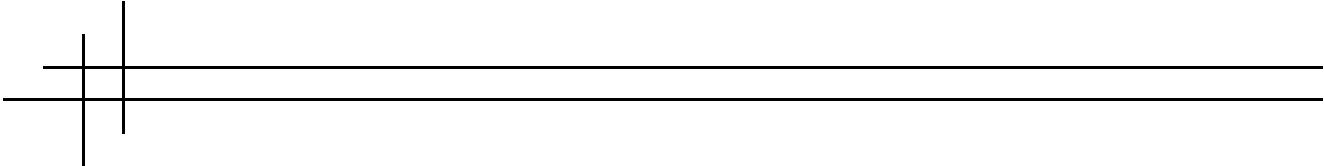




STATE OF NEW MEXICO
TOWN OF HAGERMAN

ANNUAL FINANCIAL REPORT
June 30, 2008

De'Aun Willoughby CPA, PC
Certified Public Accountant
Melrose, New Mexico



STATE OF NEW MEXICO
TOWN OF HAGERMAN
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STATE OF NEW MEXICO
TOWN OF HAGERMAN
Official Roster
June 30, 2008

TOWN COUNCIL

Cliff Waide	Mayor
Jim Pilley	Mayor-Pro-Tem
Connie Andrews	Councilman
Mark Lovas	Councilman
Bill Shaw	Councilman

ADMINISTRATIVE OFFICIALS

Beverly West	Clerk/Treasurer
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Independent Auditor's Report

Mr. Hector Balderas
State Auditor of the State of New Mexico
Board Members of the TOWN OF HAGERMAN

Mr. Balderas and Members of the Board

We were engaged to audit the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, and the budgetary comparisons for the general fund and major special revenue funds of the TOWN OF HAGERMAN, (Town), as of and for the year ended June 30, 2008, which collectively comprise the Town's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the Town's nonmajor governmental funds, and the budgetary comparisons for the nonmajor funds presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Town's management.

The Town has not maintained adequate accounting records as explained further in findings and responses. 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; amounts and related data were recorded that expenditure 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.

The Town's utility billing system could not provide accurate information regarding the amount of delinquent accounts, resulting in the Town's inability to reasonable 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 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.

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 business-type 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 11, 2010, 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 control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The Town has not presented management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

We were engaged for the purpose of forming opinions on the Town's basic financial statements, the combining and individual fund financial statements and budgetary comparisons. The additional schedules listed as "other supplemental information" in the table of contents are presented for purposes of additional analysis and are not a required part of the 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.

 De'Ann Willoughby, CPA PC

March 11, 2010

FINANCIAL SECTION

STATE OF NEW MEXICO
TOWN OF HAGERMAN
Government-Wide Statement of Net Assets
June 30, 2008

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 536,372	\$ 21,644	\$ 558,016
Receivables			
Taxes	22,405	481	22,886
Accounts	0	59,503	59,503
Restricted Cash	0	27,807	27,807
Total Current Assets	<u>558,777</u>	<u>109,435</u>	<u>668,212</u>
Capital Assets			
Land	138,730	154,890	293,620
Construction in Progress	568,687	0	568,687
Infrastructure	209,112	0	209,112
Building & Improvements	2,099,251	103,053	2,202,304
Equipment & Vehicles	1,404,180	950,228	2,354,408
Water System	0	202,705	202,705
Sewer System	0	733,925	733,925
Less: Accumulated Depreciation	0	(1,030,652)	(1,030,652)
Total Capital Assets	<u>4,419,960</u>	<u>1,114,149</u>	<u>5,534,109</u>
Total Assets	<u>4,978,737</u>	<u>1,223,584</u>	<u>6,202,321</u>
LIABILITIES			
Current Liabilities			
Accounts Payable	15,536	9,949	25,485
Accrued Salaries and Benefits	3,381	2,270	5,651
Accrued Interest	9,101	1,250	10,351
Current Portion of Long-Term Debt	33,320	3,693	37,013
Total Current Liabilities	<u>61,338</u>	<u>17,162</u>	<u>78,500</u>
Noncurrent Liabilities			
Customer Deposits	0	27,807	27,807
Compensated Absences	10,095	4,663	14,758
Notes and Loans Payable	270,019	230,586	500,605
Total Noncurrent Liabilities	<u>280,114</u>	<u>263,056</u>	<u>543,170</u>
Total Liabilities	<u>341,452</u>	<u>280,218</u>	<u>621,670</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	4,116,621	879,870	4,996,491
Unrestricted	520,664	63,496	584,160
Total Net Assets	<u>\$ 4,637,285</u>	<u>\$ 943,366</u>	<u>\$ 5,580,651</u>

