053)
Adjustments:				
To adjust revenues for tax accruals, earnings on investments, and other deferrals and accruals.	(49,616)	-	-	(31,956)
Adjustments:				
To adjust expenditures for payables, payroll taxes, prepaid expenses and other accruals.	<u>212,278</u>	<u>-</u>	<u>-</u>	<u>40,169</u>
Excess (deficiency) of revenues and other sources (uses) over expenditures (Budget Basis)	<u>\$ 161,786</u>	<u>\$ (152,688)</u>	<u>\$ 64,272</u>	<u>\$ (10,840)</u>

NOTE 3. Deposits and Investments

State statutes authorize the investment of Village funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, money market accounts, and United States Government obligations. All invested funds of the Village properly followed State investment requirements as of June 30, 2006.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more banks or savings and loan associations within the geographical boundaries of the Village. Deposits may be made to the extent that they are insured by an agency of the United States or by collateral deposited as security or by bond given by the financial institution.

The rate of interest in non-demand interest-bearing accounts shall be set by the State Board of Finance, but in no case shall the rate of interest be less than one hundred percent of the asked price on United States treasury bills of the same maturity on the day of deposit.

Excess of funds may be temporarily invested in securities which are issued by the State or by the United States government, or by their departments or agencies, and which are either direct obligations of the State or the United States or are backed by the full faith and credit of those governments.

STATE OF NEW MEXICO

Village of Questa

Notes to Financial Statements

June 30, 2006

NOTE 3. Deposits and Investments (continued)

Centinel Bank

Checking General	Checking	\$ 281,985	\$ 263,240
Checking- Water, Sewer, Solid Waste	Checking	58,397	59,794
Checking- MVD	Checking	13,408	172
Checking Payroll	Checking	3,138	39
Checking Water Rights	Checking	28,791	28,791
Checking Oversight	Checking	2,118	2,118
Checking 2006 CDBG	Checking	2	2
Checking Police Department Justice	Checking	10,856	10,856
Checking 2004 CDBG Account	Checking	-	-
Checking Share Account	Checking	1,340	1,340
Checking Sewer System Bond Reserve	Checking	8,439	8,439
Total Deposits		<u>408,474</u>	<u>\$ 374,791</u>
Less: FDIC Coverage		(100,000)	
Uninsured Amount		308,474	
50% Collateral requirement		154,237	
Pledged Securities		<u>178,331</u>	
Over (Under) collateralized		<u>\$ 24,094</u>	

Pledged Securities

Description	Cusip #	Maturity Date	Market Value	Location
Estancia NM School	297326DC1	10/1/2009	\$ 100,900	
FHLB	3133MTQB7	11/15/2007	47,178	
Estancia NM School	297326DC1	10/1/2009	30,253	
			<u>\$ 178,331</u>	
Custodial Credit Risk-Deposits				
Account	Balance			
Insured	\$ 164,644			
Collateral:				
Collateral held by the pledging bank, not in the Village's name	178,331			
Uninsured	130,143			
Total Deposits	<u>\$ 473,118</u>			

Custodial credit risk is the risk that in the event of a bank failure, the governments' deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of June 30, 2006, \$308,474 of the Villages bank balance of \$458,118 was exposed to custodial credit risk.

NOTE 5. Interfund Receivables, Payables, and Transfers (continued)

“Due to” and “Due from” balances have primarily been recorded when funds overdraw their share of pooled cash. The composition of interfund balances as of June 30, 2006 is as follows:

Governmental Activities:	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$ 863	\$ —
Capital Project	—	324
Special Revenue	<u>—</u>	<u>358</u>
Total Governmental Activities	<u>863</u>	<u>682</u>
 Business-like Activities:		
Joint Utility	47,191	—
Solid Waste	<u>—</u>	<u>47,372</u>
Total Primary Government	<u>\$ 48,054</u>	<u>\$ 48,054</u>

NOTE 6. Capital Assets

A summary of capital assets and changes occurring during the year ended June 30, 2006 follows. Land is not subject to depreciation.

Governmental Activities:

	<u>Balance June 30, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2006</u>
Capital Assets, not being depreciated:				
Land	\$ -	\$ 45,237	\$ -	\$ 45,237
Construction in progress	<u>206,758</u>	<u>(206,758)</u>	<u>-</u>	<u>-</u>
	<u>206,758</u>	<u>(161,521)</u>	<u>-</u>	<u>45,237</u>
Capital Assets, being depreciated:				
Furniture, Fixture & Equipment	350,962	-	-	350,962
Vehicles	903,850	-	-	903,850
Buildings & Improvements	<u>3,774,833</u>	<u>206,758</u>	<u>-</u>	<u>3,981,591</u>
Subtotal Capital Assets	<u>5,029,645</u>	<u>206,758</u>	<u>-</u>	<u>5,236,403</u>
Accumulated Depreciation:				
Furniture & Equipment	169,586	45,545	-	215,131
Vehicles	429,660	82,107	-	511,767
Building & Improvements	<u>112,445</u>	<u>-</u>	<u>-</u>	<u>112,445</u>
Subtotal Accumulated Depreciation	<u>711,691</u>	<u>127,652</u>	<u>-</u>	<u>839,343</u>
Net Capital Assets	<u>\$ 4,524,712</u>	<u>\$ (82,415)</u>	<u>\$ -</u>	<u>\$ 4,442,297</u>

