

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
ANNUAL FINANCIAL REPORT
JUNE 30, 2004**

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INTRODUCTORY SECTION

STATE OF NEW MEXICO
TOWN OF HAGERMAN

OFFICIAL ROSTER
June 30, 2004

Name

List of Officials - 2004

Title

Town of Hagerman

Lindell Andrews
Cliff Waide
Steve Hamill
Jim Pilley
Bill Shaw

Mayor
Mayor Pro-Tem
Member
Member
Member

Administrative Officials:

Beverly West
Viola Babcock

Clerk/Treasurer
Deputy Clerk

List of Officials - Present

Town of Hagerman

Cliff Waide
Jim Pilley
Mark Lovas
Bill Shaw
Connie Andrews

Mayor
Mayor Pro-Tem
Member
Member
Member

Administrative Officials:

Beverly West
Viola Babcock

Clerk/Treasurer
Deputy Clerk

STATE OF NEW MEXICO
TOWN OF HAGERMAN
ANNUAL FINANCIAL REPORT
Year Ended June 30, 2004

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STATE OF NEW MEXICO
TOWN OF HAGERMAN

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Hector H. Balderas
New Mexico State Auditor
To the Honorable Mayor and Town Councilors
Town of Hagerman
Hagerman, New Mexico

We were engaged to audit the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the budgetary comparisons for the general fund and major special revenue funds, and the aggregate remaining fund information of the Town of Hagerman (Town) as of and for the year ended June 30, 2004, which collectively comprise the Town's basic financial statements as listed in the table of contents. We were also engaged to audit the financial statements of each of the Town's nonmajor governmental funds and all the budgetary comparisons presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the Town of Hagerman's management.

The Town has not maintained adequate accounting records. As explained further in Finding 2004-3, the Town lacks internal controls over its cash. Receipts are not sequentially numbered. Cash is not adequately safeguarded by the Town. Cash deposits cannot be traced back to the respective receipts. Checks are not sequentially numbered. Documentation for expenditures is substantively missing. The same employee who reconciles the bank account can also sign checks. Work performed is not reviewed by the supervisor. As a result of these internal control problems the Town has inadequate documentation to show that: all its revenue transactions and events that should have been recorded are recorded; that revenue amounts and related data were recorded appropriately; that revenue transactions and events that occurred have been recorded in the correct accounting period; or that revenue transactions and events have been recorded in the proper accounts. As a result of these internal control problems the Town has inadequate documentation to show that: all its expenditure transactions and events that should have been recorded are recorded; that expenditure amounts and related data were recorded appropriately; that expenditure transactions and events that occurred have been recorded in the correct accounting period; or that expenditure transactions and events have been recorded in the proper accounts. As a result of these internal control problems the Town does not have adequate evidence that all cash that should be recorded is recorded in its various funds. The Town's records do not permit the application of other auditing procedures to its revenues, expenditures and cash.

As explained further in Finding 2004-7 the Town's utility billing system could not provide accurate information regarding the amount of delinquent accounts, resulting in the Town's inability to reasonably estimate the allowance for doubtful accounts associated with the utility's accounts receivable. This problem resulted in the Town's inability to report its utility accounts receivable at the correct amount in the related enterprise fund and the business-type activities. The Town's records do not permit the application of other auditing procedures to the utility accounts receivable and related allowance for doubtful accounts.

As explained further in Finding 2003-2 the Town lacks information about its capital assets. The Town could not provide the auditors with lists of its capital assets at historical cost, showing when each item was purchased, for the governmental activities or for the business-type activities. The Town does not have depreciation schedules for its capital assets. The Town does not know how depreciation on its capital assets was calculated in previous fiscal years. The Town does not have a system of internal controls in place to safeguard its assets or to ensure that the capital assets are not misstated in the Town's financial statements. As a result of these problems with its capital assets the Town's management cannot assert the existence of its capital assets, its right to those assets, that all assets that should be included are included, or the proper valuation of its capital assets. The Town's records do not permit the application of other auditing procedures to the Town's capital assets.

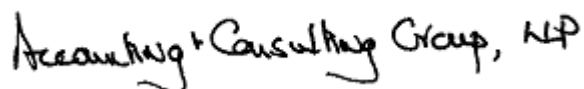
Because we were unable to obtain adequate supporting documentation for the Town's revenues, expenditures, cash, utility accounts receivable, and capital assets, the scope of our work was not sufficient to enable us to express, and we do not express an opinion on the governmental activities, the business-type activities, each major fund, the budgetary comparisons of the general fund or the major special revenue funds or the aggregate remaining fund information of the Town. Also, because we were unable to obtain adequate supporting documentation for the Town's revenues, expenditures, cash, and utility accounts receivable, the scope of our work was not sufficient to enable us to express, and we do not express an opinion on the Town's nonmajor governmental funds, or the budgetary comparisons presented as supplementary information.

As discussed in Note 14 the Town implemented GASB 34 in the fiscal year ended June 30, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2009 on our consideration of the Town'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 controls 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 Town has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

We were engaged for the purpose of forming opinions on the Town's basic financial statements, combining and individual fund financial statements, and budgetary comparisons. Schedule I through II are presented for purposes of additional analysis and are not a required part of the basic financial statements. Due to the Town's deficiencies in internal controls over the information presented in these schedules and the resulting lack of adequate documentation, the scope of our work was not sufficient to enable us to express, and we do not express an opinion regarding whether they are fairly stated in all material respects, in relation to the basic financial statements taken as a whole.



Accounting & Consulting Group, LLP
Certified Public Accountants

Carlsbad, New Mexico
February 24, 2009

**BASIC
FINANCIAL STATEMENTS**

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STATE OF NEW MEXICO
TOWN ON HAGERMAN
STATEMENT OF NET ASSETS
June 30, 2004

Exhibit A-1

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 221,204	\$ 17,928	\$ 239,132
Receivables (net of allowance for uncollectibles)	46,067	41,013	87,080
Restricted cash - Current Meter deposits	-	23,190	23,190
Capital assets			
Land	138,730	9,890	148,620
Construction in process	216,248	-	216,248
Buildings and improvements	1,679,809	103,053	1,782,862
Sewer system	-	152,705	152,705
Water system	-	945,106	945,106
Equipment and vehicles	808,368	221,470	1,029,838
Accumulated depreciation	-	(861,011)	(861,011)
	<u>3,110,426</u>	<u>653,344</u>	<u>3,763,770</u>
Total assets	\$ <u>3,110,426</u>	\$ <u>653,344</u>	\$ <u>3,763,770</u>
LIABILITIES AND NET ASSETS			
Accounts payable and other current liabilities	\$ 25,701	\$ 17,842	\$ 43,543
Deposits held in trust for others	-	23,190	23,190
Noncurrent liabilities:			
Compensated absences			
Due within one year	2,645	-	2,645
Due in more than one year	3,519	-	3,519
Long-term debt			
Due within one year	25,000	19,032	44,032
Due in more than one year	26,000	260,616	286,616
	<u>82,865</u>	<u>320,680</u>	<u>403,545</u>
Total liabilities	82,865	320,680	403,545
Invested in capital assets, net of related debt	2,792,155	291,565	3,083,720
Restricted for:			
Public safety	58,459	-	58,459
Public works	24,014	-	24,014
Culture and recreation	2,274	-	2,274
Unrestricted	150,659	41,099	191,758
	<u>3,027,561</u>	<u>332,664</u>	<u>3,360,225</u>
Total net assets	3,027,561	332,664	3,360,225
	<u>3,110,426</u>	<u>653,344</u>	<u>3,763,770</u>
Total liabilities and net assets	\$ <u>3,110,426</u>	\$ <u>653,344</u>	\$ <u>3,763,770</u>

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

STATE OF NEW MEXICO
TOWN OF HAGERMAN
STATEMENT OF ACTIVITIES
For the year ended June 30, 2004

<u>Functions/Programs</u>	<u>Expenses</u>	Program Revenues		
		<u>Charges for Service</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary government:				
Governmental activities:				
General government	\$ 71,968	\$ 4,178	\$ 57,873	\$ -
Public safety	376,719	11,045	159,575	-
Public works	81,098	-	48,705	-
Culture and recreation	38,669	-	273,686	-
Total governmental activities	568,454	15,223	539,839	-
Business-type activities				
Utility Fund	404,680	356,851	-	-
Total business-type activities	404,680	356,851	-	-
 Total primary government	 \$ 973,134	 \$ 372,074	 \$ 539,839	 \$ -

General Revenues:

- Property taxes
- Gross receipts taxes
- Motor vehicle and fuel taxes
- Other taxes
- Miscellaneous
- Unrestricted investment earnings
- Total general revenues
- Change in net assets
- Net assets - beginning of year
- Restatement
- Net assets - beginning of year, as restated
- Net assets - ending

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

**Net (Expenses) Revenue and
Changes in Net Assets
Primary Government**

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (9,917)	\$ -	\$ (9,917)
(206,099)	-	(206,099)
(32,393)	-	(32,393)
235,017	-	235,017
<u>(13,392)</u>	<u>-</u>	<u>(13,392)</u>
-	(47,829)	(47,829)
-	(47,829)	(47,829)
-	(47,829)	(61,221)
20,314	-	20,314
291,317	-	291,317
9,263	-	9,263
9,630	6,468	16,098
32,547	1,885	34,432
91	-	91
<u>363,162</u>	<u>8,353</u>	<u>371,515</u>
<u>349,770</u>	<u>(39,476)</u>	<u>310,294</u>
2,694,599	372,140	3,066,739
<u>(16,808)</u>	<u>-</u>	<u>(16,808)</u>
<u>2,677,791</u>	<u>372,140</u>	<u>3,049,931</u>
<u>\$ 3,027,561</u>	<u>\$ 332,664</u>	<u>\$ 3,360,225</u>

STATE OF NEW MEXICO
TOWN OF HAGERMAN
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2004

	General Fund	Fire Protection Fund	Street Fund	Other Governmental Funds
<i>Assets</i>				
Cash and cash equivalents	\$ 142,614	\$ 31,835	\$ 22,692	\$ 24,063
Receivables (net of allowance for uncollectible amounts):				
Taxes	44,570	-	1,322	-
Other	-	-	-	175
<i>Total assets</i>	<u>\$ 187,184</u>	<u>\$ 31,835</u>	<u>\$ 24,014</u>	<u>\$ 24,238</u>
 <i>Liabilities and Fund Balance</i>				
<i>Current liabilities</i>				
Accounts payable	\$ 20,219	4,213	-	1,269
Deferred revenue	861	-	-	-
<i>Total current liabilities</i>	21,080	4,213	-	1,269
 <i>Fund balance</i>				
Unreserved:				
Undesignated - reported in:				
General fund	166,104	-	-	-
Special revenue funds	-	27,622	24,014	22,969
Capital projects funds	-	-	-	-
Debt service funds	-	-	-	-
<i>Total fund balance</i>	166,104	27,622	24,014	22,969
<i>Total liabilities and fund balance</i>	<u>\$ 187,184</u>	<u>\$ 31,835</u>	<u>\$ 24,014</u>	<u>\$ 24,238</u>

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

<u>Total</u>	
\$	221,204
	-
	-
	45,892
	<u>175</u>
	<u><u>267,271</u></u>

	25,701
	<u>861</u>
	<u>26,562</u>

	166,104
	74,605
	-
	<u>-</u>
	<u>240,709</u>
	<u><u>267,271</u></u>

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STATE OF NEW MEXICO
TOWN OF HAGERMAN
GOVERNMENTAL FUNDS

Exhibit B-1
(Page 2 of 2)

