

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
ANNUAL FINANCIAL REPORT
JUNE 30, 2006**

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INTRODUCTORY SECTION

STATE OF NEW MEXICO
TOWN OF HAGERMAN

OFFICIAL ROSTER
June 30, 2006

Name

List of Officials - 2006

Title

Town of Hagerman

Cliff Waide
Jim Pilley
Mark Lovas
Connie Andrews
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, 2006

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STATE OF NEW MEXICO
TOWN OF HAGERMAN
ANNUAL FINANCIAL REPORT
Year Ended June 30, 2006

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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, 2006, 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, 2006, 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.

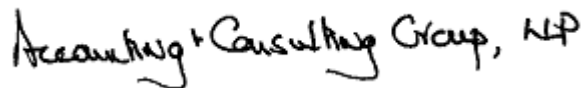
As explained further in Finding 2003-2 the Town lacks information about its capital assets. The Town could not provide the auditors with lists of its capital assets at historical cost, showing when each item was purchased, for the governmental activities or for the business-type activities. The Town 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 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
March 13, 2009

**BASIC
FINANCIAL STATEMENTS**

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STATE OF NEW MEXICO
TOWN ON HAGERMAN
STATEMENT OF NET ASSETS
June 30, 2006

Exhibit A-1

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 378,935	\$ 2,585	\$ 381,520
Receivables (net of allowance for uncollectibles)	75,907	43,760	119,667
Restricted cash - Current Meter deposits	-	26,016	26,016
Capital assets			
Land	138,730	154,890	293,620
Construction in process	71,519	103,053	174,572
Buildings and improvements	2,099,251	950,228	3,049,479
Sewer system	-	224,573	224,573
Water system	-	152,705	152,705
Equipment and vehicles	1,077,334	-	1,077,334
Accumulated depreciation	-	(945,268)	(945,268)
	<u>\$ 3,841,676</u>	<u>\$ 712,542</u>	<u>\$ 4,554,218</u>
Total assets			
	<u>\$ 3,841,676</u>	<u>\$ 712,542</u>	<u>\$ 4,554,218</u>
LIABILITIES AND NET ASSETS			
Accounts payable and other current liabilities	\$ 7,534	\$ 16,107	\$ 23,641
Deposits held in trust for others	-	26,016	26,016
Noncurrent liabilities:			
Compensated absences			
Due within one year	3,447	-	3,447
Due in more than one year	3,447	-	3,447
Long-term debt			
Due within one year	15,845	3,335	19,180
Due in more than one year	23,758	237,695	261,453
	<u>54,031</u>	<u>283,153</u>	<u>337,184</u>
Total liabilities			
	<u>54,031</u>	<u>283,153</u>	<u>337,184</u>
Invested in capital assets, net of related debt	3,347,231	399,151	3,746,382
Restricted for:			
Public safety	108,626	-	108,626
Public works	-	-	-
Culture and recreation	-	-	-
Unrestricted	331,788	30,238	362,026
	<u>3,787,645</u>	<u>429,389</u>	<u>4,217,034</u>
Total net assets			
	<u>3,787,645</u>	<u>429,389</u>	<u>4,217,034</u>
Total liabilities and net assets	<u>\$ 3,841,676</u>	<u>\$ 712,542</u>	<u>\$ 4,554,218</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, 2006

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Service</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary government:				
Governmental activities:				
General government	\$ 190,958	\$ 1,404	\$ 116,896	\$ -
Public safety	135,905	2,302	278,968	-
Public works	53,570	1,718	146,424	-
Culture and recreation	<u>150,429</u>	<u>1,133</u>	<u>94,713</u>	<u>-</u>
Total governmental activities	<u>530,862</u>	<u>6,557</u>	<u>637,001</u>	<u>-</u>
Business-type activities				
Utility Fund	<u>424,763</u>	<u>368,830</u>	<u>145,000</u>	<u>-</u>
Total business-type activities	<u>424,763</u>	<u>368,830</u>	<u>145,000</u>	<u>-</u>
Total primary government	<u>\$ 955,625</u>	<u>\$ 375,387</u>	<u>\$ 782,001</u>	<u>\$ -</u>

General Revenues:

- Property taxes
- Gross receipts taxes
- Motor vehicle and fuel taxes
- Other taxes
- Miscellaneous
- Unrestricted investment earnings
- Total general revenues
- Transfers - permanent
- Change in net assets
- Net assets - beginning of year
- 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>
\$ (72,658)	\$ -	\$ (72,658)
145,365	-	145,365
94,572	-	94,572
<u>(54,583)</u>	<u>-</u>	<u>(54,583)</u>
<u>112,696</u>	<u>-</u>	<u>112,696</u>
<u>-</u>	<u>89,067</u>	<u>89,067</u>
<u>-</u>	<u>89,067</u>	<u>89,067</u>
<u>-</u>	<u>89,067</u>	<u>201,763</u>
23,725	-	23,725
253,318	-	253,318
7,155	-	7,155
7,312	5,988	13,300
28,845	7,904	36,749
218	-	218
<u>320,573</u>	<u>13,892</u>	<u>334,465</u>
<u>(32,777)</u>	<u>32,777</u>	<u>-</u>
<u>400,492</u>	<u>135,736</u>	<u>536,228</u>
<u>3,387,153</u>	<u>293,653</u>	<u>3,680,806</u>
<u>\$ 3,787,645</u>	<u>\$ 429,389</u>	<u>\$ 4,217,034</u>

STATE OF NEW MEXICO
TOWN OF HAGERMAN
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

	General Fund	Fire Protection Fund	Street Fund	Other Governmental Funds
<i>Assets</i>				
Cash and cash equivalents	\$ 312,491	\$ 30,482	\$ 24,879	\$ 11,083
Receivables (net of allowance for uncollectible amounts):				
Taxes	-	-		-
Other	21,326	-	54,581	-
<i>Total assets</i>	\$ 333,817	30,482	\$ 79,460	\$ 11,083
 <i>Liabilities and Fund Balance</i>				
<i>Current liabilities</i>				
Accounts payable	\$ 2,878	1,316	-	2,740
Deferred revenue	964	-	-	-
<i>Total current liabilities</i>	3,842	1,316	-	2,740
 <i>Fund balance</i>				
Unreserved:				
Undesignated - reported in:				
General fund	329,975	-	-	-
Special revenue funds	-	29,166	79,460	8,343
Capital projects funds	-	-	-	-
Debt service funds	-	-	-	-
<i>Total fund balance</i>	329,975	29,166	79,460	8,343
<i>Total liabilities and fund balance</i>	\$ 333,817	\$ 30,482	\$ 79,460	\$ 11,083