NOTE 7. Long-term Debt

During the year ended June 30, 2006, the following changes occurred in the liabilities reported in the government-wide statement of net assets:

	<u>Balance</u> <u>June 30,</u> <u>2005</u>	Additions	Retirements	<u>Balance</u> <u>June</u> <u>30,2006</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
					\$
Loan Payable – NMFA	\$ 20,465	\$ -	\$ 20,465	\$ -	-
Loan Payable – NMFA	20,000	-	-	20,000	20,000
Loan Payable – NMFA	160,000	-	21,032	138,968	22,339
Accrued Compensated Absences	2,983	3,504	2,983	3,504	3,504
	<u>2,983</u>	<u>3,504</u>	<u>2,983</u>	<u>3,504</u>	<u>3,504</u>
Total Long-Term Debt	<u>\$ 203,448</u>	<u>\$ 3,504</u>	<u>\$ 44,480</u>	<u>\$ 162,472</u>	<u>\$ 45,843</u>

The annual requirements to amortize the loan payable to NMFA as of June 30, 2006, including interest payments are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 10,000	\$ -
2007	32,339	1,944
2008	22,603	1,736
2009	22,913	1,482
2010	23,279	1,176
2011	23,691	823
2012	<u>24,143</u>	<u>431</u>
	<u>\$158,968</u>	<u>\$ 7,592</u>

In prior years, the general fund was typically used to liquidate long-term liabilities other than debt.

STATE OF NEW MEXICO
Village of Questa
Notes to Financial Statements
June 30, 2006

NOTE.7. Long-Term Debt (continued)

The payments for the remaining bond issues are as follows:

<u>Fiscal Year</u> <u>Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 16,250	\$ 5,661	\$21,911
2008	16,250	4,250	20,500
2009	4,000	4,250	8,250
2010	5,000	4,025	9,025
2011	5,000	3,775	8,775
2012-2016	28,000	14,900	42,900
2017-2021	37,000	6,200	43,200
2022	<u>8,000</u>	<u>-</u>	<u>8,000</u>
Total	<u>\$ 119,500</u>	<u>\$ 43,061</u>	<u>\$162,561</u>

Each of the utility bonds has debt service and repair and replacement reserve requirements. The Village was current in making the required payments to its reserves. At June 30, 2006 the following schedule shows the maximum reserves and actual reserves held by the Village.

<u>Series</u>	<u>Payment until</u> <u>Maximum</u>	<u>Required Maximum Reserves</u>			<u>Actual at June 30, 2006</u>	
		<u>Debt</u> <u>Service</u>	<u>Repair and</u> <u>Replacement</u>	<u>Total</u>	<u>Debt</u> <u>Service</u>	<u>Repair and</u> <u>Replacement</u>
1981	\$ 232/month	\$ 8,357	\$ —	\$ 8,347	\$ 8,439	\$ —
1963	\$100/month	<u>10,000</u>	<u>5,000</u>	<u>15,000</u>	<u>10,000</u>	<u>5,000</u>
		<u>\$ 18,357</u>	<u>\$ 5,000</u>	<u>\$ 23,357</u>	<u>\$ 18,439</u>	<u>\$ 5,000</u>

STATE OF NEW MEXICO
Village of Questa
Notes to Financial Statements
June 30, 2006

NOTE 10. PERA Pension Plan

Plan Description. Substantially all of the Village of Questa'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 Employee 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, P. O. Box 2123, Santa Fe, New Mexico 87504-2123.

Covered employees of the Village of Questa are eligible for receiving benefits when the age and service requirements have been met, as follows:

- a. age sixty-five years or older and five or more years of credited service;
- b. age sixty-four years and eight or more years of credited service;
- c. age sixty-three years and eleven or more years of credited service;
- d. age sixty-two years and fourteen or more years of credited service;
- e. age sixty-one years and seventeen or more years of credited service;
- f. age sixty year and twenty or more years of credited service;
- g. any age and twenty five or more years of credited service.

Disability benefits are provided to members who are qualified for such coverage as determined by the disability review committee, pursuant to Chapter 10, Article 11.10.1 NMSA 1978.

Funding Policy. Regular employees, who are covered under "Municipal general member coverage plan 1" (Chapter 10, Article 11.45 through 11.49 NMSA 1978) contribute 7% of their defined gross salary to the plan. Employee contributions are 7% of the employee's defined gross salary. Under municipal general member coverage plan 1, the amount of pension is equal to two percent of the final average salary multiplied by credited service. The amount shall not exceed sixty percent of the final average salary. The requirements may be amended by acts of the legislature. The Village's contributions to PERA for the years ended June 30, 2006, 2005 and 2004 were \$41,913, \$50,072 and \$35,645 equal to the amount of the required contributions for the years, respectively.

NOTE 11. Post-Employment Benefits

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

STATE OF NEW MEXICO
Village of Questa
Notes to Financial Statements
June 30, 2006

NOTE 13. Federal and State Grants

In the normal course of operations, the Village receives grant funds from various federal and state agencies. Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as a result of these audits is not believed to be material.

NOTE 14. Subsequent Accounting Standard Pronouncements

In March 2003, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 40, *Deposit and Investment Risk Disclosures*-an amendment of GASB Statement No. 3, which is effective for financial statements for periods beginning June 15, 2006, with earlier application encouraged. The Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of the interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this Statement should also be disclosed. The City is analyzing the effect that this standard will have on its financial statements, and currently believes it will have no significant effect on the financial statements for the upcoming year.