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
June 30, 2004

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

Fund balances - total governmental funds	\$ 240,709
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	2,843,155
Deferred revenue represents amounts receivable on the funds which are not considered available financial resources. These items are recognized as revenue in the government wide statements.	861
Long-term liabilities, including compensated absences, are not due and payable in the current period and therefore are not reported in the funds.	
Accrued compensated absences	(6,164)
Loans and notes payable	<u>(51,000)</u>
Net assets of governmental activities	<u>\$ 3,027,561</u>

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

STATE OF NEW MEXICO
TOWN OF HAGERMAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2004

	General Fund	Fire Protection Fund	Street Fund	Other Governmental Funds
<i>Revenues:</i>				
Taxes - property	\$ 20,314	\$ -	\$ -	\$ -
Taxes - gross receipts	291,317	-	-	-
Taxes - gasoline and motor vehicle	-	-	9,263	-
Taxes - other	1,957	-	5,400	2,273
Intergovernmental income				
Federal operating grants	14,142	-	-	-
State operating grants	307,077	96,777	48,705	73,138
Charges for services	10,612	-	-	2,028
Licenses and permits	2,583	-	-	-
Interest	91	-	-	-
Miscellaneous	32,547	-	-	-
<i>Total revenues</i>	<u>680,640</u>	<u>96,777</u>	<u>63,368</u>	<u>77,439</u>
<i>Expenditures:</i>				
Current:				
General government	100,280	-	-	627
Public safety	279,209	73,500	-	31,355
Public works	-	-	64,941	57,438
Culture and recreation	254,917	-	-	-
Debt service:				
Principal	-	23,000	-	-
Interest	-	6,474	-	-
<i>Total expenditures</i>	<u>634,406</u>	<u>102,974</u>	<u>64,941</u>	<u>89,420</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>46,234</u>	<u>(6,197)</u>	<u>(1,573)</u>	<u>(11,981)</u>
<i>Other financing sources (uses):</i>				
Transfers in	183	-	-	-
Transfers (out)	-	-	-	(183)
<i>Total other financing sources (uses)</i>	<u>183</u>	<u>-</u>	<u>-</u>	<u>(183)</u>
<i>Net change in fund balances</i>	<u>46,417</u>	<u>(6,197)</u>	<u>(1,573)</u>	<u>(12,164)</u>
<i>Fund balance - beginning of year</i>	<u>119,687</u>	<u>33,819</u>	<u>25,587</u>	<u>35,133</u>
<i>Fund balance - end of year</i>	<u>\$ 166,104</u>	<u>\$ 27,622</u>	<u>\$ 24,014</u>	<u>\$ 22,969</u>

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

<u>Total</u>	
\$	20,314
	291,317
	9,263
	9,630
	14,142
	525,697
	12,640
	2,583
	91
	<u>32,547</u>
	<u>918,224</u>
	100,907
	384,064
	122,379
	254,917
	-
	23,000
	<u>6,474</u>
	<u>891,741</u>
	<u>26,483</u>
	183
	<u>(183)</u>
	<u>-</u>
	<u>26,483</u>
	<u>214,226</u>
\$	<u>240,709</u>

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STATE OF NEW MEXICO

TOWN OF HAGERMAN

Exhibit B-2

(Page 2 of 2)

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

June 30, 2004

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

Net change in fund balances - total governmental funds	\$	26,483
--	----	--------

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		285,042
----------------------	--	---------

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

Change in deferred revenue related to property taxes receivable		861
---	--	-----

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:

Decrease in long term debt		39,808
----------------------------	--	--------

Compensated absences change for the year		<u>(2,424)</u>
--	--	----------------

Change in net assets of governmental activities	\$	<u><u>349,770</u></u>
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The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
TOWN OF HAGERMAN
GENERAL FUND

Exhibit C-1

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
For the Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
<i>Revenues:</i>				
Taxes - property	\$ 20,307	\$ 20,307	\$ 21,435	\$ 1,128
Taxes - gross receipts	200,000	200,000	276,182	76,182
Taxes - other	2,500	2,500	2,330	(170)
Licenses and permits	2,850	2,850	2,761	(89)
Charges for services	6,650	6,650	2,025	(4,625)
Fines and forfeitures	10,000	10,000	9,018	(982)
Federal operating grants	-	-	14,142	14,142
State operating grants	322,200	322,200	307,077	(15,123)
Miscellaneous	19,275	19,275	23,529	4,254
Interest	50	50	91	41
<i>Total revenues</i>	583,832	583,832	658,590	(2,382)
<i>Expenditures:</i>				
<i>Current:</i>				
General government	114,347	114,347	100,626	13,721
Public safety	227,809	227,809	258,989	(31,180)
Culture and recreation	255,916	255,916	254,918	998
<i>Total expenditures</i>	598,072	598,072	614,533	(16,461)
<i>Excess (deficiency) of revenues over expenditures</i>	(14,240)	(14,240)	44,057	58,297
<i>Other financing sources (uses):</i>				
Designated cash balance	14,240	14,240	-	(14,240)
Transfers in	-	-	183	183
<i>Total other financing sources (uses)</i>	14,240	14,240	183	(14,057)
<i>Excess (deficiency) of revenues and other sources (uses) over expenditures</i>	-	-	44,240	44,240
<i>Fund balances - beginning of year</i>	-	-	98,374	98,374
<i>Fund balances - end of year</i>	\$ -	\$ -	\$ 142,614	\$ 142,614
<i>Reconciliation to GAAP basis:</i>				
Change in fund balance - GAAP Basis			\$ 46,417	
(Increase) decrease in accounts receivable			(22,912)	
Increase (decrease) in accounts payable			19,874	
Increase (decrease) in deferred revenue			861	
Change in fund balance - budgetary basis			\$ 44,240	

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

STATE OF NEW MEXICO
TOWN OF HAGERMAN
FIRE PROTECTION SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
For the Year Ended June 30, 2004

Exhibit C-2

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
<i>Revenues:</i>				
Taxes - property	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-
Federal operating grants	-	-	-	-
State operating grants	96,776	96,776	96,776	-
Local grants	-	-	-	-
Miscellaneous	-	-	-	-
Interest	-	-	-	-
<i>Total revenues</i>	96,776	96,776	96,776	-
<i>Expenditures:</i>				
<i>Current:</i>				
General government	-	-	-	-
Public safety	92,348	92,348	69,286	23,062
Public works	-	-	-	-
Culture and recreation	-	-	-	-
Health and welfare	-	-	-	-
Economic development	-	-	-	-
Capital outlay	29,474	29,474	29,474	-
<i>Total expenditures</i>	121,822	121,822	98,760	23,062
<i>Excess (deficiency) of revenues over expenditures</i>	(25,046)	(25,046)	(1,984)	23,062
<i>Other financing sources (uses):</i>				
Designated cash balance	25,046	25,046	-	(25,046)
<i>Total other financing sources (uses)</i>	25,046	25,046	-	(25,046)
<i>Excess (deficiency) of revenues and other sources (uses) over expenditures</i>	-	-	(1,984)	(1,984)
<i>Fund balances - beginning of year</i>	-	-	33,819	33,819
<i>Fund balances - end of year</i>	\$ -	\$ -	\$ 31,835	\$ 31,835
<i>Reconciliation to GAAP basis:</i>				
Change in fund balance - GAAP Basis			\$ (6,197)	
Increase (decrease) in accounts payable			4,213	
Change in fund balance - budgetary basis			\$ (1,984)	

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

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STATE OF NEW MEXICO

Exhibit C-3

TOWN OF HAGERMAN

STREET SPECIAL REVENUE FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
For the Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
<i>Revenues:</i>				
Taxes - property	\$ -	\$ -	\$ -	\$ -
Taxes - gross receipts	7,000	7,000	7,941	941
Taxes - other	5,000	5,000	5,399	399
Licenses and permits	-	-	-	-
Fines and forfeitures	-	-	-	-
Federal operating grants	-	-	-	-
State operating grants	102,900	102,900	48,705	(54,195)
Miscellaneous	-	-	-	-
Interest	-	-	-	-
<i>Total revenues</i>	<u>114,900</u>	<u>114,900</u>	<u>62,045</u>	<u>(54,195)</u>
<i>Expenditures:</i>				
<i>Current:</i>				
General government	-	-	-	-
Public works	137,200	137,200	64,940	72,260
Culture and recreation	-	-	-	-
Capital outlay	-	-	-	-
<i>Total expenditures</i>	<u>137,200</u>	<u>137,200</u>	<u>64,940</u>	<u>72,260</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(22,300)</u>	<u>(22,300)</u>	<u>(2,895)</u>	<u>19,405</u>
<i>Other financing sources (uses):</i>				
Designated cash balance	22,300	22,300	-	(22,300)
<i>Total other financing sources (uses)</i>	<u>22,300</u>	<u>22,300</u>	<u>-</u>	<u>(22,300)</u>
<i>Excess (deficiency) of revenues and other sources (uses) over expenditures</i>	-	-	(2,895)	(2,895)
<i>Fund balances - beginning of year</i>	-	-	25,587	25,587
<i>Fund balances - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,692</u>	<u>\$ 22,692</u>
<i>Reconciliation to GAAP basis:</i>				
Change in fund balance - GAAP Basis			\$ (1,573)	
(Increase) decrease in accounts receivable			<u>(1,322)</u>	
Change in fund balance - budgetary basis			<u>\$ (2,895)</u>	

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

STATE OF NEW MEXICO
TOWN OF HAGERMAN
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
June 30, 2004

Exhibit D-1

	Utility Fund
<i>Assets</i>	
<i>Current assets:</i>	
Cash and cash equivalents	\$ 17,928
Accounts receivable	41,013
<i>Total current assets</i>	58,941
<i>Noncurrent assets:</i>	
Cash - water meter deposits	23,190
<i>Capital assets</i>	
Land	9,890
Buildings and improvements	103,053
Machinery and equipment	221,470
Sewer system	152,705
Water system	945,106
Less: accumulated depreciation	(861,011)
<i>Total capital assets (net of accumulated depreciation)</i>	571,213
<i>Total noncurrent assets</i>	594,403
<i>Total assets</i>	\$ 653,344
<i>Liabilities and Net Assets</i>	
<i>Current liabilities</i>	
Accounts payable	\$ 17,842
Meter deposits payable	23,190
Current portion of long term debt	19,032
<i>Total current liabilities</i>	60,064
<i>Noncurrent liabilities</i>	
Long term debt - net of current portion	260,616
<i>Total noncurrent liabilities</i>	260,616
<i>Total liabilities</i>	320,680
<i>Net Assets</i>	
Invested in capital assets, net of related debt	291,565
Unrestricted	41,099
<i>Total net assets</i>	332,664
<i>Total liabilities and net assets</i>	\$ 653,344

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

STATE OF NEW MEXICO

Exhibit D-2

TOWN OF HAGERMAN

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

For the Year Ended June 30, 2004

	<u>Utility Fund</u>
<i>Operating revenues:</i>	
Charges for services	\$ 356,851
Miscellaneous	1,885
Interest	-
<i>Total operating revenues</i>	<u>358,736</u>
<i>Operating expenses:</i>	
Current:	
Personnel services	128,715
Other operating expenses	214,080
Depreciation	<u>42,692</u>
<i>Total operating expenses</i>	<u>385,487</u>
<i>Operating income (loss)</i>	<u>(26,751)</u>
<i>Nonoperating revenues (expenses):</i>	
Other taxes	6,468
Interest expense	<u>(19,193)</u>
<i>Total nonoperating revenues (expenses)</i>	<u>(12,725)</u>
<i>Change in net assets</i>	<u>(39,476)</u>
<i>Net assets - beginning of year</i>	<u>372,140</u>
<i>Net assets - end of year</i>	<u><u>\$ 332,664</u></u>

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

STATE OF NEW MEXICO
TOWN OF HAGERMAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2004