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

Total
\$ 378,935
-
-
-
75,907
454,842

6,934
964
7,898

329,975
116,969
-
-
446,944
454,842

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STATE OF NEW MEXICO

TOWN OF HAGERMAN

GOVERNMENTAL FUNDS

Exhibit B-1

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RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS

June 30, 2006

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

Fund balances - total governmental funds	\$	446,944
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		3,386,834
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.		964
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		(6,894)
Loans and notes payable		(39,603)
Interest Payable		<u>(600)</u>
Net assets of governmental activities	\$	<u><u>3,787,645</u></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, 2006

	General Fund	Fire Protection Fund	Street Fund	Other Governmental Funds
<i>Revenues:</i>				
Taxes - property	\$ 23,630	\$ -	\$ -	\$ -
Taxes - gross receipts	252,164	-	-	1,154
Taxes - gasoline and motor vehicle	-	-	7,155	-
Taxes - other	2,307	-	5,005	-
Intergovernmental income				
Federal operating grants	36,251	-	-	-
State operating grants	331,451	107,404	54,298	107,597
Charges for services	1,575	-	-	-
Licenses and permits	2,824	-	-	2,158
Interest	218	-	-	-
Miscellaneous	28,845	-	-	-
<i>Total revenues</i>	<u>679,265</u>	<u>107,404</u>	<u>66,458</u>	<u>110,909</u>
<i>Expenditures:</i>				
Current:				
General government	114,569	-	-	610
Public safety	138,621	52,109	-	30,830
Public works	15,773	-	4,010	76,024
Culture and recreation	93,315	-	-	-
Capital outlay	221,727	-	-	-
Debt service:				
Principal	7,860	26,000	-	7,244
Interest	-	3,839	-	1,512
<i>Total expenditures</i>	<u>591,865</u>	<u>81,948</u>	<u>4,010</u>	<u>116,220</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>87,400</u>	<u>25,456</u>	<u>62,448</u>	<u>(5,311)</u>
<i>Other financing sources (uses):</i>				
Transfers in	-	-	-	3,193
Transfers (out)	(35,970)	-	-	-
<i>Total other financing sources (uses)</i>	<u>(35,970)</u>	<u>-</u>	<u>-</u>	<u>3,193</u>
<i>Net change in fund balances</i>	<u>51,430</u>	<u>25,456</u>	<u>62,448</u>	<u>(2,118)</u>
<i>Fund balance - beginning of year</i>	<u>278,545</u>	<u>3,710</u>	<u>17,012</u>	<u>10,461</u>
<i>Fund balance - end of year</i>	<u>\$ 329,975</u>	<u>\$ 29,166</u>	<u>\$ 79,460</u>	<u>\$ 8,343</u>

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

<u>Total</u>	
\$	23,630
	253,318
	7,155
	7,312
	36,251
	600,750
	1,575
	4,982
	218
	28,845
	<u>964,036</u>
	115,179
	221,560
	95,807
	93,315
	221,727
	41,104
	5,351
	<u>794,043</u>
	<u>169,993</u>
	3,193
	<u>(35,970)</u>
	<u>(32,777)</u>
	<u>137,216</u>
	<u>309,728</u>
\$	<u>446,944</u>

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STATE OF NEW MEXICO

Exhibit B-2

TOWN OF HAGERMAN

(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, 2006

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

Net change in fund balances - total governmental funds	\$	137,216
--	----	---------

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	326,603
Disposals	(104,876)

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

Change in accrued interest payable	659
------------------------------------	-----

Change in deferred revenue related to property taxes receivable	95
---	----

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	41,104
----------------------------	--------

Compensated absences change for the year	(309)
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Change in net assets of governmental activities	\$	<u>400,492</u>
---	----	----------------

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, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
<i>Revenues:</i>				
Taxes - property	\$ 21,038	\$ 21,038	\$ 23,630	\$ 2,592
Taxes - gross receipts	250,000	250,000	256,904	6,904
Taxes - other	2,500	2,500	2,307	(193)
Licenses and permits	2,800	2,800	2,824	24
Charges for services	8,195	8,195	1,575	(6,620)
Fines and forfeitures	10,000	10,000	9,063	(937)
Federal operating grants	60,551	60,551	36,251	(24,300)
State operating grants	495,717	495,717	361,451	(134,266)
Miscellaneous	3,600	3,600	19,782	16,182
Interest	125	125	218	93
<i>Total revenues</i>	<u>854,526</u>	<u>854,526</u>	<u>714,005</u>	<u>(140,521)</u>
<i>Expenditures:</i>				
<i>Current:</i>				
General government	363,862	327,892	227,274	100,618
Public safety	225,328	225,328	199,873	25,455
Public works	83,050	83,050	25,426	57,624
Culture and recreation	221,303	221,303	149,305	71,998
Capital outlay	8,000	8,000	8,007	(7)
<i>Total expenditures</i>	<u>901,543</u>	<u>865,573</u>	<u>609,885</u>	<u>255,688</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(47,017)</u>	<u>(11,047)</u>	<u>104,120</u>	<u>115,167</u>
<i>Other financing sources (uses):</i>				
Designated cash balance	47,017	11,047	-	(11,047)
Transfers (out)	-	-	(35,970)	(35,970)
<i>Total other financing sources (uses)</i>	<u>47,017</u>	<u>11,047</u>	<u>(35,970)</u>	<u>(47,017)</u>
<i>Excess (deficiency) of revenues and other sources (uses) over expenditures</i>	<u>-</u>	<u>-</u>	<u>68,150</u>	<u>68,150</u>
<i>Fund balances - beginning of year</i>	<u>-</u>	<u>-</u>	<u>267,784</u>	<u>267,784</u>
<i>Fund balances - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 335,934</u>	<u>\$ 335,934</u>
<i>Reconciliation to GAAP basis:</i>				
Change in fund balance - GAAP Basis			\$ 51,431	
(Increase) decrease in accounts receivable			34,643	
Increase (decrease) in accounts payable			(41,461)	
Increase (decrease) in accrued expenses			23,442	
Increase (decrease) in deferred revenue			95	
Change in fund balance - budgetary basis			<u>\$ 68,150</u>	