In November 2003, the Governmental Accounting Board (GASB) issued GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which is effective for financial statements for periods beginning after December 15, 2006. This statement requires governments to report the effects of capital asset impairments in their financial statements when they occur rather than as part of the ongoing depreciation expense for the capital asset or upon disposal of the capital asset. The Statement also requires all governments to account for insurance recoveries in the same manner. The District is analyzing the effect that this standard will have on its financial statements, and currently believes it will have no significant effect on the financial statements for the upcoming year.

NOTE 15. Changes in Estimate- Capital Assets

In addition, the State of New Mexico, through Legislation, enacted HB 1074 amending Section 12-6-10, NMSA 1978, and changing the capitalization threshold for movable chattel and equipment from items costing more than \$1,000 to items costing more than \$5,000. According to the SAO, this change is to be accounted for as a change in an estimate per APB 20 paragraph 31. This change states that old inventory items that do not meet the new capitalization threshold should remain on the inventory list and continue to be depreciated; any new items received after June 17, 2005 should be added to the inventory list only if they meet the new capitalization threshold; and there will be no prior period adjustment.

STATE OF NEW MEXICO
Village of Questa
Notes to Financial Statements
June 30, 2006

NOTE 16. Joint Powers Agreements (continued)

Community against Violence

Purpose

To provide awareness through presentations in the Questa Schools for all ages and grades; thus providing services for our youth of our community. Programs such as Community Meetings, Peace Ed, Stop Dating Violence and other, should be held at minimum twice a month.

Participants

Community against Violence and the Village of Questa

Responsible Party for Operation and Audit

Village of Questa

Beginning and Ending Date of Agreement

Jan 1, 2006 to June 30, 2006

Total Estimated Amount of Project and Actual Amount Contributed

\$5,000

Bioterrorism Hospital Preparedness Cooperative Agreement

Purpose

To provide the administration, development an implementation of the federal Health Resources and Services Administration (HRSA) Bioterrorism Hospital Preparedness Program (BHPP) Cooperative Agreement Guidance provided through the New Mexico Department of Health (DOH) and contracted to Region 2.

Village of Questa agrees to accept a single shipment of all START kits and tags destined for EMS agencies in their jurisdiction and determine the most appropriate method of distributing these supplies.

Participants

Region 2 EMS and the Village of Questa

Responsible Party for Operation and Audit

Region 2 EMS

Beginning and Ending Date of Agreement

May 3, 2005 to May 5, 2007

Total Estimated Amount of Project and Actual Amount Contributed

Unknown

SUPPLEMENTARY INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

FIRE PROTECTION FUND – 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: NMSA 59-A-53-1).

RECREATION FUND – to account for the operation and maintenance of recreational facilities in the Village. Financing is provided by a specific annual cigarette tax levy. Authority: NMSA 7-12-1 & 7-12-15.

EMS (EMERGENCY MEDICAL SERVICES) COUNTY FUND – to account for the acquisition of emergency medical equipment and the operation of the equipment financed through a grant from the State of New Mexico. Authority: NMSA 24-10A & NMSA 6-11-6.

EMS FIRE – to account for grant revenues and expenditures for the purchase of medical supplies. The authority is the Emergency Medical Services Fund Act, DOH 7, 27.4 NMAC.

LIBRARY FUND – To account for the operations and maintenance of the Village Library, funding is provided by a state grant under Section 18-2-4B NMSA, 1978,

CORRECTIONS FUND – to establish an additional source of funds to 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 to the operations of a motor vehicle. Authority: NMSA 33-0-3.

ENVIRONMENTAL GROSS RECEIPTS FUND – to account for the collection of one-eighth of one percent gross receipts tax dedicated for the acquisition, construction, operation and maintenance of solid waste facilities, water facilities, waste water facilities or sewer systems. Authority: NMSA Chapter 7, Article 20E.

LAW ENFORCEMENT PROTECTION FUND – to account for grant funds used for maintenance and development of the Village's police force. Financing is provided by a grant from the State of New Mexico. Such revenue provides for purchase and repairs of equipment as well as classes to upgrade the training of police personnel and may be used only for these purposes. Funding authority is NMSA 29-13-1.

MUNICIPAL STREET FUND – To account for various projects funded by co-operative agreements with the New Mexico State Department of Transportation.

BEAUTIFICATION FUND – to account for the proceeds of a State Appropriation for Economic Development planning purposes. Authorization is a grant in prior years from State of New Mexico.

YOUTH FACILITY FUND – to account for revenues and expenditures of the youth facilities activities of the Village. Authority: Village Council action.

LEGISLATIVE APPROPRIATION FUND – To account for proceeds from the New Mexico Environmental Department for improvements to water system in Questa. Authority is by Section 74-1-6.B, NMSA 1978.

AIRPORT GRANT FUND – To account for the improvements to the Village airport funded by a state grant under NMSA, 1978, Section 64-1-13 of the Aviation Act.

Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended June 30, 2006

	Fire Protection Special Revenue Fund	Recreation Special Revenue Fund	EMS County Special Revenue Fund	EMS Fire Special Revenue Fund
<i>Assets</i>				
Cash and cash equivalents	\$ 215	\$ 1,596	\$ 10,215	\$ 49
Investments	-	-	-	-
Accounts and taxes receivable	-	-	-	-
Other receivables	-	-	-	-
Due from other governments	-	-	-	-
Inventory	-	-	-	-
Prepaid insurance	-	-	-	-
Due from other funds	-	-	-	-
<i>Total assets</i>	<u>\$ 215</u>	<u>\$ 1,596</u>	<u>\$ 10,215</u>	<u>\$ 49</u>
<i>Liabilities</i>				
Accounts payable	\$ 5,500	\$ -	\$ -	\$ -
Accrued expenses	-	-	3,645	-
Accrued compensated absences	-	-	-	-
Deferred revenue	-	-	-	-
Due to other funds	-	324	-	-
<i>Total liabilities</i>	<u>5,500</u>	<u>324</u>	<u>3,645</u>	<u>-</u>
<i>Fund balances</i>				
Unreserved				
Designated for subsequent year	-	-	-	-
Unreserved, undesignated	(5,285)	1,272	6,570	49
<i>Total fund balances</i>	<u>(5,285)</u>	<u>1,272</u>	<u>6,570</u>	<u>49</u>
<i>Total liabilities and fund balances</i>	<u>\$ 215</u>	<u>\$ 1,596</u>	<u>\$ 10,215</u>	<u>\$ 49</u>

The accompanying notes are an integral part of these financial statements

Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended June 30, 2006

	Youth Facility Special Revenue Fund	Legislative Appropriation Capital Project Fund	Airport Grant Special Revenue Fund	Total Nonmajor Governmental Funds
<i>Assets</i>				
Cash and cash equivalents	\$ (1,307)	\$ -	\$ -	45,646
Investments	-	-	-	-
Accounts and taxes receivable	-	-	-	2,527
Other receivables	-	-	-	-
Due from other governments	-	-	-	8,630
Inventory	-	-	-	-
Prepaid insurance	-	-	-	-
Due from other funds	-	-	-	863
<i>Total assets</i>	<u>\$ (1,307)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>57,666</u>
<i>Liabilities</i>				
Accounts payable	\$ -	\$ -	\$ -	\$ 11,850
Accrued expenses	488	-	-	6,545
Accrued compensated absences	-	-	-	-
Deferred revenue	-	-	-	-
Due to other funds	-	-	-	682
<i>Total liabilities</i>	<u>488</u>	<u>-</u>	<u>-</u>	<u>19,077</u>
<i>Fund balances</i>				
Unreserved				
Designated for subsequent year	-	-	-	-
Unreserved, undesignated	(1,795)	-	-	38,589
<i>Total fund balances</i>	<u>(1,795)</u>	<u>-</u>	<u>-</u>	<u>38,589</u>
<i>Total liabilities and fund balances</i>	<u>\$ (1,307)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 57,666</u>

The accompanying notes are an integral part of these financial statements

Village of Questa
 Nonmajor Governmental Funds
 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
 For the Year Ended June 30, 2006

	Fire Protection Special Revenue Fund	Recreation Special Revenue Fund	EMS County Special Revenue Fund	EMS Fire Special Revenue Fund
<i>Revenues:</i>				
Taxes	\$ -	\$ 805	\$ -	\$ -
Intergovernmental Income	104,544	-	-	6,554
Charges for Services	12,000	-	72,137	-
Licenses and Fees	-	-	-	-
Investment Income (Loss)	59	-	-	-
Miscellaneous	8,446	-	-	-
<i>Total revenues</i>	<u>125,049</u>	<u>805</u>	<u>72,137</u>	<u>6,554</u>
<i>Expenditures:</i>				
Current:				
General Government	-	-	-	-
Public Safety	114,344	-	95,174	6,550
Public Works	-	-	-	-
Culture and Recreation	-	689	-	-
Health and Welfare	-	-	-	-
Capital Outlay	-	-	-	-
Debt Service:				
Principal	20,799	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>135,143</u>	<u>689</u>	<u>95,174</u>	<u>6,550</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(10,094)</u>	<u>116</u>	<u>(23,037)</u>	<u>4</u>
<i>Other financing sources (uses)</i>				
Bond Proceeds	-	-	-	-
Transfers In	4,808	-	11,183	-
Transfers Out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>4,808</u>	<u>-</u>	<u>11,183</u>	<u>-</u>
<i>Net change in fund balances</i>	(5,286)	116	(11,854)	4
<i>Fund balances - beginning of year</i>	<u>1</u>	<u>1,156</u>	<u>18,424</u>	<u>45</u>
<i>Fund balances - end of year</i>	<u>\$ (5,285)</u>	<u>\$ 1,272</u>	<u>\$ 6,570</u>	<u>\$ 49</u>

The accompanying notes are an integral part of these financial statements

Village of Questa
 Nonmajor Governmental Funds
 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
 For the Year Ended June 30, 2006