Exhibit D-3

	Utility Fund
<i>Cash flows from operating activities:</i>	
Receipts from customers and users	\$ 359,281
Payments to suppliers	(209,674)
Payments to employees	(131,253)
	18,354
<i>Net cash provided (used) by operating activities</i>	
<i>Cash flows from noncapital financing activities:</i>	
Intergovernmental	6,468
	6,468
<i>Net cash provided by noncapital financing activities</i>	
<i>Cash flows from capital and related financing activities:</i>	
Acquisitions and construction capital assets	(8,021)
Principal paid on capital debt	(18,496)
Interest paid on capital debt	(19,193)
	(45,710)
<i>Net cash (used) by capital and related financing activities</i>	
<i>Net (decrease) in cash and temporary investments</i>	\$ (20,888)
<i>Cash and temporary investments-beginning of year</i>	62,006
<i>Cash and temporary investments-end of year</i>	\$ 41,118
<i>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</i>	
Operating (loss)	\$ (26,751)
Adjustments to reconcile operating (loss) to net cash provided (used) by operating activities:	
Depreciation expense	42,692
<i>(Increase) decrease in:</i>	
Accounts receivable	(1,158)
<i>(Decrease) increase in:</i>	
Accounts payable	4,406
Refundable customer deposits	1,703
Accrued vacation payable	(2,538)
	18,354
<i>Net cash provided (used) by operating activities</i>	
Cash and temporary investments:	
Cash and cash equivalents	\$ 41,118
<i>Total cash and temporary investments</i>	\$ 41,118

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

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STATE OF NEW MEXICO
TOWN OF HAGERMAN
Notes to Financial Statements
June 30, 2004

NOTE 1. Summary of Significant Accounting Policies

The Town of Hagerman (Town) was incorporated in 1905 prior to statehood. The Town operates under a Mayor-Council form of government and provides the following services as authorized by charter: public safety (police and fire), highways and streets, sanitation, health and welfare, culture-recreation, public improvements, utilities, planning and zoning, and general government administrative services.

This summary of significant accounting policies of the Town of Hagerman is presented to assist in the understanding of Town of Hagerman's financial statements. The financial statements and notes are the representation of Town of Hagerman's management who is responsible for their integrity and objectivity. The financial statements of the Town have been prepared in conformity with generally accepted accounting principles (GAAP) in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The financial statements have incorporated all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on accounting procedures issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. Governments also have the option of following subsequent private-sector guidance for their government-wide financial statements and enterprise funds, subject to the same limitation. The government has elected not to follow subsequent private sector guidance. The more significant of the government's accounting policies are described below.

A. *Financial Reporting Entity*

In evaluating how to define the Town, for financial reporting purposes, management has considered all potential component units. A legally separate, tax exempt organization should be reported as a component unit of the reporting entity if *all* of the following criteria are met: (1) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents, (2) the primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization, and (3) the economic resources received or held by a *individual organization* that specific primary government, or its component units, is entitled to, or has the ability to other wise access, are significant to the primary government. The Town has assessed legally separate, tax-exempt organizations and determined, based on the above criteria, that the Town does not have any component units.

B. *Government-wide and fund financial statements*

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

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

STATE OF NEW MEXICO
TOWN OF HAGERMAN
Notes to Financial Statements
June 30, 2004

NOTE 1. Summary of Significant Accounting Policies (continued)

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, if applicable, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. *Measurement focus, basis of accounting, and financial statement presentation*

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund, financial statements, if applicable. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are billed. Grants and similar items are recognized as revenue as soon as all eligibility requirements such as time, reimbursement, or other contingencies imposed by the provider have been met.

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 applicable eligibility requirements have been met. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

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.

The *Fire Protection Special Revenue Fund* accounts for the operations and maintenance of fire equipment. Financing is provided by a state allotment. Authority – NMSA 59A-53-1.

The *Street Special Revenue Fund* accounts for the distributions of tax revenues distributed to the Town for use in financing of improvement projects. Authority – 3-34-3, NMSA 1978.

The government reports the following major enterprise funds:

The *Utility Fund* accounts for the provision of sewer services to the residents of the Town. All activities necessary to provide such services are accounted for in this fund including administration, operations, billing and maintenance.

STATE OF NEW MEXICO
TOWN OF HAGERMAN
Notes to Financial Statements
June 30, 2004

NOTE 1. Summary of Significant Accounting Policies (continued)

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

Additionally, the Town reports the following fund type(s):

The *Special Revenue Funds* account for resources restricted to, or designated for, specific purposes by the Town or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund and sometimes unused balances must be returned to the grantor at the close of specified project periods.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's enterprise funds and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, such as water sales, business licenses, and court fees, 2) operating grants and contributions, such as for fire protection services and street maintenance operating grants, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the utility fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. *Assets, Liabilities and Net Assets or Equity*

Deposits and Investments: The Town'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 Town to invest in Certificates of Deposit, obligations of the U.S. Government, and the State Treasurer's Investment Pool.

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

STATE OF NEW MEXICO
TOWN OF HAGERMAN
Notes to Financial Statements
June 30, 2004

NOTE 1. Summary of Significant Accounting Policies (continued)

D. *Assets, Liabilities and Net Assets or Equity*

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. In the government-wide and governmental fund financial statements, delinquent property taxes are recorded as revenue when levied.

Property taxes are levied on November 1 based on the assessed value of property as listed on the previous January 1 and are due in two payments by November 10th and April 10th. Property taxes uncollected after May 10th are considered delinquent. The taxes attach as an enforceable lien on property as of January 1st.

Restricted Assets: Restricted assets consist of those funds expendable for operating purposes but restricted by donors or other outside agencies as to the specific purpose for which they may be expended.

Capital Assets: Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. State law sets a capitalization threshold of \$1,000 for acquisitions of property and equipment (12-6-10 NMSA 1978). Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Because the Town was a “phase III” government for purposes of implementing GASB 34, the Town could elect not to retroactively report its major general infrastructure that was built or refurbished back through 1979. However, upon implementing GASB 34 in FY04, the Town was required to start capitalizing and depreciating its infrastructure in FY04 and thereafter. Information Technology Equipment including software is being capitalized and included in furniture, fixtures and equipment in accordance with NMAC 2.20.1.9 C (5). Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the Town during the current fiscal year was \$0. No interest was included as part of the cost of capital assets under construction.

Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40-50
Building improvements	40-50
Infrastructure	20-30
Vehicles	5-7
Machinery and equipment	5-10
Office equipment	5
Computer equipment	5
Library books	5

Water rights owned by the Town are reviewed for impairment on an annual basis and the carrying value is adjusted accordingly.

STATE OF NEW MEXICO
TOWN OF HAGERMAN
Notes to Financial Statements
June 30, 2004

NOTE 1. Summary of Significant Accounting Policies (continued)

Accrued Expenses: Accrued expenses consist of interest expense accrued but not paid on the long-term debt of the proprietary funds.

Deferred Revenues: There are two types of deferred revenue. Under both the accrual and modified accrual basis of accounting, revenue may be recognized only when it is earned. If assets are recognized in connection with a transaction before the earnings process is complete, those assets must be offset by a corresponding liability for deferred revenue (commonly referred to as unearned revenue). The other type of deferred revenue is "unavailable revenue." Under the modified accrual basis of accounting, it is not enough that revenue has been earned if it is to be recognized as revenue of the current period. It must be susceptible to accrual (measurable and available to finance expenditures of the current fiscal period). If assets are recognized in connection with a transaction, but those assets are not yet available to finance expenditures of the current fiscal period, then the assets must be off-set by a corresponding liability for deferred revenue.

Compensated Absences: Town employees are entitled to certain compensated absences based on their employment classification and length of employment. The Town allows employees to accumulate unused sick leave up to a maximum of 240 hours. The Town does not allow for any sick leave to be converted to cash payouts. No employee receives a cash payout of their unused sick leave upon termination.

Full-time, permanent employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with the Town. Accumulated unused vacation up to a maximum of 160 hours is payable upon termination from employment. The Town maintains vacation leave on a calendar basis. All vacation pay leave is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-term Obligations: In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type 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.

Components of Net Assets: Components of net assets include the following:

1. Net assets invested in capital assets net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balance of debt issued to finance the acquisition, improvement or construction of those assets.
2. Restricted net assets include net assets that are subject to constraints on their use by creditors, grantors, and the bond indentures. These are the replacement reserves and the bond escrow accounts.
3. Unrestricted net assets are available for general use by the Town for any obligation or expense.

Reclassifications: Certain amounts presented in prior year data have been reclassified in order to be consistent with the current year's presentation.

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
TOWN OF HAGERMAN
Notes to Financial Statements
June 30, 2004

NOTE 2. Stewardship, Compliance and Accountability

Budgetary Information

The Town Charter establishes the Town's fiscal year as the twelve-month period beginning July 1 and ending June 30. Prior to June 30 the Town submits to management a proposed operating budget of estimated revenues, expenditures, and transfers for the ensuing fiscal year for the General Fund, Special Revenue Funds, Debt Service Funds, Capital Projects Funds and Enterprise Funds. Management subsequently submits the budget (1) to the New Mexico Department of Finance and Administration for review and approval; and (2) to the Town Council for review and enactment of a resolution legally adopting the budget. Once approved, the Town Council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations. Additionally, the New Mexico Department of Finance and Administration must approve any amendments to the budget.

Each fund's appropriated budget is prepared on a detailed line item cash basis. Revenues are budgeted by department and general ledger account. Expenditures are budgeted by department and general ledger account. The legal level of control for the budget is at the total fund level. Expenditures may not exceed appropriations at this level. All budget revisions at this level are subject to final review and approval by the Town Council. Revisions to the budget were made throughout the year.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed as an extension of formal budgetary integration in the General Fund, Special Revenue Funds, Capital Projects Funds or Debt Service Funds.

The appropriated budget for the year ended June 30, 2004 was properly amended by the Town Council through the year. These amendments resulted in the following changes:

	Excess (deficiency) of revenues over expenditures / Operating income	
	Original Budget	Final Budget
Budgeted Funds:		
General Fund	\$ <u>(14,240)</u>	\$ <u>(14,240)</u>
Fire Protection Special Revenue Fund	\$ <u>(25,046)</u>	\$ <u>(25,046)</u>
Street Special Revenue Fund	\$ <u>(22,300)</u>	\$ <u>(22,300)</u>
Nonmajor Special Revenue Funds	\$ <u>(35,600)</u>	\$ <u>(35,600)</u>
Utility Fund	\$ <u>(4,934)</u>	\$ <u>(16,190)</u>

The accompanying Statements of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual presents comparisons of the legally adopted budget with actual data on a budgetary basis.

Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP), a reconciliation of resultant basis, perspective, equity and timing differences in the excess (deficiency) of revenues and other sources of financial resources for the year ended June 30, 2004 is presented. Reconciliations between the Non-GAAP budgetary basis amounts and the financial statements on the GAAP basis by fund can be found on each individual budgetary statement.

STATE OF NEW MEXICO
TOWN OF HAGERMAN
Notes to Financial Statements
June 30, 2004

NOTE 3. Deposits and Investments

State statutes authorize the investment of Town 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 Town properly followed State investment requirements as of June 30, 2004.

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 Town. Deposits may be made to the extent that they are insured by an agency of the United States or collateralized by securities or bonds given by the financial institution as required by statute.

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 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.