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

STATE OF NEW MEXICO
TOWN OF HAGERMAN

Exhibit C-2

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, 2006

	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	97,640	97,640	107,404	9,764
Miscellaneous	-	-	-	-
Interest	-	-	-	-
<i>Total revenues</i>	97,640	97,640	107,404	9,764
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	71,511	71,511	50,794	20,717
Public works	-	-	-	-
Health and welfare	-	-	-	-
Economic development	-	-	-	-
Capital outlay	29,839	29,839	29,839	-
<i>Total expenditures</i>	101,350	101,350	80,633	20,717
<i>Excess (deficiency) of revenues over expenditures</i>	(3,710)	(3,710)	26,771	30,481
<i>Other financing sources (uses):</i>				
Designated cash balance	3,710	3,710	-	(3,710)
<i>Total other financing sources (uses)</i>	3,710	3,710	-	(3,710)
<i>Excess (deficiency) of revenues and other sources (uses) over expenditures</i>	-	-	26,771	26,771
<i>Fund balances - beginning of year</i>	-	-	3,710	3,710
<i>Fund balances - end of year</i>	\$ -	\$ -	\$ 30,481	\$ 30,481
<i>Reconciliation to GAAP basis:</i>				
Change in fund balance - GAAP Basis			\$ 25,456	
Increase (decrease) in accounts payable			1,315	
Change in fund balance - budgetary basis			\$ 26,771	

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, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
<i>Revenues:</i>				
Taxes - property	\$ -	\$ -	\$ -	\$ -
Taxes - gross receipts	7,000	7,000	8,028	1,028
Taxes - other	5,000	5,000	5,004	4
Licenses and permits	-	-	-	-
Fines and forfeitures	-	-	-	-
Federal operating grants	-	-	-	-
State operating grants	104,179	104,179	-	(104,179)
Miscellaneous	-	-	-	-
Interest	-	-	-	-
<i>Total revenues</i>	<u>116,179</u>	<u>116,179</u>	<u>13,032</u>	<u>(104,179)</u>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public works	119,684	119,684	4,008	115,676
Culture and recreation	-	-	-	-
Capital outlay	-	-	-	-
<i>Total expenditures</i>	<u>119,684</u>	<u>119,684</u>	<u>4,008</u>	<u>115,676</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(3,505)</u>	<u>(3,505)</u>	<u>9,024</u>	<u>12,529</u>
<i>Other financing sources (uses):</i>				
Designated cash balance	3,505	3,505	-	(3,505)
<i>Total other financing sources (uses)</i>	<u>3,505</u>	<u>3,505</u>	<u>-</u>	<u>(3,505)</u>
<i>Excess (deficiency) of revenues and other sources (uses) over expenditures</i>	-	-	9,024	9,024
<i>Fund balances - beginning of year</i>	-	-	15,855	15,855
<i>Fund balances - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,879</u>	<u>\$ 24,879</u>
<i>Reconciliation to GAAP basis:</i>				
Change in fund balance - GAAP Basis			\$ 62,448	
(Increase) decrease in accounts receivable			<u>(53,424)</u>	
Change in fund balance - budgetary basis			<u>\$ 9,024</u>	

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

STATE OF NEW MEXICO
TOWN OF HAGERMAN
PROPRIETARY FUND
STATEMENT OF NET ASSETS
June 30, 2006

Exhibit D-1

	Utility Fund
<i>Assets</i>	
<i>Current assets:</i>	
Cash and cash equivalents	\$ 2,585
Accounts receivable	43,760
<i>Total current assets</i>	46,345
<i>Noncurrent assets:</i>	
Cash - water meter deposits	26,016
<i>Capital assets</i>	
Land	154,890
Buildings and improvements	103,053
Machinery and equipment	950,228
Sewer system	224,573
Water system	152,705
Less: accumulated depreciation	(945,268)
<i>Total capital assets (net of accumulated depreciation)</i>	640,181
<i>Total noncurrent assets</i>	666,197
<i>Total assets</i>	\$ 712,542
<i>Liabilities and Net Assets</i>	
<i>Current liabilities</i>	
Accounts payable	\$ 16,107
Meter deposits payable	26,016
Current portion of long term debt	3,335
<i>Total current liabilities</i>	45,458
<i>Noncurrent liabilities</i>	
Long term debt - net of current portion	237,695
<i>Total noncurrent liabilities</i>	237,695
<i>Total liabilities</i>	283,153
<i>Net Assets</i>	
Invested in capital assets, net of related debt	399,151
Unrestricted	30,238
<i>Total net assets</i>	429,389
<i>Total liabilities and net assets</i>	\$ 712,542

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

STATE OF NEW MEXICO

Exhibit D-2

TOWN OF HAGERMAN

PROPRIETARY FUND

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

For the Year Ended June 30, 2006

	<u>Utility Fund</u>
<i>Operating revenues:</i>	
Charges for services	\$ 368,830
Miscellaneous	<u>904</u>
<i>Total operating revenues</i>	<u>369,734</u>
<i>Operating expenses:</i>	
Current:	
Personnel services	117,686
Other operating expenses	252,528
Depreciation	<u>42,692</u>
<i>Total operating expenses</i>	<u>412,906</u>
<i>Operating income (loss)</i>	<u>(43,172)</u>
<i>Nonoperating revenues (expenses):</i>	
State and county grants	145,000
Sale of asset	7,000
Other taxes	5,988
Interest expense	<u>(11,857)</u>
<i>Total nonoperating revenues (expenses)</i>	<u>146,131</u>
<i>Income before transfers</i>	<u>102,959</u>
Transfers in	<u>32,777</u>
<i>Total transfers</i>	<u>32,777</u>
<i>Change in net assets</i>	<u>135,736</u>
<i>Net assets - beginning of year</i>	<u>293,653</u>
<i>Net assets - end of year</i>	<u>\$ 429,389</u>

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

STATE OF NEW MEXICO
TOWN OF HAGERMAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2006

Exhibit D-3

	Utility Fund
<i>Cash flows from operating activities:</i>	
Receipts from customers and users	\$ 360,943
Payments to suppliers	(258,436)
Payments to employees	(117,686)
	(15,179)
<i>Net cash provided (used) by operating activities</i>	
<i>Cash flows from noncapital financing activities:</i>	
Intergovernmental	5,988
	5,988
<i>Net cash provided by noncapital financing activities</i>	
<i>Cash flows from capital and related financing activities:</i>	
Sale of asset	7,000
Legislative water rights	145,000
Acquisitions and construction capital assets	(145,000)
Principal paid on capital debt	(19,588)
Transfers	32,777
Interest paid on capital debt	(11,857)
	8,332
<i>Net cash (used) by capital and related financing activities</i>	
<i>Net (decrease) in cash and temporary investments</i>	\$ (859)
<i>Cash and temporary investments-beginning of year</i>	29,460
<i>Cash and temporary investments-end of year</i>	\$ 28,601
<i>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</i>	
Operating (loss)	\$ (43,172)
Adjustments to reconcile operating (loss) to net cash provided (used) by operating activities:	
Depreciation expense	42,692
<i>(Increase) decrease in:</i>	
Accounts receivable	(10,408)
<i>(Decrease) increase in:</i>	
Accounts payable	(5,908)
Refundable customer deposits	1,617
Accrued vacation payable	-
	(15,179)
<i>Net cash provided (used) by operating activities</i>	
Cash and temporary investments:	
Cash and cash equivalents	\$ 28,601
<i>Total cash and temporary investments</i>	\$ 28,601