	Youth Facility Special Revenue Fund	Legislative Appropriation Capital Project Fund	Airport Grant Special Revenue Fund	Total Nonmajor Governmental Funds
<i>Revenues:</i>				
Taxes	\$ 9,597	\$ -	\$ -	\$ 54,963
Intergovernmental Income	-	193,331	186,457	625,905
Charges for Services	15,010	-	-	99,968
Licenses and Fees	-	-	-	2,128
Investment Income (Loss)	-	-	-	84
Miscellaneous	1,190	-	-	9,636
<i>Total revenues</i>	<u>25,797</u>	<u>193,331</u>	<u>186,457</u>	<u>792,684</u>
<i>Expenditures:</i>				
Current:				
General Government	-	-	-	8,746
Public Safety	-	-	-	228,012
Public Works	-	195,147	165,722	512,666
Culture and Recreation	23,224	-	-	34,534
Health and Welfare	-	-	-	-
Capital Outlay	-	-	-	-
Debt Service:				
Principal	-	-	-	30,913
Interest	-	-	-	-
<i>Total expenditures</i>	<u>23,224</u>	<u>195,147</u>	<u>165,722</u>	<u>814,871</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>2,573</u>	<u>(1,816)</u>	<u>20,735</u>	<u>(22,187)</u>
<i>Other financing sources (uses)</i>				
Bond Proceeds	-	-	-	-
Transfers In	-	398	(20,735)	4,105
Transfers Out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>398</u>	<u>(20,735)</u>	<u>4,105</u>
<i>Net change in fund balances</i>	2,573	(1,418)	-	(18,082)
<i>Fund balances - beginning of year</i>	<u>(4,368)</u>	<u>1,418</u>	<u>-</u>	<u>56,671</u>
<i>Fund balances - end of year</i>	<u>\$ (1,795)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 38,589</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
Village of Questa
Fire Protection Special Revenue Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual
For the Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental Income	96,889	96,889	83,744	(13,145)
Charges For Services	12,000	12,000	12,000	-
Licenses and Fees	-	-	-	-
Interest Income	-	-	-	-
Investment Income(Loss)	25	69	59	(10)
Miscellaneous	100	100	8,446	8,346
<i>Total revenues</i>	<u>109,014</u>	<u>109,058</u>	<u>104,249</u>	<u>(4,809)</u>
<i>Expenditures:</i>				
Current:				
General Government	-	-	-	-
Public Safety	109,014	108,843	108,843	-
Public Works	-	-	-	-
Culture and Recreation	-	-	-	-
Health and Welfare	-	-	-	-
Capital Outlay	-	-	-	-
Debt Service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>109,014</u>	<u>108,843</u>	<u>108,843</u>	<u>-</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>-</u>	<u>215</u>	<u>(4,594)</u>	<u>(4,809)</u>
<i>Other financing sources (uses)</i>				
Designated Cash	-	(215)	-	215
Transfers In	-	-	4,808	4,808
Transfers Out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>(215)</u>	<u>4,808</u>	<u>5,023</u>
<i>Excess (deficiency) of revenues and other financing sources over expenditures and other financing (uses)</i>	<u>-</u>	<u>-</u>	<u>214</u>	<u>214</u>
<i>Fund Balance - Beginning of Year</i>	<u>-</u>	<u>-</u>	<u>1</u>	<u>1</u>
<i>Fund Balance - End of Year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 215</u>	<u>\$ 215</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
 Village of Questa
 EMS County Special Revenue Fund
 Statement of Revenues, Expenditures and Changes in Fund Balance
 Budget (Non-GAAP Basis) and Actual
 For the Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental Income	-	-	-	-
Charges For Services	80,000	83,320	72,137	(11,183)
Licenses and Fees	-	-	-	-
Interest Income	-	-	-	-
Investment Income(Loss)	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>80,000</u>	<u>83,320</u>	<u>72,137</u>	<u>(11,183)</u>
<i>Expenditures:</i>				
Current:				
General Government	-	-	-	-
Public Safety	80,000	93,803	91,529	2,274
Public Works	-	-	-	-
Culture and Recreation	-	-	-	-
Health and Welfare	-	-	-	-
Capital Outlay	-	-	-	-
Debt Service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>80,000</u>	<u>93,803</u>	<u>91,529</u>	<u>2,274</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>-</u>	<u>(10,483)</u>	<u>(19,392)</u>	<u>(8,909)</u>
<i>Other financing sources (uses)</i>				
Designated Cash	-	10,483	-	(10,483)
Transfers In	-	-	11,183	11,183
Transfers Out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>10,483</u>	<u>11,183</u>	<u>700</u>
<i>Excess (deficiency) of revenues and other financing sources over expenditures and other financing (uses)</i>	<u>-</u>	<u>-</u>	<u>(8,209)</u>	<u>(8,209)</u>
<i>Fund Balance - Beginning of Year</i>	<u>-</u>	<u>-</u>	<u>20,698</u>	<u>20,698</u>
<i>Fund Balance - End of Year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,489</u>	<u>\$ 12,489</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
 Village of Questa
 Library Special Revenue Fund
 Statement of Revenues, Expenditures and Changes in Fund Balance
 Budget (Non-GAAP Basis) and Actual
 For the Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental Income	-	2,481	7,500	5,019
Charges For Services	-	-	-	-
Licenses and Fees	-	-	-	-
Interest Income	-	-	-	-
Investment Income(Loss)	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>-</u>	<u>2,481</u>	<u>7,500</u>	<u>5,019</u>
<i>Expenditures:</i>				
Current:				
General Government	-	-	-	-
Public Safety	-	-	-	-
Public Works	-	-	-	-
Culture and Recreation	13,471	10,621	10,621	-
Health and Welfare	-	-	-	-
Capital Outlay	-	-	-	-
Debt Service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>13,471</u>	<u>10,621</u>	<u>10,621</u>	<u>-</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(13,471)</u>	<u>(8,140)</u>	<u>(3,121)</u>	<u>5,019</u>
<i>Other financing sources (uses)</i>				
Designated Cash	-	(5,331)	-	5,331
Transfers In	13,471	13,471	8,451	(5,020)
Transfers Out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>13,471</u>	<u>8,140</u>	<u>8,451</u>	<u>311</u>
<i>Excess (deficiency) of revenues and other financing sources over expenditures and other financing (uses)</i>	<u>-</u>	<u>-</u>	<u>5,330</u>	<u>5,330</u>
<i>Fund Balance - Beginning of Year</i>	<u>-</u>	<u>-</u>	<u>4,324</u>	<u>4,324</u>
<i>Fund Balance - End of Year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,654</u>	<u>\$ 9,654</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
 Village of Questa
 Environmental Gross Receipts Special Revenue Fund
 Statement of Revenues, Expenditures and Changes in Fund Balance
 Budget (Non-GAAP Basis) and Actual
 For the Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Taxes	\$ 7,500	\$ 8,759	\$ 8,759	\$ -
Intergovernmental Income	-	-	-	-
Charges For Services	-	-	-	-
Licenses and Fees	-	-	-	-
Interest Income	-	-	-	-
Investment Income(Loss)	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>7,500</u>	<u>8,759</u>	<u>8,759</u>	<u>-</u>
<i>Expenditures:</i>				
Current:				
General Government	7,500	7,850	7,850	-
Public Safety	-	-	-	-
Public Works	-	-	-	-
Culture and Recreation	-	-	-	-
Health and Welfare	-	-	-	-
Capital Outlay	-	-	-	-
Debt Service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>7,500</u>	<u>7,850</u>	<u>7,850</u>	<u>-</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>-</u>	<u>909</u>	<u>909</u>	<u>-</u>
<i>Other financing sources (uses)</i>				
Designated Cash	-	(909)	-	909
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>(909)</u>	<u>-</u>	<u>909</u>
<i>Excess (deficiency) of revenues and other financing sources over expenditures and other financing (uses)</i>	<u>-</u>	<u>-</u>	<u>909</u>	<u>909</u>
<i>Fund Balance - Beginning of Year</i>	<u>-</u>	<u>-</u>	<u>4,881</u>	<u>4,881</u>
<i>Fund Balance - End of Year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,790</u>	<u>\$ 5,790</u>