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
TOWN OF HAGERMAN
Government-Wide Statement of Activities
For the Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues			Net(Expenses) Revenue and Changes in Net Assets		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
Governmental Activities							
General Government	\$ 95,021	\$ 5,111	\$ 153,717	\$ 0	\$ 63,807	\$ 0	\$ 63,807
Public Safety	341,037	9,243	170,957	0	(160,837)	0	(160,837)
Public Works	8,638	0	0	315,490	306,852	0	306,852
Culture & Recreation	55,846	0	0	0	(55,846)	0	(55,846)
Interest on Long-Term Obligations	8,343	0	0	0	(8,343)	0	(8,343)
Total Governmental Activities	<u>508,885</u>	<u>14,354</u>	<u>324,674</u>	<u>315,490</u>	<u>145,633</u>	<u>0</u>	<u>145,633</u>
Business-type Activities							
Utility	461,627	436,427	487,818	0	0	462,618	462,618
Total Business-type Activities	<u>461,627</u>	<u>436,427</u>	<u>487,818</u>	<u>0</u>	<u>0</u>	<u>462,618</u>	<u>462,618</u>
Total Primary Government	<u>\$ 970,512</u>	<u>\$ 450,781</u>	<u>\$ 812,492</u>	<u>\$ 315,490</u>	<u>145,633</u>	<u>462,618</u>	<u>608,251</u>
General Revenues							
Gross Receipts Taxes					243,697	0	243,697
Gasoline Taxes					12,559	0	12,559
Property Taxes					7,095	0	7,095
Cigarette Taxes					2,431	0	2,431
Franchise Taxes					13,731	0	13,731
Other Taxes					1,272	5,754	7,026
Miscellaneous					27,635	0	27,635
Total General Revenues and Transfers					<u>308,420</u>	<u>5,754</u>	<u>314,174</u>
Change in Net Assets					454,053	468,372	922,425
Net Assets - beginning					<u>4,183,232</u>	<u>474,994</u>	<u>4,658,226</u>
Net Assets - ending					<u>\$ 4,637,285</u>	<u>\$ 943,366</u>	<u>\$ 5,580,651</u>

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
TOWN OF HAGERMAN
GOVERNMENTAL FUNDS
Balance Sheet
June 30, 2008

	General Fund	Fire Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 325,033	\$ 177,764	\$ 33,575	\$ 536,372
Receivables				
Taxes	21,302	0	1,103	22,405
Total Assets	<u>\$ 346,335</u>	<u>\$ 177,764</u>	<u>\$ 34,678</u>	<u>\$ 558,777</u>
LIABILITIES AND FUND BALANCE				
Liabilities				
Current Liabilities				
Accounts Payable	\$ 8,363	\$ 4,185	\$ 2,988	\$ 15,536
Accrued Salaries and Benefits	3,381	0	0	3,381
Total Liabilities	<u>11,744</u>	<u>4,185</u>	<u>2,988</u>	<u>18,917</u>
Fund Balances				
Reserved Reported In:				
Special Revenue Fund	0	173,579	31,690	205,269
Unreserved Reported In:				
General Fund	334,591	0	0	334,591
Total Fund Balances	<u>334,591</u>	<u>173,579</u>	<u>31,690</u>	<u>539,860</u>
Total Liabilities and Fund Balances	<u>\$ 346,335</u>	<u>\$ 177,764</u>	<u>\$ 34,678</u>	<u>\$ 558,777</u>