According to the Federal Deposit Insurance Corporation, public unit deposits are funds owned by the public unit. Time deposits, savings deposits and interest bearing NOW accounts of an institution in the same state will be insured up to \$100,000 in aggregate and separate from the \$100,000 coverage for public unit demand deposits at the same institution.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a policy regarding custodial credit risk other than the requirements of applicable statutes. New Mexico State Statutes require collateral pledged for deposits in excess of the federal deposit insurance to be delivered, or a joint safekeeping receipt be issued, to the Town for at least one half of the amount on deposit with the institution. As of June 30, 2004 of the Town's deposits totaled \$273,763 of which \$99,616 was exposed to custodial credit risk as follows:

	<u>Wells Fargo Bank</u>	<u>First Federal Bank</u>	<u>1st National Bank</u>	<u>Total</u>
Total amount of deposits	\$ 199,616	\$ 16,366	\$ 57,781	\$ 273,763
FDIC Coverage	<u>(100,000)</u>	<u>(16,366)</u>	<u>(57,781)</u>	<u>(174,147)</u>
Total uninsured public funds	99,616	-	-	99,616
Collateralized by securities held by the pledging institution or by its trust department or agent in other than the Town's name	<u>99,616</u>	<u>-</u>	<u>-</u>	<u>99,616</u>
Uninsured and uncollateralized	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Collateral requirement (50% of uninsured funds)	\$ 49,808	\$ -	\$ -	\$ 49,808
Pledged Collateral	<u>365,248</u>	<u>-</u>	<u>-</u>	<u>365,248</u>
Over (Under) collateralized	<u>\$ 315,440</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 315,440</u>

STATE OF NEW MEXICO
TOWN OF HAGERMAN
Notes to Financial Statements
June 30, 2004

NOTE 3. Deposits and Investments (continued)

Custodial Credit Risk – Deposits (continued)

The collateral pledged is listed on Schedule I of this report. The types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by any agency, district or political subdivision of the State of New Mexico.

Reconciliation to the Statement of Net Assets

The carrying amounts of deposits and investments shown above are included in the Town's statement of net assets as follows:

	<u>Primary</u>	
	<u>Government</u>	
Carrying amount		
Deposits	\$ 262,322	
	<u>\$ 262,322</u>	
Included in the following captions		
Cash and cash equivalents	\$ 239,132	
Restricted cash	<u>23,190</u>	
	<u>\$ 262,322</u>	

NOTE 4. Receivables and Payables

Governmental receivables as of June 30, 2004, are as follows:

Governmental activities:

	<u>General Fund</u>	<u>Fire Protection</u>	<u>Street Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Receivables:					
Property taxes	\$ 861	\$ -	\$ -	\$ -	\$ 861
Other taxes:	-	-	-	-	-
Gross receipts taxes	40,899	-	-	-	40,899
Cigarette taxes	-	-	-	175	175
Gasoline and oil taxes	-	-	1,322	-	1,322
Franchise tax	<u>2,810</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,810</u>
Net receivables	<u>\$ 44,570</u>	<u>\$ -</u>	<u>\$ 1,322</u>	<u>\$ 175</u>	<u>\$ 46,067</u>

STATE OF NEW MEXICO
TOWN OF HAGERMAN
Notes to Financial Statements
June 30, 2004

NOTE 4. Receivables and Payables (continued)

Business receivables as of June 30, 2004, are as follows

Business-type activities:

	Utility Fund
Receivables:	
Accounts	\$ 41,013
Net receivables	\$ 41,013

The correct balance of delinquent accounts is indeterminable; therefore no allowance for uncollectible accounts has been recorded.

Accounts payable as of June 30, 2004, are as follows:

	Governmental activities	Business-type activities
Payable to suppliers	\$ 25,701	\$ 12,089
Payable for interest	-	5,753
	\$ 25,701	\$ 17,842

NOTE 5. Interfund Receivables, Payables, and Transfers

The general purposes of the transfers are to fund expenditures until other financing is arranged or to provide matching funds. Net operating transfers as of June 30, 2004, are as follows:

Transfer Out	Transfer In	
Community Development Block Grant	General Fund	\$ 183

STATE OF NEW MEXICO
TOWN OF HAGERMAN
Notes to Financial Statements
June 30, 2004

NOTE 6. Capital Assets

A summary of capital assets and changes occurring during the year ended June 30, 2004, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in process are not subject to depreciation.

Capital Assets used in Governmental Activities:	Balance June 30, 2003	Additions	Deletions	Balance 6/30/2004
Capital assets not depreciated:				
Land	\$ 138,730	\$ -	\$ -	\$ 138,730
Construction in progress	1,267,085	216,248	1,267,085	216,248
	<u>1,405,815</u>	<u>216,248</u>	<u>1,267,085</u>	<u>354,978</u>
Capital assets being depreciated:				
Buildings & improvements	412,724	1,267,085	-	1,679,809
Equipment & vehicles	739,576	68,792	-	808,368
	<u>1,152,300</u>	<u>1,335,877</u>	<u>-</u>	<u>2,488,177</u>
Total capital assets	<u>2,558,115</u>	<u>1,552,125</u>	<u>1,267,085</u>	<u>2,843,155</u>
Net capital assets	<u>\$ 2,558,115</u>	<u>\$ 1,552,125</u>	<u>\$ 1,267,085</u>	<u>\$ 2,843,155</u>

Accumulated depreciation as of June 30, 2003, additions, deletions and accumulated depreciation as of June 30, 2004, for governmental activities, required by GASB 34 has not been determined by the Town of Hagerman

Capital Assets used in Business-type Activities:	Balance	Additions	Deletions	Balance
Capital assets not depreciated:				
Land	\$ 9,890	\$ -	\$ -	\$ 9,890
Total not depreciated	<u>9,890</u>	<u>-</u>	<u>-</u>	<u>9,890</u>
Capital assets being depreciated:				
Buildings & improvements	103,053	-	-	103,053
Equipment & vehicles	942,746	2,360	-	945,106
Water system	147,044	5,661	-	152,705
Sewer system	221,470	-	-	221,470
	<u>1,414,313</u>	<u>8,021</u>	<u>-</u>	<u>1,422,334</u>
Total capital assets	<u>1,424,203</u>	<u>8,021</u>	<u>-</u>	<u>1,432,224</u>
Less accumulated depreciation				
Depreciation	818,319	42,692	-	861,011
	<u>818,319</u>	<u>42,692</u>	<u>-</u>	<u>861,011</u>
Net capital assets	<u>\$ 605,884</u>	<u>\$ (34,671)</u>	<u>\$ -</u>	<u>\$ 571,213</u>

Depreciation expense for the year ended June 30, 2004 was charged to the following functions and funds:

Business-type activities:	
Utility fund	\$ 42,692
Total business-type activities	<u>\$ 42,692</u>

STATE OF NEW MEXICO
TOWN OF HAGERMAN
Notes to Financial Statements
June 30, 2004

NOTE 7. Long-term Debt

Long-term liability activity for the year ended June 30, 2004, was as follows:

	Governmental Activities	Business-Type Activities
\$200,000 Water Supply Construction (WSC) Loan Payable held by the State due in annual installments of \$18,878, including interest of 5.5% through August 2006.	\$ -	\$ 32,578
\$125,000 1997 Loan held by Rural Utility Services with annual installments of \$7,019, including interest at 4.875% through February 19, 2037.	-	116,070
\$137,000 1999 Loan held by Rural Utility Services with annual installments of \$7,700, including interest at 4.5% to 5.5% through April 15, 2039.	-	131,000
\$31,954 December 13, 2001 Loan held by Kansas State Bank with annual rental payments of \$18,654, including interest at 10.980% through December 17, 2003.	-	-
\$208,000 Loan Payable for fire truck held by the State Fire Marshall - Payments are deducted from the annual Fire distribution with variable interest and administration fees	51,000	-
	51,000	279,648
Less current portion	25,000	19,032
	\$ 26,000	\$ 260,616

In prior years, the general fund has typically been used to liquidate governmental activities long-term liabilities for compensated absences.

Governmental Activities:

	Balance June 30, 2003	Additions	Reductions	Adjustments	Balance June 30, 2004	Due Within One Year
State Fire Marschal - Fire Truck	\$ 74,000	\$ -	\$ 23,000	\$ -	\$ 51,000	\$ 25,000
Kansas State Bank	-	-	16,808	16,808	-	-
Compensated Absences	3,740	5,069	2,645	-	6,164	2,645
Long-term liabilities	\$ 77,740	\$ 5,069	\$ 42,453	\$ 16,808	\$ 57,164	\$ 27,645

STATE OF NEW MEXICO
TOWN OF HAGERMAN
Notes to Financial Statements
June 30, 2004

NOTE 7. Long-term Debt (continued)

Business-Type Activities:

	Balance				Balance	Due Within
	June 30, 2003	Additions	Reductions	Adjustments	June 30, 2004	One Year
WSC	\$ 48,161	\$ -	\$ 15,583	\$ -	\$ 32,578	\$ 16,048
RUS 1997	117,483	-	1,413	-	116,070	1,484
RUS 1999	132,500	-	1,500	-	131,000	1,500
Compensated Absences	2,538	-	2,538	-	-	-
Long-term liabilities	<u>\$ 300,682</u>	<u>\$ -</u>	<u>\$ 21,034</u>	<u>\$ -</u>	<u>\$ 279,648</u>	<u>\$ 19,032</u>

The annual requirements to amortize the State Fire Marshall loan outstanding as of June 30, 2004, including interest payments are as follows:

Governmental Activities:

Fiscal Year Ending June 30,	Principal	Interest	Total
2005	\$ 25,000	\$ 4,088	\$ 29,088
2006	26,000	2,841	28,841
Total	<u>\$ 51,000</u>	<u>\$ 6,929</u>	<u>\$ 57,929</u>

The annual requirements to amortize the WSC loan outstanding as of June 30, 2004, including interest payments are as follows:

Business-type Activities:

Fiscal Year Ending June 30,	Principal	Interest	Total
2005	\$ 16,048	\$ 978	\$ 17,026
2006	16,530	496	17,026
Total	<u>\$ 32,578</u>	<u>\$ 1,474</u>	<u>\$ 34,052</u>

The annual requirements to amortize the 1997 Rural Utility Service loan outstanding as of June 30, 2004, including interest payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2005	\$ 1,484	\$ 5,625	\$ 7,109
2006	1,558	5,551	7,109
2007	1,635	5,474	7,109
2008	1,717	5,392	7,109
2009	1,802	5,307	7,109
2010-2014	10,452	25,094	35,546
2015-2019	13,331	22,215	35,546
2020-2024	17,002	18,544	35,546
2025-2029	21,684	13,862	35,546
2030-2034	27,656	7,890	35,546
2035-2037	17,749	1,215	18,964
Total	<u>\$ 116,070</u>	<u>\$ 116,169</u>	<u>\$ 232,239</u>

STATE OF NEW MEXICO
TOWN OF HAGERMAN
Notes to Financial Statements
June 30, 2004

NOTE 7. Long-term Debt (continued)

The annual requirements to amortize the 1999 Rural Utility Service loan outstanding as of June 30, 2004, including interest payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2005	\$ 1,500	\$ 6,300	\$ 7,800
2006	1,500	6,200	7,700
2007	1,700	6,100	7,800
2008	1,700	6,000	7,700
2009	1,800	5,900	7,700
2010-2014	10,200	28,500	38,700
2015-2019	13,000	25,800	38,800
2020-2024	16,300	22,400	38,700
2025-2029	20,800	18,000	38,800
2030-2034	25,900	12,800	38,700
2035-2039	36,600	6,000	42,600
Total	<u>\$ 131,000</u>	<u>\$ 144,000</u>	<u>\$ 275,000</u>

NOTE 8. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town has obtained health insurance through the New Mexico Self Insurance Fund. Insurance for general liability, auto, crime inland marine, building and contents, equipment breakdown, law enforcement officers, and public official's liability was obtained through the Insurance Company of Hanover. The workers' compensation insurance was obtained through New Mexico Mutual Casualty Insurance Company. The fire and EMS accident insurance was provided by Nationwide Life Insurance Company.