The accompanying notes are an integral part of these financial statements

Municipal Street Capital Project Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual
For the Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variances Favorable (Unfavorable)
	Original	Final	(Non-GAAP Basis)	Final to Actual
<i>Revenues:</i>				
Taxes	\$ 27,200	\$ 32,646	\$ 32,646	\$ -
Intergovernmental Income	133,858	111,793	98,230	(13,563)
Charges For Services	-	821	821	-
Licenses and Fees	-	-	-	-
Interest Income	-	-	-	-
Investment Income(Loss)	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>161,058</u>	<u>145,260</u>	<u>131,697</u>	<u>(13,563)</u>
<i>Expenditures:</i>				
Current:				
General Government	-	-	-	-
Public Safety	-	-	-	-
Public Works	161,058	143,663	143,035	628
Culture and Recreation	-	-	-	-
Health and Welfare	-	-	-	-
Capital Outlay	-	-	-	-
Debt Service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>161,058</u>	<u>143,663</u>	<u>143,035</u>	<u>628</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>-</u>	<u>1,597</u>	<u>(11,338)</u>	<u>(12,935)</u>
<i>Other financing sources (uses)</i>				
Designated Cash	-	(1,597)	-	1,597
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>(1,597)</u>	<u>-</u>	<u>1,597</u>
<i>Excess (deficiency) of revenues and other financing sources over expenditures and other financing (uses)</i>	<u>-</u>	<u>-</u>	<u>(11,338)</u>	<u>(11,338)</u>
<i>Fund Balance - Beginning of Year</i>	<u>-</u>	<u>-</u>	<u>4,954</u>	<u>4,954</u>
<i>Fund Balance - End of Year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (6,384)</u>	<u>\$ (6,384)</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
Village of Questa
Youth Facility Special Revenue Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual
For the Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Taxes	\$ 1,771	\$ 8,489	\$ 9,597	\$ 1,108
Intergovernmental Income	-	-	-	-
Charges For Services	23,109	16,117	15,010	(1,107)
Licenses and Fees	-	-	-	-
Interest Income	-	-	-	-
Investment Income(Loss)	-	-	-	-
Miscellaneous	120	1,190	1,190	-
<i>Total revenues</i>	<u>25,000</u>	<u>25,796</u>	<u>25,797</u>	<u>1</u>
<i>Expenditures:</i>				
Current:				
General Government	-	-	-	-
Public Safety	-	-	-	-
Public Works	-	-	-	-
Culture and Recreation	25,000	27,386	22,736	4,650
Health and Welfare	-	-	-	-
Capital Outlay	-	-	-	-
Debt Service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>25,000</u>	<u>27,386</u>	<u>22,736</u>	<u>4,650</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>-</u>	<u>(1,590)</u>	<u>3,061</u>	<u>4,651</u>
<i>Other financing sources (uses)</i>				
Designated Cash	-	1,590	-	(1,590)
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>1,590</u>	<u>-</u>	<u>(1,590)</u>
<i>Excess (deficiency) of revenues and other financing sources over expenditures and other financing (uses)</i>	<u>-</u>	<u>-</u>	<u>3,061</u>	<u>3,061</u>
<i>Fund Balance - Beginning of Year</i>	<u>-</u>	<u>-</u>	<u>282</u>	<u>282</u>
<i>Fund Balance - End of Year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,343</u>	<u>\$ 3,343</u>