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, 2006

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, 2006

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 water and 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, 2006

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, 2006

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. Effective June 17, 2005 the State of New Mexico’s capitalization threshold was increased from items costing more than \$1,000 to items costing more than \$5,000. Therefore the Town’s capitalization threshold was increased to \$5,000 for acquisitions of property and equipment in the fiscal year ended June 30, 2006. 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:

Assets	Years
Buildings	40-50
Building improvements	40-50
Infrastructure	20-30
Vehicles	5-7
Machinery and equipment	5-10
Office equipment	5
Computer equipment	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, 2006

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, 2006

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, 2006 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>(47,017)</u>	\$ <u>(11,047)</u>
Fire Protection Special Revenue Fund	\$ <u>(3,710)</u>	\$ <u>(3,710)</u>
Street Special Revenue Fund	\$ <u>(3,505)</u>	\$ <u>(3,505)</u>
Nonmajor Special Revenue Funds	\$ <u>(8,240)</u>	\$ <u>(11,433)</u>
Utility Fund	\$ <u>(1,628)</u>	\$ <u>(34,405)</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, 2006 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, 2006

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, 2006.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more banks or savings and loan associations within the geographical boundaries of the 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, 2006 of the Town's deposits totaled \$424,266 of which \$223,014 was exposed to custodial credit risk because it was collateralized by securities held by the pledging institution or by its trust department or agent in other than the Town's name.

	<u>Wells Fargo Bank</u>	<u>Roswell National Bank</u>	<u>Total</u>
Total amount of deposits	\$ 364,266	\$ 60,000	\$ 424,266
FDIC Coverage	<u>(141,252)</u>	<u>(60,000)</u>	<u>(201,252)</u>
Total uninsured public funds	223,014	-	223,014
Collateralized by securities held by the pledging institution or by its trust department or agent in other than the Town's name	<u>223,014</u>	<u>-</u>	<u>223,014</u>
Uninsured and uncollateralized	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 446,028</u>
Collateral requirement (50% of uninsured funds)	\$ 111,507	\$ -	\$ 111,507
Pledged Collateral	<u>223,843</u>	<u>-</u>	<u>223,843</u>
Over (Under) collateralized	<u>\$ 112,336</u>	<u>\$ -</u>	<u>\$ 112,336</u>

STATE OF NEW MEXICO
TOWN OF HAGERMAN
Notes to Financial Statements
June 30, 2006

NOTE 3. Deposits and Investments (continued)

Custodial Credit Risk – Deposits (continued)

The collateral pledged is listed on Schedule II 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:

	Primary Government
Deposit total	\$ 424,266
Outstanding items	(16,730)
Financial statement amount	\$ 407,536
Included in the following captions	
Cash and cash equivalents	\$ 381,520
Restricted cash	26,016
	\$ 407,536

NOTE 4. Receivables and Payables

Governmental receivables as of June 30, 2006, are as follows:

Governmental activities:

	General Fund	Street Fund	Total
Receivables:			
Property taxes	\$ 964	\$ -	\$ 964
Other taxes:	-	-	-
Gross receipts taxes	20,362	-	20,362
Cigarette taxes	-	-	-
Gasoline and oil taxes	-	283	283
State	-	54,298	54,298
Net receivables	\$ 21,326	\$ 54,581	\$ 75,907

STATE OF NEW MEXICO
TOWN OF HAGERMAN
Notes to Financial Statements
June 30, 2006

NOTE 4. Receivables and Payables (continued)

Business receivables as of June 30, 2006, are as follows

Business-type activities:

	Utility Fund
Receivables:	
Accounts	\$ 43,760
Net receivables	\$ 43,760

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

Accounts payable as of June 30, 2006, are as follows:

	Governmental activities	Business-type activities
Payable to suppliers	\$ 6,934	\$ 11,045
Payable for interest	600	5,062
	\$ 7,534	\$ 16,107

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, 2006, are as follows:

Transfer Out	Transfer In	
General Fund	LEFP Fund	\$ 3,193
General Fund	Utility Fund	32,777
		\$ 35,970

STATE OF NEW MEXICO
TOWN OF HAGERMAN
Notes to Financial Statements
June 30, 2006

NOTE 6. Capital Assets

A summary of capital assets and changes occurring during the year ended June 30, 2006, 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, 2005	Additions	Deletions	Balance June 30, 2006
Capital assets not depreciated:				
Land	\$ 138,730	\$ -	\$ -	\$ 138,730
Construction in progress	96,804	79,591	104,876	71,519
	<u>235,534</u>	<u>79,591</u>	<u>104,876</u>	<u>210,249</u>
Capital assets being depreciated:				
Buildings & improvements	1,904,129	195,122	-	2,099,251
Equipment & vehicles	1,025,444	51,890	-	1,077,334
	<u>2,929,573</u>	<u>247,012</u>	<u>-</u>	<u>3,176,585</u>
Total capital assets	<u>3,165,107</u>	<u>326,603</u>	<u>104,876</u>	<u>3,386,834</u>
Net capital assets	<u>\$ 3,165,107</u>	<u>\$ 326,603</u>	<u>\$ 104,876</u>	<u>\$ 3,386,834</u>

Accumulated depreciation as of June 30, 2003, additions, deletions and accumulated depreciation as of June 30, 2006, 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
Water rights	-	145,000	-	145,000
Construction in progress	3,103	-	3,103	-
Total not depreciated	<u>12,993</u>	<u>145,000</u>	<u>3,103</u>	<u>154,890</u>
Capital assets being depreciated:				
Buildings & improvements	103,053	-	-	103,053
Equipment & vehicles	950,228	-	-	950,228
Water system	152,705	-	-	152,705
Sewer system	221,470	3,103	-	224,573
Total depreciated	<u>1,427,456</u>	<u>3,103</u>	<u>-</u>	<u>1,430,559</u>
Total capital assets	<u>1,440,449</u>	<u>148,103</u>	<u>3,103</u>	<u>1,585,449</u>
Less accumulated depreciation				
Depreciation	902,576	42,692	-	945,268
	<u>902,576</u>	<u>42,692</u>	<u>-</u>	<u>945,268</u>
Net capital assets	<u>\$ 537,873</u>	<u>\$ 105,411</u>	<u>\$ 3,103</u>	<u>\$ 640,181</u>

Depreciation expense for the year ended June 30, 2006 was charged to the following functions and funds:

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

STATE OF NEW MEXICO
TOWN OF HAGERMAN
Notes to Financial Statements
June 30, 2006

NOTE 7. Long-term Debt

Long-term liability activity for the year ended June 30, 2006, 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.	\$ -	\$ -
\$125,000 1997 Loan held by Rural Utility Services with annual installments of \$7,019, including interest at 4.875% through February 19, 2037.	-	113,029
\$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.	-	128,001
\$23,964 December 14, 2004 Loan held by Kansas State Bank with annual rental payments of \$8,775, including interest at 9.935% through December 4, 2006. The debt is paid for out of the Law Enforcement Protection fund with State LEPF revenues.	7,965	
\$39,498 December 25, 2004 Loan held by New Mexico Finance Authority with annual payments of \$7,959, with no interest through May 1, 2010. The debt is paid for out of the General fund with General fund revenues.	31,638	
\$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	-	-
	39,603	241,030
Less current portion	15,845	3,335
	\$ 23,758	\$ 237,695

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, 2005	Additions	Reductions	Balance June 30, 2006	Due Within One Year
Capital leases:					
State Fire Marshal - Fire Truck	\$ 26,000	\$ -	\$ 26,000	\$ -	\$ -
NMFA Ambulance	39,498	-	7,860	31,638	7,880
Kansas State Bank	15,209	-	7,244	7,965	7,965
Compensated Absences	6,585	5,989	5,680	6,894	3,447
Long-term liabilities	\$ 87,292	\$ 5,989	\$ 46,784	\$ 46,497	\$ 19,292

The capital assets related to capital leases listed above have been added to the Town's capital assets.

STATE OF NEW MEXICO
TOWN OF HAGERMAN
Notes to Financial Statements
June 30, 2006

NOTE 7. Long-term Debt (continued)

Business-Type Activities:

	Balance June 30, 2005	Additions	Reductions	Balance June 30, 2006	Due Within One Year
WSC	\$ 16,531	\$ -	\$ 16,531	\$ -	\$ -
RUS 1997	114,587	-	1,558	113,029	1,635
RUS 1999	129,500	-	1,499	128,001	1,700
	<u>260,618</u>	<u>-</u>	<u>19,588</u>	<u>241,030</u>	<u>3,335</u>
Long-term liabilities	<u>\$ 260,618</u>	<u>\$ -</u>	<u>\$ 19,588</u>	<u>\$ 241,030</u>	<u>\$ 3,335</u>

Governmental Activities

The annual requirements to amortize the Kansas State Bank loan outstanding as of June 30, 2006, including interest payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2007	\$ 7,965	\$ 791	\$ 8,756
Total	<u>\$ 7,965</u>	<u>\$ 791</u>	<u>\$ 8,756</u>

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2007	\$ 7,880	\$ -	\$ 7,880
2008	7,900	-	7,900
2009	7,919	-	7,919
2010	7,939	-	7,939
	<u>\$ 31,638</u>	<u>\$ -</u>	<u>\$ 31,638</u>

STATE OF NEW MEXICO
TOWN OF HAGERMAN
Notes to Financial Statements
June 30, 2006

NOTE 7. Long-term Debt (continued)

Business-type Activities

The annual requirements to amortize the 1997 Rural Utility Service loan outstanding as of June 30, 2006, including interest payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2007	\$ 1,635	\$ 5,474	\$ 7,109
2008	1,716	5,393	7,109
2009	1,802	5,307	7,109
2010	1,892	5,217	7,109
2011	1,986	5,123	7,109
2012-2016	11,521	24,025	35,546
2017-2021	14,693	20,853	35,546
2022-2026	18,740	16,806	35,546
2027-2031	23,901	11,645	35,546
2032-2036	30,483	5,063	35,546
2037-2039	4,660	85	4,745
Total	<u>\$ 113,029</u>	<u>\$ 104,991</u>	<u>\$ 218,020</u>

The annual requirements to amortize the 1999 Rural Utility Service loan outstanding as of June 30, 2006, including interest payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2007	\$ 1,700	\$ 6,100	\$ 7,800
2008	1,700	6,000	7,700
2009	1,800	6,000	7,800
2010	1,800	5,900	7,700
2011	2,000	5,800	7,800
2012-2016	11,200	27,500	38,700
2017-2021	14,300	24,500	38,800
2022-2026	17,900	20,800	38,700
2027-2031	22,800	16,000	38,800
2032-2036	28,400	10,300	38,700
2037-2039	24,401	2,699	27,100
Total	<u>\$ 128,001</u>	<u>\$ 131,599</u>	<u>\$ 259,600</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.

STATE OF NEW MEXICO
TOWN OF HAGERMAN
Notes to Financial Statements
June 30, 2006

NOTE 8. Risk Management (continued)

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, 2006, compared to the previous year. The Town of Hagerman's health insurance premiums for the fiscal year ended June 30, 2006, totaled \$53,833.

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.

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, 2006, 2005, and 2004 were approximately \$24,808, \$25,906 and \$24,191 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 Waide Irrigation in the amount of \$65,165. Town Mayor Cliff Waide is the owner of Waide Irrigation.

STATE OF NEW MEXICO
TOWN OF HAGERMAN
Notes to Financial Statements
June 30, 2006

NOTE 12. Other Required Individual Fund Disclosures

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

- a) Deficit fund balance of individual nonmajor funds. The Law Enforcement Protection Fund had a negative fund balance of \$(1,707) at June 30, 20006.
- b) Excess of expenditures over appropriations. The following funds exceeded approved budgetary authority for the year ended June 30, 2006:

Law Enforcement Protection Special Revenue Fund	\$	854
EMS Special Revenue Fund		<u>288</u>
Total	\$	<u><u>1,142</u></u>

Action Taken 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 FY conversion to QuickBooks has remedied this issue.

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. Restricted Net Assets

The government-wide statement of net assets reports \$108,626 of restricted net assets, of which \$108,626 is restricted by enabling legislation.