The New Mexico Self Insurance Fund (the Fund) determines annually how to charge participating New Mexico municipalities for employee health care coverage. All participating municipalities pay the same cost per employee each year, as determined by the Fund. The municipalities retain no risk of having to pay extra for an employee's claim. Therefore, the Town's health insurance settlements did not exceed the insurance coverage in any of the previous years. Also, there were no significant reductions in the employee health insurance coverage provided by the Fund in the fiscal year ended June 30, 2004, compared to the previous year. The Town of Hagerman's health insurance premiums for the fiscal year ended June 30, 2004, totaled \$72,652

NOTE 9. Public Employees Retirement Association (PERA) Pension Plan

Plan Description

Substantially all of the Town of Hagerman's full time employees participate in the public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11 NMSA 1978). PERA is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, 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. The report is also available on PERA's website at www.pera.state.nm.us.

STATE OF NEW MEXICO
TOWN OF HAGERMAN
Notes to Financial Statements
June 30, 2004

NOTE 9. Public Employees Retirement Association (PERA) Pension Plan (continued)

Funding Policy

Plan members (other than police and fire) are required to contribute 7% of their gross salary. Law enforcement and fire plan members are required to contribute 7% of their gross salary, respectively. The Town of Hagerman is required to contribute 10% for law enforcement and 7% for all other plan members. The contribution requirements of plan members and the Town of Hagerman are established under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by act of the legislature. The employees contribute 1.75% of their gross salary with the Town of Hagerman contributing 5.25% of the employees' portion as well as all of the Town's portion. The Town of Hagerman's contributions to PERA for the years ending June 30, 2004, 2003, and 2002 were approximately \$24,191, \$26,497 and \$27,211 and the employee contributions were \$3,096, \$3,391 and \$3,481 respectively, which equal the amount of the required contributions for each fiscal year.

NOTE 10. Retiree Health Care Act Contributions

The Town of elected not to participate in the New Mexico Retiree Health Care Authority post employment employee benefits.

NOTE 11. Related Party

The Town of Hagerman purchased supplies and services from Jim Pilley Plumbing in the amount of \$1,851.19. Town Council Member Jim Pilley is the owner of Jim Pilley Plumbing.

NOTE 12. Other Required Individual Fund Disclosures

Generally accepted accounting principles require disclosures of certain information concerning individual funds including:

Excess of expenditures over appropriations. The following funds exceeded approved budgetary authority for the year ended June 30, 2004:

General Fund	\$	16,461
Utility Fund		<u>38,781</u>
 Total	 \$	 <u><u>55,242</u></u>

Action Take by Town: Year End adjustment resolutions were adopted; however, lack of computer software to assist in reporting caused auditors to make necessary, unanticipated adjustments. 2009 conversion to QuickBooks has remedied this issue.

STATE OF NEW MEXICO
TOWN OF HAGERMAN
Notes to Financial Statements
June 30, 2004

NOTE 13. Contingencies

The Town of Hagerman participates in a number of federal, state, and county programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the Town of Hagerman may be required to reimburse the grantor government. As of June 30, 2008, significant amounts of grant expenditures have not been audited by the grantor agencies. Management believes that any disallowed expenditures discovered in subsequent audits, if any, will not have a material effect on any of the individual funds or the overall financial position of the Town of Hagerman.

The Town of Hagerman is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the Town's legal counsel that resolution of these matters will not have a material adverse effect on the financial condition of the Town.

NOTE 14. Beginning Net Assets – Change in Accounting Principle

Before the implementation of GASB Statement No. 34, accounting principles generally accepted in the United States of America did not require governments to present government-wide financial statements. Accordingly, beginning net assets presented on the government-wide financial statements include items such as capital assets used in governmental activities and debt related to governmental activities that were previously reported in the general fixed assets account group and the general long-term debt account group.

A reconciliation of the June 30, 2003 fund balance to the July 1, 2003 net assets follows:

Fund Balance, June 30, 2003	\$	214,224
Capital assets used in governmental activities not financial resources and, therefore are not reported in the funds		2,558,115
Long-term liabilities, including bonds payable capital leases payable and compensated absences are not due and payable in the current period and therefore are not reported in the funds		<u>(77,740)</u>
Net Assets, July 1, 2003	\$	<u><u>2,694,599</u></u>

NOTE 15. Prior Period Restatement

It was determined that the long term debt at Kansas State Bank was not recorded on the financial statement in the prior year. This resulted in a current year restatement in Net Assets of \$(16,808).

NOTE 16. Restricted Net Assets

The government-wide statement of net assets reports \$84,747 of restricted net assets, of which \$84,747 is restricted by enabling legislation.

SUPPLEMENTARY INFORMATION

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NONMAJOR GOVERNMENTAL FUNDS

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STATE OF NEW MEXICO

Town of Hagerman

Nonmajor Funds

June 30, 2004

Special Revenue Funds

Recreation Fund – To account for operations and maintenance of recreation facilities. Financing is provided by a specific tax on cigarette sales. Authority – Section 7-12-15 NMSA 1978.

Law Enforcement Protection Fund – To account for funds received from the state for law enforcement purposes. The fund was created by the authority of state grant provisions NMSA 29-13-3.

Emergency Medical Services Fund (EMS) – To account for state and county proceeds provided for operations of the Town's emergency medical services. Authority – NMSA 24-10A.

D.A.R.E – Substance abuse education fund to account for money collected or received under state law for the purpose of substance abuse educational programs in local school districts. Authority NMSA 9-7-17.

Corrections Fund – Every municipality shall enact an ordinance requiring assessment of corrections fees, judicial education fees and court automation fees to be collected as court costs and used as provided in Section 35-14-11, NMSA 1978.

Community Development Block Grant – To account for funds received from the New Mexico community development council 9-14.4B.

STATE OF NEW MEXICO
TOWN OF HAGERMAN
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
June 30, 2004

	Special Revenue Funds			
	Recreation	Law Protection Enforcement	EMS	D.A.R.E
<i>Assets</i>				
Cash and cash equivalents	\$ 7,612	\$ 10,624	\$ 4,426	\$ -
Receivables				
Other	175	-	-	-
<i>Total assets</i>	\$ 7,787	\$ 10,624	\$ 4,426	\$ -
 <i>Liabilities and Fund Balance</i>				
<i>Current liabilities</i>				
Accounts payable	\$ -	\$ -	\$ 1,269	\$ -
<i>Total liabilities</i>	-	-	1,269	-
 <i>Fund balance</i>				
Unreserved:				
Undesignated				
Special revenue funds	7,787	10,624	3,157	-
<i>Total fund balance</i>	7,787	10,624	3,157	-
<i>Total liabilities and fund balance</i>	\$ 7,787	\$ 10,624	\$ 4,426	\$ -

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

<u>Special Revenue Funds</u>		
<u>Corrections</u>	<u>Community Development Block Grant</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 1,401	\$ -	\$ 24,063
<u>-</u>	<u>-</u>	<u>175</u>
<u>\$ 1,401</u>	<u>\$ -</u>	<u>\$ 24,238</u>
\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,269</u>
<u>-</u>	<u>-</u>	<u>1,269</u>
<u>1,401</u>	<u>-</u>	<u>22,969</u>
<u>1,401</u>	<u>-</u>	<u>22,969</u>
<u>\$ 1,401</u>	<u>\$ -</u>	<u>\$ 24,238</u>

STATE OF NEW MEXICO
TOWN OF HAGERMAN
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
For the Year Ended June 30, 2004

	Special Revenue Fund			
	Recreation	Law Enforcement Protection	EMS	D.A.R.E
<i>Revenues:</i>				
Taxes				
Property taxes	\$ -	\$ -	\$ -	\$ -
Gross receipts taxes	-	-	-	-
Gasoline and motor vehicle taxes	-	-	-	-
Other taxes	2,273	-	-	-
Intergovernmental income				
State operating grants	-	-	15,700	-
State capital grants	-	-	-	-
Licenses and permits	-	-	-	-
Interest	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>2,273</u>	<u>-</u>	<u>15,700</u>	<u>-</u>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	-	17,396	13,959	-
Public works	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>-</u>	<u>17,396</u>	<u>13,959</u>	<u>-</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>2,273</u>	<u>(17,396)</u>	<u>1,741</u>	<u>-</u>
<i>Other financing sources (uses):</i>				
Transfers in	-	-	-	-
Transfers (out)	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Net change in fund balances</i>	<u>2,273</u>	<u>(17,396)</u>	<u>1,741</u>	<u>-</u>
<i>Fund balance - beginning of year</i>	<u>5,514</u>	<u>28,020</u>	<u>1,416</u>	<u>-</u>
<i>Fund balance - end of year</i>	<u>\$ 7,787</u>	<u>\$ 10,624</u>	<u>\$ 3,157</u>	<u>\$ -</u>

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

<u>Special Revenue Fund</u>		
<u>Corrections</u>	<u>Community Development Block Grant</u>	<u>Total Nonmajor Governmental Funds</u>
\$ -	\$ -	\$ -
-	-	-
-	-	-
-	-	2,273
-	57,438	73,138
-	-	-
2,028	-	2,028
-	-	-
-	-	-
<u>2,028</u>	<u>57,438</u>	<u>77,439</u>
627	-	627
-	-	31,355
-	57,438	57,438
-	-	-
-	-	-
-	-	-
-	-	-
<u>627</u>	<u>57,438</u>	<u>89,420</u>
<u>1,401</u>	<u>-</u>	<u>(11,981)</u>
-	-	-
<u>-</u>	<u>(183)</u>	<u>(183)</u>
<u>-</u>	<u>(183)</u>	<u>(183)</u>
<u>1,401</u>	<u>(183)</u>	<u>(12,164)</u>
<u>-</u>	<u>183</u>	<u>35,133</u>
<u>\$ 1,401</u>	<u>\$ -</u>	<u>\$ 22,969</u>

STATE OF NEW MEXICO
TOWN OF HAGERMAN

Statement A-3

RECREATION SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
For the Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
<i>Revenues:</i>				
Taxes - property	\$ -	\$ -	\$ -	\$ -
Taxes - other	1,200	1,200	1,165	(35)
Fines and forfeitures	-	-	-	-
Miscellaneous	-	-	-	-
Interest	-	-	-	-
<i>Total revenues</i>	1,200	1,200	1,165	(35)
<i>Expenditures:</i>				
<i>Current:</i>				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and recreation	8,000	8,000	527	7,473
Capital outlay	-	-	-	-
<i>Total expenditures</i>	8,000	8,000	527	7,473
<i>Excess (deficiency) of revenues over expenditures</i>	(6,800)	(6,800)	638	7,438
<i>Other financing sources (uses):</i>				
Designated cash balance	6,800	6,800	-	(6,800)
<i>Total other financing sources (uses)</i>	6,800	6,800	-	(6,800)
<i>Excess (deficiency) of revenues and other sources (uses) over expenditures</i>	-	-	638	638
<i>Fund balances - beginning of year</i>	-	-	6,975	6,975
<i>Fund balances - end of year</i>	\$ -	\$ -	\$ 7,613	\$ 7,613
<i>Reconciliation to GAAP basis:</i>				
Change in fund balance - GAAP Basis			\$ 2,274	
(Increase) decrease in accounts receivable			(174)	
Increase (decrease) in accounts payable			(1,462)	
Change in fund balance - budgetary basis			\$ 638	