The accompanying notes are an integral part of these financial statements

Airport Grant Special Revenue Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual
For the Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental Income	178,200	186,457	186,457	-
Charges For Services	-	-	-	-
Licenses and Fees	-	-	-	-
Interest Income	-	-	-	-
Investment Income(Loss)	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	178,200	186,457	186,457	-
<i>Expenditures:</i>				
Current:				
General Government	-	-	-	-
Public Safety	-	-	-	-
Public Works	178,200	165,722	165,722	-
Culture and Recreation	-	-	-	-
Health and Welfare	-	-	-	-
Capital Outlay	-	-	-	-
Debt Service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	178,200	165,722	165,722	-
<i>Excess (deficiency) of revenues over expenditures</i>	-	20,735	20,735	-
<i>Other financing sources (uses)</i>				
Designated Cash	-	(20,735)	-	20,735
Transfers In	-	-	(20,735)	(20,735)
Transfers Out	-	-	-	-
<i>Total other financing sources (uses)</i>	-	(20,735)	(20,735)	-
<i>Excess (deficiency) of revenues and other financing sources over expenditures and other financing (uses)</i>	-	-	-	-
<i>Fund Balance - Beginning of Year</i>	-	-	-	-
<i>Fund Balance - End of Year</i>	\$ -	\$ -	\$ -	\$ -

The accompanying notes are an integral part of these financial statements

SUPPORTING SCHEDULES

FOR PUBLIC FUNDS
JUNE 30, 2006

Name of Depository	Description of Pledged Collateral	Fair Market Value June 30, 2006	Name and Location of Safekeeper
First Community Bank	Federal Home Loan Bank Cusip 3133MTQB7 3.5% Due 11/15/2007	\$ 77,901	Federal Home Loan Bank Dallas, Texas
First Community Bank	Federal Home Loan Bank Cusip 3133XBCS9 3.88% Due 08/14/2009	23,899	Federal Home Loan Bank Dallas, Texas
First Community Bank	Federal Home Loan Bank Cusip 3133MY3B1 3.63% Due 04/23/2008	24,203	Federal Home Loan Bank Dallas, Texas
Centinel Bank	Estancia NM School Cusip 297326DC1 4.0% Due 10/01/09	131,153	Federal Home Loan Bank Dallas, Texas
Centinel Bank	Federal Home Loan Bank Cusip 3133MTQB7 3.5% Due 11/15/2007	47,178	Federal Home Loan Bank Dallas, Texas
		<u>\$ 304,334</u>	

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

STATE OF NEW MEXICO
VILLAGE OF QUESTA
SCHEDULE OF CASH AND TEMPORARY INVESTMENT ACCOUNTS
JUNE 30, 2006

Schedule II

Bank Account Type/Name	First State Bank	Centinel Bank	Questa C.U.	Total
General Fund	38	-	-	38
Fire Protection Fund	6,308	-	-	6,308
Payroll Account	1	-	-	1
Municipal Judge	2,275	-	-	2,275
EMS Account	10,343	-	-	10,343
EMS Fire Account	49	-	-	49
Law Enforcement Protection Fund	621	-	-	621
CFRP Account	9	-	-	9
Checking General	-	281,985	-	281,985
Checking- Water, Sewer, Solid Waste Account	-	58,397	-	58,397
Checking- MVD	-	13,408	-	13,408
Checking Payroll	-	3,138	-	3,138
Checking Water Rights	-	28,791	-	28,791
Checking Oversight	-	2,118	-	2,118
Checking 2006 CDBG	-	2	-	2
Checking Police Department Justice Fund	-	10,856	-	10,856
Checking 2004 CDBG Account	-	-	-	-
Checking Share Account	-	1,340	-	1,340
Checking Sewer System Bond Reserve	-	8,439	-	8,439
Certificate- Water	5,000	-	-	5,000
Certificate - Meter	15,000	-	-	15,000
Certificate of Deposit	10,000	-	-	10,000
Certificate- Meter	-	-	15,000	15,000
Total On Deposit	49,644	408,474	15,000	473,118
Reconciling Items	5,964	33,683	-	39,647
Total June 30, 2006	\$ 43,680	\$ 374,791	\$ 15,000	\$ 433,471

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

STATE OF NEW MEXICO
 Village of Questa
 Capital Assets Used in the Operation of Governmental Funds
 Schedule By Function and Activity
 For the Fiscal Year Ended June 30, 2006

<u>Program</u>	<u>Governmental</u>	<u>Enterprise</u>	<u>Total</u>
General	\$ 3,896,848	\$ -	\$ 3,896,848
Public Safety	981,987	-	981,987
Public Works	337,114	4,708,940	5,046,054
Recreation	65,691	-	65,691
Subtotal	5,281,640	4,708,940	9,990,580
Less: accumulated depreciation	<u>839,343</u>	<u>1,916,829</u>	<u>2,756,172</u>
Total governmental funds capital assets	<u>\$ 4,442,297</u>	<u>\$2,792,111</u>	<u>\$ 7,234,408</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
Village of Questa
Fiduciary Fund
Schedule of Changes in Assets and Liabilities
For The Year Ended June 30, 2006

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
<u>ASSETS</u>				
Cash	\$ 397	\$ 214,418	\$ 214,644	\$ 171
<u>LIABILITIES</u>				
Deposits held in trust for others	\$ 397	\$ 214,418	\$ 214,644	\$ 171