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
TOWN OF HAGERMAN
Reconciliation of the Governmental Funds
Balance Sheet to the Statement of Net Assets
June 30, 2008

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Total Fund Balance - Governmental Funds	\$	539,860
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Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

The cost of capital assets	\$	4,419,960	
Accumulated depreciation is		<u>0</u>	4,419,960

Long-term and certain other liabilities, including loans payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term and other liabilities at year end consist of :

Notes and Loans payable	(303,339)	
Accrued Interest	(9,101)	
Compensated Absences	<u>(10,095)</u>	<u>(322,535)</u>

Total net assets - governmental activities	\$	<u><u>4,637,285</u></u>
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The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
TOWN OF HAGERMAN
GOVERNMENTAL FUNDS
Statement of Revenues, Expenditures and Changes
in Fund Balance
For the Year Ended June 30, 2008

	General Fund	Fire Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenues				
Taxes				
Gross Receipt Taxes	\$ 243,697	\$ 0	\$ 0	\$ 243,697
Gasoline Taxes	0	0	12,559	12,559
Property Taxes	7,095	0	0	7,095
Cigarette Taxes	2,060	0	371	2,431
Franchise Taxes	13,731	0	0	13,731
Other Taxes	1,272	0	0	1,272
Charges for Services	5,111	0	0	5,111
License, Fees and Fines	7,675	0	1,568	9,243
State & Local Grants	469,207	130,876	40,081	640,164
Miscellaneous	27,635	0	0	27,635
Total Revenues	<u>777,483</u>	<u>130,876</u>	<u>54,579</u>	<u>962,938</u>
Expenditures				
Current				
General	94,283	0	0	94,283
Public Safety	237,249	67,213	36,650	341,112
Public Works	8,638	0	0	8,638
Culture & Recreation	55,846	0	0	55,846
Capital Outlay	306,917	18,623	0	325,540
Debt Service				
Principal	7,900	0	0	7,900
Interest	0	0	0	0
Total Expenditures	<u>710,833</u>	<u>85,836</u>	<u>36,650</u>	<u>833,319</u>
Excess (Deficiency) of Revenues Over Expenditures	66,650	45,040	17,929	129,619
Fund Balances at Beginning of Year	<u>267,941</u>	<u>128,539</u>	<u>13,761</u>	<u>410,241</u>
Fund Balance End of Year	<u>\$ 334,591</u>	<u>\$ 173,579</u>	<u>\$ 31,690</u>	<u>\$ 539,860</u>

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
TOWN OF HAGERMAN
Reconciliation of the Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balance
To the Statement of Activities
June 30, 2008

Excess (Deficiency) of Revenues Over Expenditures \$ 129,619

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the Statement of Net Assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which depreciation exceeds capital outlays in the period.

Depreciation expense	\$	0	
Capital Outlays		325,540	325,540

Repayment of loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 7,900

In the Statement of Activities, interest is accrued on outstanding loans, whereas in governmental funds, an interest expenditure is reported when due. (8,343)

Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (663)

Changes in Net Assets of Governmental Activities \$ 454,053

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
TOWN OF HAGERMAN
GENERAL FUND