STATE OF NEW MEXICO
TOWN OF HAGERMAN
Notes to Financial Statements
June 30, 2006

NOTE 15. Joint Powers Agreement

A-03-75: Emergency Services

Participants	Town of Hagerman Chaves County
Responsible party	Town of Hagerman Chaves County
Description	Emergency services for the citizens of Chaves County
Term of agreement	July 1, 2005 to June 30, 2006
Amount of project	Estimated to be \$15,000
Town contributionss	To provide services such as law enforcement, fire and ambulance services.
Audit responsibility	Chaves County

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SUPPLEMENTARY INFORMATION

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NONMAJOR GOVERNMENTAL FUNDS

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STATE OF NEW MEXICO

Town of Hagerman

Nonmajor Funds

June 30, 2006

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, 2006

	Special Revenue Funds			
	Recreation	Law Enforcement Protection	EMS	D.A.R.E
<i>Assets</i>				
Cash and cash equivalents	\$ 6,025	\$ -	\$ 419	\$ 340
Receivables				
Other	-	-	-	-
<i>Total assets</i>	\$ 6,025	\$ -	\$ 419	\$ 340
 <i>Liabilities and Fund Balance</i>				
<i>Current liabilities</i>				
Accounts payable	\$ -	\$ 1,707	\$ 1,033	\$ -
<i>Total liabilities</i>	-	1,707	1,033	-
 <i>Fund balance</i>				
Unreserved:				
Undesignated				
Special revenue funds	6,025	(1,707)	(614)	340
<i>Total fund balance</i>	6,025	(1,707)	(614)	340
<i>Total liabilities and fund balance</i>	\$ 6,025	\$ -	\$ 419	\$ 340

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>
\$ 4,299	\$ -	\$ 11,083
<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 4,299</u>	<u>\$ -</u>	<u>\$ 11,083</u>
\$ <u>-</u>	\$ <u>-</u>	\$ <u>2,740</u>
<u>-</u>	<u>-</u>	<u>2,740</u>
<u>4,299</u>	<u>-</u>	<u>8,343</u>
<u>4,299</u>	<u>-</u>	<u>8,343</u>
<u>\$ 4,299</u>	<u>\$ -</u>	<u>\$ 11,083</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, 2006

	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	1,154	-	-	-
Intergovernmental income				
State operating grants	-	21,200	10,373	-
State capital grants	-	-	-	-
Licenses and permits	-	-	-	-
Interest	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>1,154</u>	<u>21,200</u>	<u>10,373</u>	<u>-</u>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	-	19,586	11,244	-
Public works	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal	-	7,244	-	-
Interest	-	1,512	-	-
<i>Total expenditures</i>	<u>-</u>	<u>28,342</u>	<u>11,244</u>	<u>-</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>1,154</u>	<u>(7,142)</u>	<u>(871)</u>	<u>-</u>
<i>Other financing sources (uses):</i>				
Transfers in	-	3,193	-	-
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>3,193</u>	<u>-</u>	<u>-</u>
<i>Net change in fund balances</i>	<u>1,154</u>	<u>(3,949)</u>	<u>(871)</u>	<u>-</u>
<i>Fund balance - beginning of year</i>	<u>4,871</u>	<u>2,242</u>	<u>257</u>	<u>340</u>
<i>Fund balance - end of year</i>	<u>\$ 6,025</u>	<u>\$ (1,707)</u>	<u>\$ (614)</u>	<u>\$ 340</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>
\$ -	\$ -	\$ -
-	-	-
-	-	-
-	-	1,154
-	76,024	107,597
-	-	-
2,158	-	2,158
-	-	-
-	-	-
<u>2,158</u>	<u>76,024</u>	<u>110,909</u>
610	-	610
-	-	30,830
-	76,024	76,024
-	-	-
-	-	-
-	-	7,244
-	-	1,512
<u>610</u>	<u>76,024</u>	<u>116,220</u>
<u>1,548</u>	<u>-</u>	<u>(5,311)</u>
<u>-</u>	<u>-</u>	<u>3,193</u>
<u>-</u>	<u>-</u>	<u>3,193</u>
<u>1,548</u>	<u>-</u>	<u>(2,118)</u>
<u>2,751</u>	<u>-</u>	<u>10,461</u>
<u>\$ 4,299</u>	<u>\$ -</u>	<u>\$ 8,343</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, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
<i>Revenues:</i>				
Taxes - property	\$ -	\$ -	\$ -	\$ -
Taxes - gross receipts	-	-	-	-
Taxes - other	1,100	1,100	1,154	54
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Miscellaneous	-	-	-	-
Interest	-	-	-	-
<i>Total revenues</i>	1,100	1,100	1,154	54
<i>Expenditures:</i>				
<i>Current:</i>				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and recreation	5,000	5,000	-	5,000
Capital outlay	-	-	-	-
<i>Total expenditures</i>	5,000	5,000	-	5,000
<i>Excess (deficiency) of revenues over expenditures</i>	(3,900)	(3,900)	1,154	5,054
<i>Other financing sources (uses):</i>				
Designated cash balance	3,900	3,900	-	(3,900)
<i>Total other financing sources (uses)</i>	3,900	3,900	-	(3,900)
<i>Excess (deficiency) of revenues and other sources (uses) over expenditures</i>	-	-	1,154	1,154
<i>Fund balances - beginning of year</i>	-	-	4,872	4,872
<i>Fund balances - end of year</i>	\$ -	\$ -	\$ 6,026	\$ 6,026
<i>Reconciliation to GAAP basis:</i>				
Change in fund balance - GAAP Basis			\$ 1,154	
Change in fund balance - budgetary basis			\$ 1,154	

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, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
<i>Revenues:</i>				
Taxes - property	\$ -	\$ -	\$ -	\$ -
Taxes - gross receipts	-	-	-	-
Federal grants	-	-	-	-
State grants	21,200	21,200	21,200	-
Local grants	-	-	-	-
Miscellaneous	-	-	-	-
Interest	-	-	-	-
<i>Total revenues</i>	21,200	21,200	21,200	-
<i>Expenditures:</i>				
<i>Current:</i>				
General government	-	-	-	-
Public safety	23,200	26,393	27,247	(854)
Public works	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	-	-	-	-
<i>Total expenditures</i>	23,200	26,393	27,247	(854)
<i>Excess (deficiency) of revenues over expenditures</i>	(2,000)	(5,193)	(6,047)	(854)
<i>Other financing sources (uses):</i>				
Designated cash balance	2,000	5,193	-	(2,000)
Transfers in	-	-	3,193	-
<i>Total other financing sources (uses)</i>	2,000	5,193	3,193	(2,000)
<i>Excess (deficiency) of revenues and other sources (uses) over expenditures</i>	-	-	(2,854)	(2,854)
<i>Fund balances - beginning of year</i>	-	-	2,854	2,854
<i>Fund balances - end of year</i>	\$ -	\$ -	\$ -	\$ -
<i>Reconciliation to GAAP basis:</i>				
Change in fund balance - GAAP Basis			\$ (3,949)	
Increase (decrease) in accounts payable			1,095	
Change in fund balance - budgetary basis			\$ (2,854)	