The accompanying notes are an integral part of these financial statements



Griego Professional Services, LLC

Certified Public Accountants

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Malaquias V. Rael, Mayor
Village Council Members
Village of Questa
Questa, New Mexico

and

Domingo P. Martinez, CGFM
New Mexico State Auditor
Santa Fe, New Mexico

We have audited the financial statements of Village of Questa as of and for the year ended June 30, 2006, and have issued our report thereon dated November 9, 2006. 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 Village of Questa's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that in our opinion could adversely affect the Village of Questa's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Responses as item 2006-03.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Village of Questa'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 statements 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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as items 2006-01 and 2006-02. This report is intended solely for the information and use of the audit committee, management, the Office of the State Auditor and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Drigo Professional Services, LLC

Albuquerque, New Mexico
November 9, 2006



Griego Professional Services, LLC

Certified Public Accountants

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Domingo P. Martinez, CGFM
New Mexico State Auditor
The Office of Management and Budget
To the Village Council
Village of Questa
Questa, New Mexico

Compliance

We have audited the compliance of Village of Questa, New Mexico, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Village of Questa, New Mexico's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Village of Questa, New Mexico's management. Our responsibility is to express an opinion on Village of Questa, New Mexico's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Village of Questa, New Mexico's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Village of Questa, New Mexico's compliance with those requirements.

In our opinion, Village of Questa, New Mexico complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Village of Questa, New Mexico is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Village of Questa, New Mexico's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no instances involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Village Council, management, the New Mexico State Auditor, the New Mexico Legislature and applicable federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Diego Professional Services, LLC

Albuquerque, New Mexico
November 9, 2006

Federal Grantor or Pass-Through Grantor / Program Title	Passthrough Number	Federal CFDA	Federal Expenditures
U.S. Department of Housing & Urban Development			
Community Development Block Grant (1)	04-CRS-I-1-G-7	14.218/219	\$ 499,998
<i>Subtotal - Direct Housing & Urban Development</i>			<u>499,998</u>
Total U.S. Department of Housing & Urban Development			<u>499,998</u>
U.S. Department of Transportation			
<i>Direct</i>			
Airport Improvements Program	3-35-00-10-009-2002	20.106	178,200
<i>Subtotal - Direct U.S. Department of Education</i>			<u>178,200</u>
Total Federal Financial Assistance			<u>\$ 678,198</u>

(1) Denotes Major Federal Financial Assistance Program

Notes to Schedule of Expenditures of Federal Awards

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of the Village of Questa and is presented on the modified accrual basis of accounting, which is the same basis as was used to prepare the fund financial statements. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

2. Insurance Requirements

There are no insurance requirements on the federal awards disclosed on the Schedule of Expenditures of Federal Awards.

3. Loans or Loan Guarantees

There were no loans or loan guarantees outstanding at year end.

Reconciliation of Schedule of Expenditures of Federal Awards to Financial Statements:

Total federal awards expended per Schedule of Expenditures of Federal Award:	\$ 678,198
Total expenditures funded by other sources	<u>4,165,975</u>
Total expenditures	<u>\$ 4,844,173</u>

STATE OF NEW MEXICO
 Village of Questa
 Schedule of Findings and Questioned Costs
 June 30, 2006

Section I – Summary of Audit Results

Financial Statements:

Type of auditors' report issued	Unqualified
Internal control over financial reporting:	
Material weakness identified?	No
Reportable conditions identified not considered to be material weaknesses?	Yes
Noncompliance material to the general-purpose financial statements noted?	No

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	No
Reportable conditions identified not considered to be material weaknesses?	Yes
Type of auditors' report issued on compliance for major programs	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	No

Identification of major programs:

<u>CFDA Number</u>	<u>Federal Program</u>
14.218/14.219	CDBG Grant

Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes

FS-06-02 Disposition of Property

CONDITION: The Village sold of a 1983 Ford Front Loader for \$8,001 but did not send a letter notifying the State Auditor of the intended disposition as required by NMAC 2.2.2.10.Z.

REASON IMPROVEMENT NEEDED: NMAC 2.2.2.10.Z states that written notification of the official finding and proposed disposition duly sworn and subscribed under oath by each member of the authority approving the action must be sent to the State Auditor at least thirty days prior to any disposition of property on the agency inventory list.

CAUSE OF CONDITION: The Village sought legal advice in relation to Section 13-6-2 for the sale of equipment but was told that there was nothing in the statute requiring them to notify the state auditor.

EFFECT OF CONDITION: The effect of this finding is a violation of NMAC 2.2.2.10.Z.

RECOMMENDATION: We recommend that the village review and follow NMAC 2.2.2.10.Z to ensure compliance.

COSTS AND BENEFITS OF RECOMMENDED ACTION: Costs unknown, however, benefit is compliance with State Auditor regulations.

CLIENT RESPONSE: The Village will review NMAC for procurement transactions and disposition of property as well as New Mexico state statutes.

STATE OF NEW MEXICO

Village of Questa
Other Disclosures
June 30, 2006

Exit conference

On November 9, 2006, an exit conference was held with Melissa Santistevan, CPA of Griego Professional Services, LLC. with Mark Gallegos, Councilor, Brent Jaramillo, Administrator, and Nadine Varela, Village Clerk.

Preparation of Financial Statements

These financial statements have been prepared by the independent auditor, Griego Professional Services, LLC. The contents of these financial statements remain the responsibility of the Village.

3-6-07