Statement of Revenues, Expenditures, and Changes in Cash Balance -
Budget and Actual (Budgetary Basis)
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget- Over (Under)
	Original	Final		
Revenues				
Taxes				
Property Taxes	\$ 6,521	\$ 6,521	\$ 8,592	\$ 2,071
Franchise Taxes	17,000	17,000	17,850	850
Gross Receipts	217,000	217,000	243,822	26,822
Cigarette Taxes	1,800	1,800	2,148	348
Motor Vehicle	1,050	1,050	1,275	225
Charges for Services	7,550	7,550	5,111	(2,439)
License, Fees and Fines	11,300	11,300	7,675	(3,625)
Small Cities Assistance	120,075	120,075	129,277	9,202
State & Local Grants	1,215,742	1,215,742	339,930	(875,812)
Miscellaneous	5,954	5,954	27,635	21,681
Total Revenues	<u>1,603,992</u>	<u>1,603,992</u>	<u>783,315</u>	<u>(820,677)</u>
Expenditures				
Financial				
Personnel Services	55,555	55,555	54,398	1,157
Operating Expense	75,565	75,565	24,134	51,431
Capital Purchases	285,000	285,000	7,458	277,542
Total Financial	<u>416,120</u>	<u>416,120</u>	<u>85,990</u>	<u>330,130</u>
Judicial				
Personnel Services	13,878	13,878	10,612	3,266
Operating Expenses	11,000	11,000	3,216	7,784
Total Judicial	<u>24,878</u>	<u>24,878</u>	<u>13,828</u>	<u>11,050</u>
Public Safety				
Personnel Services	182,966	182,966	177,889	5,077
Operating Expenses	48,320	48,320	43,996	4,324
Total Public Safety	<u>231,286</u>	<u>231,286</u>	<u>221,885</u>	<u>9,401</u>
Fire Department				
Personnel Services	2,500	2,500	2,442	58
Operating Expenses	1,000	1,000	403	597
Capital Purchases	248,770	248,770	246,878	1,892
Total Fire Department	<u>252,270</u>	<u>252,270</u>	<u>249,723</u>	<u>2,547</u>
Streets				
Operating Expenses	5,000	5,000	599	4,401
Capital Purchases	20,654	20,654	20,674	(20)
Total Streets	<u>\$ 25,654</u>	<u>\$ 25,654</u>	<u>\$ 21,273</u>	<u>\$ 4,381</u>

STATE OF NEW MEXICO
TOWN OF HAGERMAN
GENERAL FUND

Statement of Revenues, Expenditures, and Changes in Cash Balance -
Budget and Actual (Budgetary Basis)
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget- Over (Under)
	Original	Final		
Ambulance				
Operating Expenses	\$ 5,403	\$ 5,403	\$ 11,741	\$ (6,338)
Debt Service				
Principal	7,968	7,968	7,968	0
Interest	0	0	0	0
Total Ambulance	<u>13,371</u>	<u>13,371</u>	<u>19,709</u>	<u>(6,338)</u>
CDBG Planning Grant				
Operating Expenses	68,726	68,726	8,039	60,687
Total CDBG Planning Grant	<u>68,726</u>	<u>68,726</u>	<u>8,039</u>	<u>60,687</u>
Parks & Recreation				
Operating Expenses	43,850	43,850	50,982	(7,132)
Capital Purchases	550,000	550,000	31,907	518,093
Total Parks & Recreation	<u>593,850</u>	<u>593,850</u>	<u>82,889</u>	<u>510,961</u>
Museum				
Operating Expenses	1,500	1,500	369	1,131
Total Museum	<u>1,500</u>	<u>1,500</u>	<u>369</u>	<u>1,131</u>
Total Expenditures	<u>1,627,655</u>	<u>1,627,655</u>	<u>703,705</u>	<u>923,950</u>
Excess (Deficiency) of Revenues Over Expenditures	(23,663)	(23,663)	79,610	103,273
Cash Balance Beginning of Year	<u>245,423</u>	<u>245,423</u>	<u>245,423</u>	<u>0</u>
Cash Balance End of Year	<u>\$ 221,760</u>	<u>\$ 221,760</u>	<u>\$ 325,033</u>	<u>\$ 103,273</u>
Reconciliation of Budgetary Basis to GAAP Basis				
Net Change in Cash Balance			\$ 79,610	
Net Change in Taxes Receivables			(5,830)	
Net Change in Accounts Payables			(6,217)	
Net Change in Accrued Salaries & Benefits			(913)	
Net Change in Fund Balance			<u>\$ 66,650</u>	