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, 2006**

	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	10,132	10,132	10,373	241
Miscellaneous	-	-	-	-
Interest	-	-	-	-
<i>Total revenues</i>	10,132	10,132	10,373	241
<i>Expenditures:</i>				
<i>Current:</i>				
General government	-	-	-	-
Public safety	10,132	10,132	10,420	(288)
Public works	-	-	-	-
Capital outlay	-	-	-	-
<i>Total expenditures</i>	10,132	10,132	10,420	(288)
<i>Excess (deficiency) of revenues over expenditures</i>	-	-	(47)	(47)
<i>Other financing sources (uses):</i>				
Designated cash balance	-	-	-	-
Transfers in	-	-	-	-
Transfers (out)	-	-	-	-
<i>Total other financing sources (uses)</i>	-	-	-	-
<i>Excess (deficiency) of revenues and other sources (uses) over expenditures</i>	-	-	(47)	(47)
<i>Fund balances - beginning of year</i>	-	-	466	466
<i>Fund balances - end of year</i>	\$ -	\$ -	\$ 419	\$ 419
<i>Reconciliation to GAAP basis:</i>				
Change in fund balance - GAAP Basis			\$ (871)	
Increase (decrease) in accounts payable			824	
Change in fund balance - budgetary basis			\$ (47)	

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, 2006

	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>				
<i>Current:</i>				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	1,340	1,340	-	1,340
Culture and recreation	-	-	-	-
<i>Total expenditures</i>	1,340	1,340	-	1,340
<i>Excess (deficiency) of revenues over expenditures</i>	(340)	(340)	-	340
<i>Other financing sources (uses):</i>				
Designated cash balance	340	340	-	(340)
<i>Total other financing sources (uses)</i>	340	340	-	(340)
<i>Excess (deficiency) of revenues and other sources (uses) over expenditures</i>	-	-	-	-
<i>Fund balances - beginning of year</i>	-	-	340	340
<i>Fund balances - end of year</i>	\$ -	\$ -	\$ 340	\$ 340
<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
TOWN OF HAGERMAN

Statement A-7

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, 2006

	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	2,100	2,100	2,158	58
Federal grants	-	-	-	-
State grants	-	-	-	-
Local grants	-	-	-	-
Miscellaneous	-	-	-	-
Interest	-	-	-	-
<i>Total revenues</i>	2,100	2,100	2,158	58
<i>Expenditures:</i>				
<i>Current:</i>				
General government	4,100	4,100	610	3,490
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and recreation	-	-	-	-
<i>Total expenditures</i>	4,100	4,100	610	3,490
<i>Excess (deficiency) of revenues over expenditures</i>	(2,000)	(2,000)	1,548	3,548
<i>Other financing sources (uses):</i>				
Designated cash balance	2,000	2,000	-	(2,000)
<i>Total other financing sources (uses)</i>	2,000	2,000	-	(2,000)
<i>Excess (deficiency) of revenues and other sources (uses) over expenditures</i>	-	-	1,548	1,548
<i>Fund balances - beginning of year</i>	-	-	2,751	2,751
<i>Fund balances - end of year</i>	\$ -	\$ -	\$ 4,299	\$ 4,299
<i>Reconciliation to GAAP basis:</i>				
Change in fund balance - GAAP Basis			\$ 1,548	
Change in fund balance - budgetary basis			\$ 1,548	

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, 2006

	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	101,024	101,024	76,024	(25,000)
Local grants	-	-	-	-
Miscellaneous	-	-	-	-
Interest	-	-	-	-
<i>Total revenues</i>	101,024	101,024	76,024	(25,000)
<i>Expenditures:</i>				
<i>Current:</i>				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	101,024	101,024	76,024	25,000
Culture and recreation	-	-	-	-
<i>Total expenditures</i>	101,024	101,024	76,024	25,000
<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-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, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
<i>Revenues:</i>				
Taxes - property	\$ -	\$ -	\$ -	\$ -
Taxes - other	6,000	6,000	5,990	(10)
Charges for services	353,000	353,000	358,421	5,421
State grants	270,000	270,000	145,000	(125,000)
Miscellaneous	3,500	3,500	7,904	4,404
<i>Total revenues</i>	<u>632,500</u>	<u>632,500</u>	<u>517,315</u>	<u>(115,185)</u>
<i>Expenditures:</i>				
<i>Current:</i>				
General government	634,128	666,905	536,286	130,619
Public safety	-	-	-	-
Capital outlay	-	-	-	-
<i>Total expenditures</i>	<u>634,128</u>	<u>666,905</u>	<u>536,286</u>	<u>130,619</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(1,628)</u>	<u>(34,405)</u>	<u>(18,971)</u>	<u>15,434</u>
<i>Other financing sources (uses):</i>				
Designated cash balance	1,628	34,405	-	(1,628)
Transfers in	-	-	32,777	-
<i>Total other financing sources (uses)</i>	<u>1,628</u>	<u>34,405</u>	<u>32,777</u>	<u>(1,628)</u>
<i>Excess (deficiency) of revenues and other sources (uses) over expenditures</i>	-	-	13,806	13,806
<i>Fund balances - beginning of year</i>	-	-	5,060	5,060
<i>Fund balances - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,866</u>	<u>\$ 18,866</u>
<i>Reconciliation to GAAP basis:</i>				
Change in fund balance - GAAP Basis			\$ 135,736	
(Increase) decrease in accounts receivable			(10,408)	
(Increase) decrease in capital assets			(145,000)	
(Increase) decrease in depreciation			42,692	
Increase (decrease) in long term debt			(19,588)	
Increase (decrease) in accounts payable			(5,908)	
Increase (decrease) in interest payable			16,282	
Change in fund balance - budgetary basis			<u>\$ 13,806</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, 2006

Account Name	Type	Wells Fargo Bank	Roswell National Bank	Total
General Fund	Checking	\$ 323,014	\$ -	\$ 323,014
General Fund	Certificate of Deposit	41,252	60,000	101,252
		-	-	-
Amounts on deposit		364,266	60,000	424,266
Outstanding items		(16,730)	-	(16,730)
		<u>\$ 347,536</u>	<u>\$ 60,000</u>	<u>\$ 407,536</u>

Reconciliation to the Statement of Net Assets:

Cash and cash equivalents	\$ 381,520
Restricted cash and cash equivalents	<u>26,016</u>
Total deposits	<u>\$ 407,536</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, 2006

<u>Name of Depository</u>	<u>CUISP #</u>	<u>Description of Pledged Collateral</u>		<u>Fair Market Value June 30, 2006</u>	<u>Name and Location of Safe keeper</u>
Wells Fargo Bank	31335HYN7	FGTW C90717, Due 09/01/23	Bond*	\$ 7,403	Wells Fargo Bank
Wells Fargo Bank	31385JRNO	FNCL 545993, Due 11/01/32	Bond	179,399	Wells Fargo Bank
Wells Fargo Bank	36225BFS2	GNSF 781077, Due 08/15/29	Bond	3,371	Wells Fargo Bank
Wells Fargo Bank	36225BM54	GNSF 781280, Due 04/15/31	Bond	<u>33,670</u>	Wells Fargo Bank
				<u>\$ 223,843</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 were engaged to audit 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, 2006, 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 March 13, 2009. 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, 2006 as listed in the table of contents. Due to the Town's deficiencies in internal controls and the lack of adequate documentation, the scope of our work was not sufficient to enable us to express, and we did not express opinions on these opinion units.