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

STATE OF NEW MEXICO
TOWN OF HAGERMAN

Statement A-4

LAW ENFORCEMENT PROTECTION SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
For the Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
<i>Revenues:</i>				
Taxes - property	\$ -	\$ -	\$ -	\$ -
Taxes - gross receipts	-	-	-	-
Taxes - other	-	-	-	-
Federal grants	-	-	-	-
State grants	-	-	-	-
Local grants	-	-	-	-
Miscellaneous	-	-	-	-
Interest	-	-	-	-
<i>Total revenues</i>	-	-	-	-
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	27,800	27,800	17,396	10,404
Public works	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	-	-	-	-
<i>Total expenditures</i>	27,800	27,800	17,396	10,404
<i>Excess (deficiency) of revenues over expenditures</i>	(27,800)	(27,800)	(17,396)	10,404
<i>Other financing sources (uses):</i>				
Designated cash balance	27,800	27,800	-	(27,800)
<i>Total other financing sources (uses)</i>	27,800	27,800	-	(27,800)
<i>Excess (deficiency) of revenues and other sources (uses) over expenditures</i>	-	-	(17,396)	(17,396)
<i>Fund balances - beginning of year</i>	-	-	28,020	28,020
<i>Fund balances - end of year</i>	\$ -	\$ -	\$ 10,624	\$ 10,624
<i>Reconciliation to GAAP basis:</i>				
Change in fund balance - GAAP Basis			\$ (17,396)	
Change in fund balance - budgetary basis			\$ (17,396)	

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

STATE OF NEW MEXICO
TOWN OF HAGERMAN
EMS SPECIAL REVENUE FUND

Statement A-5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
For the Year Ended June 30, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
<i>Revenues:</i>				
Taxes - property	\$ -	\$ -	\$ -	\$ -
Taxes - gross receipts	-	-	-	-
Fines and forfeitures	-	-	-	-
Federal grants	-	-	-	-
State grants	15,700	15,700	15,700	-
Local grants	-	-	-	-
Miscellaneous	-	-	-	-
Interest	-	-	-	-
<i>Total revenues</i>	15,700	15,700	15,700	-
<i>Expenditures:</i>				
<i>Current:</i>				
General government	-	-	-	-
Public safety	16,700	16,700	12,690	4,010
Public works	-	-	-	-
Capital outlay	-	-	-	-
<i>Total expenditures</i>	16,700	16,700	12,690	4,010
<i>Excess (deficiency) of revenues over expenditures</i>	(1,000)	(1,000)	3,010	4,010
<i>Other financing sources (uses):</i>				
Designated cash balance	1,000	1,000	-	(1,000)
<i>Total other financing sources (uses)</i>	1,000	1,000	-	(1,000)
<i>Excess (deficiency) of revenues and other sources (uses) over expenditures</i>	-	-	3,010	3,010
<i>Fund balances - beginning of year</i>	-	-	1,416	1,416
<i>Fund balances - end of year</i>	\$ -	\$ -	\$ 4,426	\$ 4,426
<i>Reconciliation to GAAP basis:</i>				
Change in fund balance - GAAP Basis			\$ 1,741	
Increase (decrease) in accounts payable			1,269	
Change in fund balance - budgetary basis			\$ 3,010	

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

STATE OF NEW MEXICO
TOWN OF HAGERMAN

Statement A-6

D.A.R.E SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
For the Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
<i>Revenues:</i>				
Taxes - property	\$ -	\$ -	\$ -	\$ -
Taxes - gross receipts	-	-	-	-
Taxes - other	-	-	-	-
Licenses and permits	-	-	-	-
State grants	-	-	-	-
Local grants	-	-	-	-
Miscellaneous	1,000	1,000	-	(1,000)
Interest	-	-	-	-
<i>Total revenues</i>	1,000	1,000	-	(1,000)
<i>Expenditures:</i>				
Current:				
General government	1,000	1,000	-	1,000
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and recreation	-	-	-	-
<i>Total expenditures</i>	1,000	1,000	-	1,000
<i>Excess (deficiency) of revenues over expenditures</i>	-	-	-	-
<i>Other financing sources (uses):</i>				
Designated cash balance	-	-	-	-
<i>Total other financing sources (uses)</i>	-	-	-	-
<i>Excess (deficiency) of revenues and other sources (uses) over expenditures</i>	-	-	-	-
<i>Fund balances - beginning of year</i>	-	-	-	-
<i>Fund balances - end of year</i>	\$ -	\$ -	\$ -	\$ -
<i>Reconciliation to GAAP basis:</i>				
Change in fund balance - GAAP Basis			\$ -	
Change in fund balance - budgetary basis			\$ -	

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

STATE OF NEW MEXICO

Statement A-7

TOWN OF HAGERMAN

CORRECTIONS SPECIAL REVENUE FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
For the Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
<i>Revenues:</i>				
Taxes - property	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-
Charges for services	-	-	-	-
Fines and forfeitures	2,800	2,800	2,028	(772)
Federal grants	-	-	-	-
State grants	-	-	-	-
Local grants	-	-	-	-
Miscellaneous	-	-	-	-
Interest	-	-	-	-
<i>Total revenues</i>	<u>2,800</u>	<u>2,800</u>	<u>2,028</u>	<u>(772)</u>
<i>Expenditures:</i>				
Current:				
General government	2,800	2,800	627	2,173
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and recreation	-	-	-	-
<i>Total expenditures</i>	<u>2,800</u>	<u>2,800</u>	<u>627</u>	<u>2,173</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>-</u>	<u>-</u>	<u>1,401</u>	<u>1,401</u>
<i>Other financing sources (uses):</i>				
Designated cash balance	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Excess (deficiency) of revenues and other sources (uses) over expenditures</i>	<u>-</u>	<u>-</u>	<u>1,401</u>	<u>1,401</u>
<i>Fund balances - beginning of year</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Fund balances - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,401</u>	<u>\$ 1,401</u>
<i>Reconciliation to GAAP basis:</i>				
Change in fund balance - GAAP Basis			<u>\$ 1,401</u>	
Change in fund balance - budgetary basis			<u>\$ 1,401</u>	

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

STATE OF NEW MEXICO
TOWN OF HAGERMAN

Statement A-8

COMMUNITY DEVELOPMENT BLOCK GRANT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
For the Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
<i>Revenues:</i>				
Taxes - property	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-
Fines and forfeitures	-	-	-	-
Federal grants	-	-	-	-
State grants	582,438	582,438	57,438	(525,000)
Local grants	-	-	-	-
Miscellaneous	-	-	-	-
Interest	-	-	-	-
<i>Total revenues</i>	582,438	582,438	57,438	(525,000)
<i>Expenditures:</i>				
<i>Current:</i>				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	582,438	582,438	57,438	525,000
Culture and recreation	-	-	-	-
<i>Total expenditures</i>	582,438	582,438	57,438	525,000
<i>Excess (deficiency) of revenues over expenditures</i>	-	-	-	-
<i>Other financing sources (uses):</i>				
Designated cash balance	-	-	-	-
Transfers in	-	-	-	-
Transfers (out)	-	-	(183)	(183)
<i>Total other financing sources (uses)</i>	-	-	(183)	(183)
<i>Excess (deficiency) of revenues and other sources (uses) over expenditures</i>	-	-	(183)	(183)
<i>Fund balances - beginning of year</i>	-	-	183	183
<i>Fund balances - end of year</i>	\$ -	\$ -	\$ -	\$ -
<i>Reconciliation to GAAP basis:</i>				
Change in fund balance - GAAP Basis			\$ (183)	
Change in fund balance - budgetary basis			\$ (183)	

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

STATE OF NEW MEXICO

Statement A-9

TOWN OF HAGERMAN

UTILITIES PROPRIETARY FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
 For the Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
<i>Revenues:</i>				
Taxes - property	\$ -	\$ -	\$ -	\$ -
Taxes - other	4,500	4,500	6,468	1,968
Licenses and permits	-	-	-	-
Charges for services	331,500	357,446	355,693	(1,753)
Miscellaneous	4,500	4,500	4,585	85
Interest	100	100	-	(100)
<i>Total revenues</i>	<u>340,600</u>	<u>366,546</u>	<u>366,746</u>	<u>200</u>
<i>Expenditures:</i>				
Current:				
General government	335,666	350,356	389,337	(38,981)
Public safety	-	-	-	-
Capital outlay	-	-	-	-
<i>Total expenditures</i>	<u>335,666</u>	<u>350,356</u>	<u>389,337</u>	<u>(38,981)</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>4,934</u>	<u>16,190</u>	<u>(22,591)</u>	<u>(38,781)</u>
<i>Other financing sources (uses):</i>				
Designated cash balance	<u>(4,934)</u>	<u>(16,190)</u>	<u>-</u>	<u>16,190</u>
<i>Total other financing sources (uses)</i>	<u>(4,934)</u>	<u>(16,190)</u>	<u>-</u>	<u>16,190</u>
<i>Excess (deficiency) of revenues and other sources (uses) over expenditures</i>	-	-	(22,591)	(22,591)
<i>Fund balances - beginning of year</i>	-	-	40,519	40,519
<i>Fund balances - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,928</u>	<u>\$ 17,928</u>
<i>Reconciliation to GAAP basis:</i>				
Change in fund balance - GAAP Basis			\$ (39,476)	
(Increase) decrease in accounts receivable			(1,159)	
(Increase) decrease in capital assets			(8,021)	
(Increase) decrease in depreciation			42,692	
Increase (decrease) in long term debt			(18,495)	
Increase (decrease) in accounts payable			4,406	
Increase (decrease) in accrued expenses			(2,538)	
Change in fund balance - budgetary basis			<u>\$ (22,591)</u>	

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

SUPPORTING SCHEDULES

STATE OF NEW MEXICO
TOWN OF HAGERMAN
SCHEDULE OF DEPOSIT AND INVESTMENT ACCOUNTS
June 30, 2004

Schedule I

Account Name	Type	Wells Fargo Bank	First Federal Bank	1st National Bank	Total
General Fund	Checking	\$ 199,616	\$ -	\$ -	\$ 199,616
General Fund	Certificate of Deposit	-	16,366	57,781	74,147
		199,616	16,366	57,781	273,763
Amounts on deposit		(11,441)	-	-	(11,441)
Outstanding items		-	-	-	-
		<u>\$ 188,175</u>	<u>\$ 16,366</u>	<u>\$ 57,781</u>	<u>\$ 262,322</u>

Reconciliation to the Statement of Net Assets:

Cash and cash equivalents	\$ 239,132
Restricted cash and cash equivalents	<u>23,190</u>
Total deposits	<u>\$ 262,322</u>

See accompanying independent auditor's report.

STATE OF NEW MEXICO

Schedule II

TOWN OF HAGERMAN

SCHEDULE OF COLLATERAL PLEDGED BY DEPOSITORY FOR PUBLIC FUNDS

For the Year Ended June 30, 2004

<u>Name of Depository</u>	<u>CUISP #</u>	<u>Description of Pledged Collateral</u>		<u>Fair Market Value June 30, 2004</u>	<u>Name and Location of Safe keeper</u>
Wells Fargo Bank	31335HYN7	FGTW C90717, Due 09/01/23	Bond*	\$ 272,932	Wells Fargo Bank
Wells Fargo Bank	31385JRNO	FNCL 545993, Due 11/01/32	Bond	14,641	Wells Fargo Bank
Wells Fargo Bank	36225BFS2	GNSF 781077, Due 08/15/29	Bond	8,272	Wells Fargo Bank
Wells Fargo Bank	36225BM54	GNSF 781280, Due 04/15/31	Bond	<u>69,403</u>	Wells Fargo Bank
				<u>\$ 365,248</u>	

* Freddie Gold Twenty year Collateralized Mortgage Obligation Bond.

See accompanying independent auditor's report.