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
TOWN OF HAGERMAN
SPECIAL REVENUE FUND-FIRE FUND
Statement of Revenues, Expenditures, and Changes in Cash Balance -
Budget and Actual (Budgetary Basis)
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget- Over (Under)
	Original	Final		
Revenues				
State & Local Grants	\$ 130,876	\$ 130,876	\$ 130,876	\$ 0
Total Revenues	<u>130,876</u>	<u>130,876</u>	<u>130,876</u>	<u>0</u>
Expenditures				
Public Safety				
Operating Expense	65,821	65,821	74,434	(8,613)
Capital Purchases	<u>95,536</u>	<u>95,536</u>	<u>18,623</u>	<u>76,913</u>
Total Public Safety	<u>161,357</u>	<u>161,357</u>	<u>93,057</u>	<u>68,300</u>
Total Expenditures	<u>161,357</u>	<u>161,357</u>	<u>93,057</u>	<u>68,300</u>
Excess (Deficiency) of Revenues Over Expenditures	(30,481)	(30,481)	37,819	68,300
Cash Balance Beginning of Year	<u>139,944</u>	<u>139,944</u>	<u>139,944</u>	<u>0</u>
Cash Balance End of Year	<u>\$ 109,463</u>	<u>\$ 109,463</u>	<u>\$ 177,763</u>	<u>\$ 68,300</u>
Reconciliation of Budgetary Basis to GAAP Basis				
Net Change in Cash Balance			\$ 37,819	
Net Change in Accounts Payables			<u>7,221</u>	
Net Change in Fund Balance			<u>\$ 45,040</u>	

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
TOWN OF HAGERMAN
PROPRIETARY FUND
Statement of Net Assets
June 30, 2008

	Utility Fund
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 21,644
Receivables	
Taxes	481
Accounts	59,503
Total Current Assets	81,628
Restricted Assets	
Restricted Cash	27,807
Total Restricted Assets	27,807
Capital Assets	
Land & Water Rights	154,890
Buildings & Improvements	103,053
Equipment & Vehicles	950,228
Water System	202,705
Sewer System	733,925
Less: Accumulated Depreciation	(1,030,652)
Total Capital Assets	1,114,149
Total Assets	1,223,584
LIABILITIES	
Current Liabilities	
Accounts Payable	9,949
Accrued Salaries and Benefits	2,270
Accrued Interest	1,250
Current Portion of Long-Term Debt	3,693
Total Current Liabilities	17,162
Noncurrent Liabilities	
Customer Deposits	27,807
Compensated Absences	4,663
Long-Term Debt	230,586
Total Noncurrent Liabilities	263,056
Total Liabilities	280,218
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	879,870
Unrestricted	63,496
Total Net Assets	\$ 943,366

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
TOWN OF HAGERMAN
PROPRIETARY FUND
Statement of Revenue, Expenses and Changes in Net Assets
For the Year Ended June 30, 2008

	<u>Utility Fund</u>
Operating Revenues	
Sales & Service	\$ 436,427
Total Operating Revenues	<u>436,427</u>
Operating Expenses	
Salaries & Benefits	154,832
Operating Expense	252,710
Depreciation	<u>42,692</u>
Total Operating Expenses	<u>450,234</u>
Operating Income (loss)	<u>(13,807)</u>
Nonoperating Revenue (Expenses)	
Environmental Gross Receipts Tax	5,754
State & Local Grants	87,818
Federal Grant	400,000
Interest Expense	<u>(11,393)</u>
Total Nonoperating Revenue (Expenses)	<u>482,179</u>
Change in Net Assets	468,372
Total Net Assets - Beginning	<u>474,994</u>
Total Net Assets - Ending	<u>\$ 943,366</u>

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
TOWN OF HAGERMAN
PROPRIETARY FUND
Combined Statement of Cash Flows
For the Year Ended June 30, 2008