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 2003-2 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, 2004-9, 2006-1, 2006-2, 2006-3, 2006-4, and 2006-5.

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.

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
March 13, 2009

STATE OF NEW MEXICO
TOWN OF HAGERMAN
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2006

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, 2006, audit report was submitted to the Office of the State Auditor after the December 1, 2006 deadline. The report was received at the Office of the State Auditor on March 13, 2009.

Cause

The Town was having difficulty obtaining the final 2003 audit from its former audit firm. The Town did not procure its 2006 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.

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.

STATE OF NEW MEXICO
TOWN OF HAGERMAN
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2006

2003-2: Capital Assets (continued)

Criteria (continued)

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.

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.

STATE OF NEW MEXICO
TOWN OF HAGERMAN
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2006

2003-2: Capital Assets (continued)

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.

2004-1: 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.

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

STATE OF NEW MEXICO
TOWN OF HAGERMAN
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2006

2004-1: Preparation of Financial Statements (continued)

Recommendation (continued)

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.

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.

STATE OF NEW MEXICO
TOWN OF HAGERMAN
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2006

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

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;

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.
- One cash disbursements tested (that totaled \$319) out of a total of twelve cash disbursements tested (that totaled \$15,576) were missing supporting documentation.
- Two credit card payments tested (that totaled \$1,948) out of a total of two (that totaled \$1,948) credit card payments tested did not have supporting documentation.
- 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.

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.

STATE OF NEW MEXICO
TOWN OF HAGERMAN
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2006

2004-3: Lack of Internal Controls (continued)

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 employees.

Effect

The lack of proper internal controls places the Town's accounting records 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.

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.

2004-6 Credit Card Finance Charges

Criteria

The New Mexico Procurement Code Section 13-1-158, NMSA 1978 requires that purchases be paid for within 30 days of certification of receipt of the goods and services.

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2004-6 Credit Card Finance Charges (continued)

Condition

During our testing of credit cards, we noted the following:

- One of two credit card payments tested included payment of finance charges totaling \$24.98. Finance charges are being incurred because credit card purchases are not being paid timely

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

Procedures will be implemented to pay credit card balances in a timely manner, thereby avoiding interest and finance charges.

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.

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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:

- One of five PERA employee deductions tested was miscalculated in the amount of \$2.18
- Utility Fringe benefit that employees of the Town of Hagerman receive is not being reported on the employees' W-2 as a fringe benefit.
- There was no review of payroll calculations or direct deposit activity.

Cause

Town personnel were unaware that fringe benefits were to be reported as part of employee compensation. No review process was in place to ensure that the payroll calculations and PERA report were correct.

Effect

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

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.

2006-1: Cash Receipts Test work

Criteria

Good accounting practice requires local governments to deposit public monies in a timely manner. Section 12-6-5, NMSA 1978 requires the auditor to report any violation of good accounting practices found by the audit

Condition

During our test of 18 receipts that totaled \$74,756, we noted that 4 of the deposits totaling, \$7,273 were not deposited in a timely manner.

Cause

There is a lack of diligence regarding the good accounting practice of making deposits by the close of the next business day after receipt.

Effect

Money collected is at a higher risk of being unaccounted for, either intentionally or unintentionally.

Recommendation

We recommend the Town ensure that the Town deposit receipts in a timely manner.

Town's Response

Hagerman now has a local bank and deposits are being made in a timely manner.

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2006-2: 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 \$948.34) out of the 8 (that totaled \$2,162.10) tested that did not have approval for 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

Proper signatures will be obtained.

2006-3 Payroll Payments for Services Not Rendered

Criteria

According to the NM Constitution, Article IV, Section 27, 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 \$990.

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.

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2006-4: Bids

Criteria

Per Section 13-1-95.1 NMSA 1978, the invitation to bid or notice thereof shall be published not less than ten calendar days prior to the date set for the opening of bids. The invitation to bid or notice must be published once in at least one newspaper of general circulation in the area in which the central purchasing office is located.

Condition

During our examination of the procurement process we noted the following:

- One bid tested (that totaled \$48,589) out of two bids tested (that totaled \$82,522) did not have documentation in the file to indicate that the bid accepted was the only bid received.
- One bid tested (that totaled \$33,933) out of two bids tested (that totaled \$82,522) was not awarded to the lowest bidder. Reasons for rejecting the low bid were not on file.
- One bid tested (that totaled \$33,933) out of two bids tested (that totaled \$82,522) did not have proof that the bid request was advertised in a newspaper of general circulation within its area.

Cause

The Town does not retain adequate documentation related to the bid process. The filing system is inefficient. Personnel are not adequately trained regarding internal control and proper documentation.

Effect

The Town could be sued for noncompliance with the NM Procurement Code bid process and do not have adequate documentation to verify its procurement process.

Recommendation

We recommend that the Town implement the required bidding process and that bid files include a copy of the contract specifications, the ad placed in newspapers with date, copies of the bid received, copy of the award letter, and other items as needed, pursuant to the State Procurement Code. When purchases are made under state procurement act, a copy of the bid documentation should be retained in the file.

Town's Response

We will correct our bid procedures and retention of documentation.

2006-5: Budget

Criteria

Section 6-6-6 NMSA 1978 states that when any budget for a 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 the budgeted amount in the following funds, by the respective amounts:

- | | |
|---|-------|
| • Law Enforcement Protection Special Revenue Fund | \$854 |
| • EMS Special Revenue Fund | \$288 |

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.

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2006-5: 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.

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B. PRIOR YEAR FINDINGS

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

2003-2 Capital Assets
Repeated as 2003-2.

2004-1 Preparation of Financial Statements
Repeated as 2004-1

2004-2 Inadequate Internal Controls over Information Technology
Repeated as 2004-2.

2004-3 Lack of Internal Controls
Repeated as 2004-3.

2004-4 1099 Forms Not Being Used
Repeated as 2004-4.

2004-6 Credit Card Finance Charges
Repeated as 2004-6.

2004-7 Utility Billings Understated and Meter Deposits Misstated
Repeated as 2004-7.

2004-9 Payroll
Repeated as 2004-9.

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OTHER DISCLOSURES
June 30, 2006

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, 2006 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