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COMPLIANCE SECTION

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Hector H. Balderas
New Mexico State Auditor
To the Honorable Mayor and Town Councilors
Town of Hagerman
Hagerman, New Mexico

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the budgetary comparison statements of the major funds' activities of the Town of Hagerman, as of and for the year ended June 30, 2004, which collectively comprise the Town of Hagerman's basic financial statements as listed in the table of contents, and have issued our report thereon dated February 24, 2009. We have also audited the financial statements of each of the Town's nonmajor governmental funds and all the budgetary comparisons presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2004 as listed in the table of contents. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town's financial statements that is more than inconsequential will not be prevented or detected by the Town's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as 2004-1, 2004-2, 2004-3, 2004-7, and 2004-8 to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2004-1, 2004-2, 2004-3, 2004-7, and 2003-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Hagerman's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2003-1, 2004-4, 2004-5, 2004-9, 2004-10, and 2004-11.

We noted certain matters that are required to be reported under *Government Auditing Standards January 2007 Revision* paragraphs 5.14 and 5.16, and Section 12-6-5, NMSA 1978, which are described in the accompanying schedule of findings and responses as finding 2004-6 and 2004-12.

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

This report is intended solely for the information and use of the audit committee, management, others within the organization, Town Council, the Office of the State Auditor, the New Mexico Legislature, the New Mexico Department of Finance and Administration, and applicable federal grantors, and is not intended to be and should not be used by anyone other than these specified parties.

Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP
Certified Public Accountants

Carlsbad, New Mexico
February 24, 2009

STATE OF NEW MEXICO
TOWN OF HAGERMAN
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2004

A. FINDINGS—FINANCIAL STATEMENT AUDIT

2003-1: Late Submission of Audit Report

Criteria

In accordance with State Auditor Rule NMAC 2.2.2.9.A, the audited financial statements are due by December 1, annually.

Condition

The June 30, 2004, audit report was submitted to the Office of the State Auditor after the December 1, 2004 deadline. The report was received at the Office of the State Auditor on March 9, 2009.

Cause

The Town was having difficulty obtaining the final 2003 audit from its former audit firm. The Town did not procure its 2004 audit timely as required by Section 2.2.2.8 of NMAC (the audit rule).

Effect

Those relying on audited financial statements did not have any reports available for their decision making process. The NM Legislature did not have audited financial statements to facilitate legislative decisions related to the Town. The NM Department of Finance and Administration (DFA) Local Government Division (LGD) did not have audited financial statements to facilitate their oversight function.

Recommendation

The Town should contract with an auditor to ensure that the audit is completed in a timely manner.

Town's Response

2004, 2005 and 2006 audits are complete. Selection of an IPA firm for the 2007, 2008 and 2009 audits is scheduled for March 10, 2009. The 2007 and 2008 audits should be complete by June 30, 2009. The 2009 audit should be submitted by its December 1, 2009, deadline, placing us back on schedule.

2004-1: Preparation of Financial Statements

Criteria

The financial statements are management's responsibility. Management is responsible for adopting sound accounting practices and for establishing and maintaining internal control that will among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions consistent with management's assertions embodied in the financial statements). (SAS AU 110.03).

Condition

The Town does not have any internal controls that would detect, prevent and timely correct material misstatements in its financial statements.

Cause

The Town's personnel do not have the time or proper training to prepare the financial statements and related footnote disclosures.

Effect

When sufficient controls over the preparation of financial statements and related disclosures are not designed, implemented and operating effectively. The risk of material misstatement or omission in the financial statement is increased.

STATE OF NEW MEXICO
TOWN OF HAGERMAN
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2004

2004-1: Preparation of Financial Statements (continued)

Recommendation

We recommend the Town's management and finance personnel receive additional training on elements of external financial reporting, particularly those relevant to the Town's reporting.

The training should include, but not be limited to:

- Selection of appropriate accounting policies:
 - Governmental Accounting Standards Board (GASB)
 - Generally Accepted Accounting Principles (specifically as applied to governmental units)
 - Financial Accounting Standards Board (FASB)
- Understanding the financial reporting entity
- Government-wide financial statements
- Fund financial statements
- Notes to the financial statements
- Required supplementary information
 - Management's discussion and analysis
- Supplementary information required by the Office of the State Auditor

We also recommend that the Town implement internal controls to ensure that its financial statements are prepared in accordance with the applicable standards.

Town's Response

Financial Statements will be prepared, in conjunction with timely audits.

2004-2: Inadequate Internal Controls over Information Technology

Criteria

State of New Mexico Statewide Guideline S-GUIDE-002.003 (per NMSA 1978 Section 15-1C-1 et. Seq. and NMAC 1.12.6 and NMAC 1.12.2) establishes an Enterprise Security Policy for the protection of IT assets and resources including data and information. The policy establishes that protection must be provided for IT assets, resources, and data/information from unauthorized access, use, disclosure, disruption, modification, or destruction in order to provide integrity, confidentiality, availability, accountability, and assurance, and establishes that controls must be maintained over information systems, resources, and data/information sufficient to contain risk of loss or misuse of information.

Condition

During our audit, we noted that:

- Adequate controls for access to programs and data have not been established by management to restrict access to properly authorized individuals. Lack of such controls exist in the following areas:
 1. Information Security Policy/User Awareness
 2. Configuration of Access Rules/Access Administration
 3. Identification and Authentication
 4. Monitoring
 5. Physical Access
- Adequate controls are not in place to ensure recoverability from interruptions in service in a timely manner and to restore critical information services in the event of a disaster.

STATE OF NEW MEXICO
TOWN OF HAGERMAN
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2004

2004-2: Inadequate Internal Controls over Information Technology (continued)

Cause

The Town of Hagerman is not properly safeguarding IT assets and resources. The following deficiencies were noted:

- Lack of IT policies
- Lack of controls over access levels
- Lack of controls over passwords
- Lack of monitoring of system administrator activities and lack of monitoring of network activity
- Lack of controls over physical access to IT resources
- Lack of contingency planning

Effect

Lack of IT policies, lack of controls over access levels, lack of controls over passwords, lack of monitoring, lack of controls over physical access, and lack of contingency planning leave the Town of Hagerman at risk for loss or misuse of data and information. Adequate protection has not been established to safeguard IT assets and resources.

Recommendations

We recommend that the Town do the following:

- Establish policies to govern IT use and security
- Establish controls over access levels by restricting employee access to only the files and modules necessary for performing their duties
- Establish a password policy, and require each employee to have a unique and confidential password for access
- Establish control over physical access to the IT systems
- Develop a contingency plan detailing how to recover IT systems and become operational in the event of a disaster or interruption of the IT function

Town's Response

Improved IT procedures have been implemented.

2004-3: Lack of Internal Controls

Criteria

Per SAS AU 110.03, management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process and report transactions (as well as events and conditions) consistent with assertions embodied in the financial statements. Per SAS AU 325.32, some examples of deficiencies in the design of controls are: inadequate design of internal control over a significant account or process; inadequate documentation of the components of internal control; insufficient control consciousness within the organization, for example, the tone at the top and the control environment; absent or inadequate segregation of duties within a significant account or process; absent or inadequate controls over the safeguarding of assets; inadequate design of monitoring controls used to assess the design and operating effectiveness of the entity's internal control over time; the absence of an internal process to report deficiencies in internal control to management on a timely basis.

Condition

During our audit field work we noted the following deficiencies in internal controls over the safe guarding of cash:

- The cash drawer is accessible to both the Clerk/Treasurer and the Deputy Clerk
- Payment was left unattended in a non-secure place where it could have been taken by anyone entering the town hall;
- Checks are not being used in numerical sequence;
- Receipts are not being used in numerical sequence;
- No process is in place to trace receipts to deposit slips;
- There was no review of payroll calculations or direct deposit activity.

STATE OF NEW MEXICO
TOWN OF HAGERMAN
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2004

2004-3: Lack of Internal Controls (continued)

Condition (continued)

During our field work we noted the following deficiency in internal controls caused by the lack of proper documentation of transactions which could adversely affect the Town's ability to safeguard its assets, properly record financial transactions, and ensure compliance with laws, regulations, contracts and agreements.

- In general, documentation was found to be not logically consolidated, misfiled, or missing entirely.
- Seven cash disbursements tested (that totaled \$2,675) out of a total of forty cash disbursements tested (that totaled \$8,979) were missing supporting documentation.
- Two credit card payments tested (that totaled \$284) out of a total of two (that totaled \$285) credit card payments tested did not have supporting documentation.
- One travel and per diem expenditures (that totaled \$39) out of a total of ten tested (that totaled \$1,780) were missing receipts.
- During our test work of PERA, we noted that employee names submitted to PERA were not attached to the copies of PERA schedules retained by the Town.
- There was no review of payroll calculations or direct deposit activity.

During our field work we noted the following deficiency in internal controls caused by the lack of proper segregation of duties:

- The Clerk/Treasurer can sign checks but also reconciles the bank statements.

During our audit field word we noted the following deficiency in internal controls caused by the lack of monitoring:

- The Deputy Clerk's work is not reviewed by the supervisor.

Cause

The Town does not have a written internal control policy to prevent or detect the misappropriation of assets. The filing system is inefficient. Personnel are not adequately trained regarding internal controls. The Town has only two administrative employees.

Effect

The lack of proper internal controls places the Town's accounting records are at risk for containing material misstatements that do not get detected and corrected timely. The Town's accounting activity cannot be verified without the underlying documentation available to support the Town's spending. The Town's assets are at risk of being misappropriated because checks or receipts could be taken and not detected, or expenditures could be made to unauthorized individuals and not be detected because of missing documentation.

Recommendation

We recommend that the governing body approve internal control policies and procedures documented by the Town and submitted to the governing body for approval. We also recommend that as a part of the new internal control procedures that the governing body perform extensive oversight of specific duties to mitigate the lack of segregation of duties caused by having two employees.

Town's Response

Two-person office makes it impossible to satisfactorily separate duties. We will continue to improve procedures to rectify noted deficiencies. QuickBooks has been installed and will help with several issues.

STATE OF NEW MEXICO
TOWN OF HAGERMAN
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2004

2004-4: 1099 Forms Not Being Used

Criteria

Local governments must issue 1099 forms when applicable payments are made during the course of their business. See the related Form 1099 and Form 1096 instructions issued by the IRS.

Condition

The Town is not preparing 1099 forms in compliance with the applicable law.

Cause

The Town was unaware of its responsibility to prepare 1099 forms and submit them to the vendors and report them to the IRS with Form 1096.

Effect

The Town may be subject to fines and penalties.

Recommendation

We recommend that the Town start preparing 1099 forms and the related 1096 Form.

Town's Response

We will issue 1099's and associated 1096 Forms, as applicable.

2004-5: Personnel Issues and Incomplete Personnel Files

Criteria

The Immigration Reform and Control Act of 1986 requires employers to complete an I-9 within 3 days of the employee start date to verify the employee is eligible to work in the United States. The Internal Revenue Code requires W-4 information under sections 3402(f) (2) (A) and 6109 and their regulations. Failure to provide a properly completed form will result in your being treated as a single person who claims no withholding allowances

Condition

During our testing of payroll, we noted the following:

- Two out of three employee files tested did not have I-9 forms on file.
- One out of three employee files tested did not have properly completed W-4's on file and were not withheld as a single person claiming no withholding allowances.

Cause

The cause of these conditions appears to be inadequate training or a lack of diligence in following written policies and procedures in the human resource and payroll areas.

Effect

The Federal government and the State of New Mexico have enforcement consequences for noncompliance. The Town is at risk of being fined and/or otherwise penalized for not complying with governing regulations.

Recommendation

The Town must comply with regulations and needs to document that compliance completely and in a timely manner. Accordingly, we recommend the Town:

- Evaluate the adequacy of training currently provided to employees responsible for compliance.
- Provide additional training as necessary to ensure the employees are aware of the compliance requirements.
- Conduct internal reviews of the personnel files to monitor compliance in following written policies.