	<u>Utility Fund</u>
Cash Flows from Operating Activities	
Cash Received From Customers	\$ 419,964
Cash Paid to Suppliers and Employees	<u>396,098</u>
Net Cash Provided by Operating Activities	<u>23,866</u>
 Cash Flows from Capital & Related Financing Activities	
Environmental Gross Receipts Tax	5,754
State & Local Grants	87,818
Federal Grant	400,000
Acquisition and Construction of Capital Assets	(509,352)
Interest paid on Capital Debt	(11,393)
Principal paid on Capital Debt	<u>(3,416)</u>
Net Cash Provided by Capital & Related Financing Activities	<u>(30,589)</u>
 Net Increase (Decrease) in Cash	(6,723)
 Cash, Beginning of the Year	<u>56,175</u>
 Cash, End of the Year	\$ <u><u>49,452</u></u>
 Reconciliation of Cash	
Cash and Cash Equivalents	\$ 21,644
Restricted Cash	<u>27,807</u>
	\$ <u><u>49,451</u></u>
 Reconciliation of Net Income to Net Cash Provided by Operating Activities	
Operating Income (Loss)	\$ (13,807)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities	
Depreciation	42,692
Change in Assets and Liabilities	
(Increase) Decrease in Taxes Receivable	(11)
(Increase) Decrease in Accounts Receivable	(16,463)
Increase (Decrease) in Accounts Payable	8,920
Increase (Decrease) in Accrued Salaries & Benefits	549
Increase (Decrease) in Accrued Interest	0
Increase (Decrease) in Meter Deposits	1,105
Increase (Decrease) in Compensated Absences	881
Net Cash Provided by Operating Activities	\$ <u><u>23,866</u></u>

The notes to the financial statements are an integral part of this statement.

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of Hagerman (Town), have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) 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. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) prior to November 30, 1989 that do not conflict with or contradict GASB pronouncements. The more significant of the Town's accounting policies are described below.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis for State and Local Governments. In addition, in June 2001, the GASB issued Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus - an amendment of GASB Statement No. 21 and No. 34 and Statement No. 38, Certain Financial Note Disclosures. These two statements clarify, modify, establish and rescind certain disclosure requirements under GASB No. 34. Both statements are being implemented in conjunction with GASB Statement No. 34. These statements do not have an impact on the results of operations or the financial position of the Town.

Financial Reporting Entity

The Town was incorporated under the laws of the State of New Mexico. The Town operates under a Council Mayor form of government and provides the following services as authorized by its charter: public safety (police and fire), streets, sanitation, culture-recreation, public improvements, planning and zoning, and general administrative services.

GASB Statement No. 14 established criteria for determining the governmental reporting entity and component units that should be included within the reporting entity. Under provisions of this Statement, the Town is considered a primary government, since it is a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. As used in GASB Statement No. 14, fiscally independent means that the Town may, without the approval or consent of another governmental entity, determine or modify its own budget, levy its own taxes or set rates or charges and issue bonded debt.

The Town has no component units, defined by GASB Statement No. 14 as other legally separate organizations for which the elected Town members are financially accountable. There are no other primary governments with which the Town Board Members are financially accountable. There are no other primary governments with which the Town has a significant relationship.

The accounts of the Town are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

The funds of the Town are classified into two categories: governmental and proprietary. In turn, each category is divided into separate fund types. The fund classification and a description of each existing fund type follows below.

Basis of Presentation and Basis of Accounting

Government-Wide Financial Statements (GWFS)

The government-wide financial statements (the statement of net assets and the statement of changes in net assets) report information on all of the activities of the Town. Fiduciary funds are not included in the GWFS. Fiduciary Funds are reported only in the Statement of Fiduciary Net Assets at the fund financial statement level. The effect of interfund activity, within the governmental and business-type activities columns, 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 program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given program 2) operating grants and contributions that are restricted to meeting the operational requirements of a particular program such as the fire protection and emergency medical services operating grants and the and 3) capital grants such as the highway coop grant restricted to meeting capital requirements of a particular program. Taxes and other items not properly included amount program revenues are reported instead as general revenues.

The Town segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund in a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The Town has presented the following major governmental funds:

General Fund - The General Fund is the general operating fund of the Town and accounts for all revenues and expenditures of the Town not encompassed within other funds.