Town's Response

I-9's and W -4's are utilized, but some were evidently misfiled. We have improved our filing system for these documents.

STATE OF NEW MEXICO
TOWN OF HAGERMAN
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2004

2004-6 GRT Payment on Credit Card Purchases

Criteria

Pursuant to Section 7-9-54, NMSA 1978, sales to governmental agencies are not subject to gross receipts tax unless the sale is a specific type of transaction listed in the statute.

Condition

During our testing of credit cards, we noted the following that one of six credit card payments included gross receipts tax payment of \$1.45.

Cause

The Town has not exercised appropriate cash management practices to avoid unnecessary incurrence of interest and finance charges and payment of gross receipts tax.

Effect

Town resources were used in a manner that did not best benefit the Town.

Recommendation

We recommend the Town implement policies and procedures aimed at the elimination of payment of unnecessary interest and finance charges and gross receipts tax.

Town's Response

We will notify vendors when GRT is improperly charged and pay adjusted balance due.

2004-7 Utility Billings Understated and Meter Deposits Misstated

Criteria

The Codification of Statements on Auditing Standards (SAS AU) paragraph 110.03 states that the financial statements are the responsibility of management. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process and report transactions (as well as events and conditions) consistent with assertions embodied in the financial statements. One such assertion is that the financial statements are complete (including all material transactions).

Condition

During our test work on receivables the correct balances of delinquent accounts was indeterminable. Therefore the allowance for doubtful accounts could not be properly estimated. Also, there was no complete list of utility meter deposits available.

Cause

The UB Billing Software does not appear not to be working properly, resulting in a lack of information about delinquent accounts and a lack of information regarding utility meter deposits paid and refunded.

Effect

The utility receivables may be materiality misstated due to the lack of information regarding the allowance for doubtful accounts. The Town may not be receiving all money due from delinquent accounts. The Town may not be maintaining the correct restricted cash balance for customer deposits.

Recommendation

We recommend that the Town establish procedures: (1) detect in a timely manner billing amounts that appear significantly misstated, (2) correctly determine delinquent accounts; and (3) maintain an accurate listing of utility meter deposits.

Town's Response

We will continue to work with the software vendor to address these issues. If a report cannot be generated, we will maintain a separate spreadsheet to accurately track meter deposits.

STATE OF NEW MEXICO
TOWN OF HAGERMAN
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2004

2003-2: Capital Assets

Criteria

Section 12-6-10, NMSA 1978, requires that the Town conduct an annual physical inventory of movable chattels and equipment, certify the correctness of that inventory, and provide a copy of it to the Town's auditors.

GASB 34 requires that capital asset be reported at historical cost including ancillary charges directly attributable to asset acquisition—such as freight and transportation charges, site preparation costs, and professional fees. Donated capital assets should be reported at their estimated fair value at the time of acquisition. Capital assets includes land, improvements to land easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Examples of infrastructure assets include roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems.

Proprietary fund capital assets were required to be depreciated prior to GASB 34. With the implementation of GASB 34 in FY04 capital assets related to the Town's governmental activities must also be depreciated over their estimated useful lives unless they are inexhaustible assets, such as land and land improvements.

Because the Town of Hagerman is a Phase III government for purposes of implementing GASB 34, the Town could elect not to retroactively capitalize and depreciate its general infrastructure assets that were constructed or significantly reconstructed retroactively back to June 30, 1980. However, at the time the Town implemented GASB 34 (in FY04), it should have had an internal control system in place to start capitalizing and depreciating its infrastructure prospectively.

Section 2.20.1.8, FIXED ASSET ACCOUNTING SYSTEM, of New Mexico Administrative Code requires that:

A. Agencies should implement systematic and well-documented methods for accounting for their fixed assets. A computerized system is recommended, with appropriate controls on access and authorization of transactions.

B. The information to be recorded and maintained on its fixed assets, must include at a minimum the following:

- (1) agency name or commonly used initials used to identify the agency;
- (2) fixed asset number or fixed asset number plus component number;
- (3) a description using words meaningful for identification;
- (4) location, specifically a building and room number. If the asset is movable, the name and location of the fixed asset coordinator should be used;
- (5) manufacturer name (NOT the vendor's name, unless vendor is the manufacturer);
- (6) model number or model name;
- (7) serial number, or vehicle identification number (VIN) for vehicles in agency's use & possession. If the fixed asset has no serial number, e.g., a custom-built asset, absence should be acknowledged by coding this as "none";
- (8) estimated useful life or units expected to be produced;
- (9) date acquired (month and year);
- (10) cost (according to the valuation methods described in section 10 [now 2.20.1.10 NMAC];
- (11) fund and organization that purchased the asset, or to which it was transferred.

C. The system must be capable of generating lists of fixed assets in sequences useful for managing them. It must track all transactions including acquisitions, depreciation (if needed), betterments and dispositions. It must generate all necessary accounting entries to the agency's general ledger.

STATE OF NEW MEXICO
TOWN OF HAGERMAN
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2004

2003-2: Capital Assets (continued)

Condition

The Town does not know what its capital assets are or how much they cost. The Town could not provide the auditors with a list of their capital assets at historical cost showing when each item was purchased. The Town does not have a depreciation schedule for its proprietary funds or for its governmental capital assets. The Town does not know how depreciation on its capital assets was calculated in previous fiscal years. The Town does not have a system of internal controls in place to safeguard its assets or to ensure that capital assets are not misstated in the Town's financial statements.

Cause

The Town was unaware of how to properly account for its capital assets and does not have the appropriate software and procedures in place to capitalize and depreciate its capital assets.

Effect

The Town's financial statements cannot accurately reflect the value of the Town's capital assets due to the Town's lack of information about its capital assets. The Town's capital assets are at risk for being misappropriated because they are not properly accounted for and inventoried each year.

Recommendation

We recommend that the Town obtain appropriate capital asset and depreciation accounting software. We recommend that the Town create the required capital asset records as described in the criteria section. If determining historical cost of some assets is not practical because of inadequate records, we recommend that estimated historical cost be used as described in GASB 34 paragraph 158 through 160. We recommend that the Town develop a current depreciation schedule for its capital assets. We recommend that the capital asset software be able to generate accurate reports that provide sufficient information to reconcile capital asset additions and deletions, current year depreciation expense and accumulated depreciation to facilitate roll forward schedules each fiscal year. We recommend that the Town contract with a consultant to obtain assistance if necessary, to accomplish this work.

Town's Response

Until implementation of GASB 34, we were unaware of many of the requirements. A current depreciation schedule will be developed and computer software has been installed that has an inventory capability.

2004-9: Payroll

Criteria

Section 2.2.2.10G(7) NMAC (Audit Rule) requires that total wages paid by a public entity must be reported to the Public Employees Retirement Association.

Condition

During our testing of payroll, we noted the following:

- Utility Fringe benefit that employees of the Town of Hagerman receive is not being reported on the employees' W-2 as a fringe benefit.

Cause

Town personnel were unaware that fringe benefits were to be reported as part of employee compensation.

Effect

The miscalculation led to the employee not contributing the correct amount to PERA and the Town over paid its portion of the contribution.

STATE OF NEW MEXICO
TOWN OF HAGERMAN
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2004

2004-9: Payroll (continued)

Recommendation

We recommend improved payroll procedures that including monitoring of payroll activities.

Town's Response

Benefits will be reported correctly. Payroll and direct deposit activities will be monitored more closely.

2004-10 Payroll Payments for Services Not Rendered

Criteria

According to the NM Constitution, Article IV, Section 27, states that no law shall be enacted giving any extra compensation to any public officer, servant, agent or contractor after services are rendered. Also, according to the NM Constitution, Article IX, Section 14, neither the state nor any county, school district or municipality shall directly or indirectly make any donation to or in aid of any person, association or public or private corporation. A donation for purposes of the anti-donation clause is a gift. A retroactive salary increase or performance bonus is, by its nature, additional pay for services already performed by an employee and, as such is a gift of public money.

Condition

During our testing of payroll, we noted the following:

- The Town paid a bonus to all employees based on their status as full time or part time that totaled \$850.
- The Town also paid money to the local grocery store on behalf of the employees that totaled \$240.

Cause

The Town was unaware of the State Constitution prohibition against using public funds for gifts to individuals.

Effect

The Town is paying employees for services not performed and therefore, is in violation of the anti-donation clause.

Recommendation

We recommend that in the future the Town refrain from paying employees for services not rendered.

Town's Response

We will discontinue these payments.

2004-11: Budget

Criteria

Section 6-6-6 NMSA 1978 states that when any budget for local public body has been approved and received by a local public body, it is binding upon all officials and governing authorities and no governing authority or official shall allow or approve claims in excess thereof.

Condition

Expenditures exceeded budgeted amount for two budget areas. The total over expenditures in all areas was \$55,242.

Cause

The Town did not adequately monitor its budget to ensure that it was not being overspent. Budget adjustments (BARS) were not prepared timely in all cases where spending exceeded budgeted amounts.

STATE OF NEW MEXICO
TOWN OF HAGERMAN
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2004

2004-11: Budget (continued)

Effect

Per Section 6-6-6 NMSA 1978, payments in excess of the budget shall be liability against the officials so allowing or paying those claims or checks or warrants, and recovery for the excess amounts so allowed or paid may be had against the bondsmen of the officials.

Recommendation

We recommend improved planning and monitoring of the budget and following procedures to adjust it as needed.

Town's Response

Year-end budget adjustment resolutions were adopted; however, lack of computer software to assist in reporting caused auditors to make necessary, unanticipated adjustments. 2009 FY conversion to QuickBooks has remedied this issue.

2004-12: Travel and Per Diem – Calculation and Approval

Criteria

Section 10-8-1 NMSA 1978, requires the Town to comply with the Per Diem and Mileage Act, (Section 10-8-1 through 10-8-4 NMSA 1978), for all per diem and reimbursement rates.

Condition

During our testing of travel and per diem, we noted the following:

- 2 (that totaled \$266.22) out of the 10 (that totaled \$1,780.06) tested that did not have approval for travel.
- 1 (that totaled \$14.50) out of the 10 (that totaled \$1,780.06) tested received too much cash on a partial day travel.

Cause

The statute was misinterpreted on the part of Town's management as to the proper calculation of partial day per diem reimbursement.

Effect

The Town may be reimbursing employees amounts not due to them. Inconsistent monitoring of compliance with requirements could result in abuse or fraud.

Recommendation

We recommend that the Town become familiar with and follow the Per Diem and Mileage Act when paying per diem and mileage to employees.

Town's Response

Travel request forms are utilized, but were evidently misfiled. Efforts will be made to be more careful. Partial day per diem will be figured correctly.

B. PRIOR YEAR FINDINGS

2003-1 Late Audit Report
Repeated as 2003-1.

2003-2 Incomplete Fixed Asset Records
Revised and repeated as 2003-2

STATE OF NEW MEXICO
TOWN OF HAGERMAN
OTHER DISCLOSURES
June 30, 2004

FINANCIAL STATEMENT PREPARATION

The financial statements were prepared from the original books and records and with the assistance of the management of Town of Hagerman as of June 30, 2004 by Accounting and Consulting Group, LLP. Management is responsible for the financial statements of the Town.

EXIT CONFERENCE

The contents of this report and its schedules related to the component unit were discussed on February 24, 2009. The following persons were in attendance:

Town Officials

Cliff Waide, Mayor
Jim Pilley, Mayor-Pro Tem
Beverly West, Clerk/Treasurer

Auditor

Ray Roberts, CPA, Partner
Becky Dinwiddie, CPA