Fire Fund - To account for the operation and maintenance of the Town Fire Department. Financing is primarily from an annual state fire allotment. The fund was created by the authority of state grant provisions. (NMSA 59A-53-1).

Proprietary Funds - Proprietary Fund Financial Statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets, and a Statement of Cash Flows.

The Proprietary Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or non current) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets presents increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period on which the liability is incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

Additionally, the Town reports the following non-major funds types:

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

Measurement Focus and Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The Government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resource measurement focus means all assets and liabilities (whether current or noncurrent) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e. when they become both measurable and available. "Measurable means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Town considers property taxes as available if they are collected within 30 days after year end. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The specific revenue recognition policy for property taxes are recognized when levied, derived tax revenue (such as gross receipts tax) are recognized when the underlying transaction takes place, and grants are recognized when all of the eligibility requirements have been met.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for service, interest income and intergovernmental revenues. Gross Receipts Taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received.

Budgetary Control

1. Prior to June 1, the Town's Clerk-Treasurer submits the budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Prior to July 1, the budget is legally enacted through passage of an ordinance and then must be approved by Local Government Division of the State Department of Finance and Administration.
3. The Town treasurer is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Town Trustees and the State Department of Finance and Administration.
4. Formal budgetary integration is employed as a management control device during the year for all funds.
5. Legal budget control for expenditures is by fund.

STATE OF NEW MEXICO
TOWN OF HAGERMAN
Notes to the Financial Statements
June 30, 2008

Cash and Cash Equivalents

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.

The Town is authorized under the provisions of Chapter 6, Article 10, paragraph 10, NMSA 1978, to deposit its money in banks, savings and loan associations and/or credit unions whose accounts are insured by an agency of the United States.

Investments

All money not immediately necessary for the public uses of the Town may be invested in :

(a) bonds or negotiable securities of the United States, the state or any county, municipality or school district which has a taxable valuation of real property for the last preceding year of at least one million dollars (1,000,000) and has not defaulted in the payment of any interest or sinking fund obligation or failed to meet any bonds at maturity at any time within five years last preceding; or

(b) securities that are issued by the United States government or by its agencies or instrumentalities and that are either direct obligations of the United States or are backed by the full faith and credit of the United States government or agencies guaranteed by the United States government.

(c) in contracts with banks, savings and loan associations or credit unions for the present purchase and resale at a specified time in the future of specific securities at specified prices at a price differential representing the interest income to be earned by the investor. The contract shall be shown on the books of the financial institution as being the property of the investor and the designation shall be contemporaneous with the investment. The contract shall be fully secured by obligations of the United States having a market value of at least one hundred two percent of the contract. The collateral required for investment in the contracts provided for in this subsection shall be shown on the books of the financial institution as being the property of the investor and the designation shall be contemporaneous with investment.

Receivables and Payables

Receivables include property taxes, interfund loans that are expected to be paid back and amount due from state government agencies related to various grant agreements. Payables represent routine monthly bills for services rendered and products purchased and accrued salaries and benefits.

Elimination and Reclassifications of Certain Receivables and Payables

In the process of aggregating data for the Statement of Net Assets and the Statement of Activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

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.

STATE OF NEW MEXICO
TOWN OF HAGERMAN
Notes to the Financial Statements
June 30, 2008

Capital Assets

Capital assets, which includes property, plant, equipment (including software), and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. Capital assets are recorded at historical costs and depreciated over their estimated useful lives (with no salvage value). Capital assets are defined by the Town as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Donated capital assets are recorded at their estimated fair market value on the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The construction period interest is not capitalized in the proprietary funds.

Estimated useful life is management's estimate of how long the asset is expected to meet service demands. Straight line depreciation is used based on the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40-50
Building Improvements	40-50
Infrastructure	20-30
Vehicles	7
Machinery and Equipment	10
Office Equipment	5
Computer Equipment	5

Revenue

The policy for defining the proprietary fund's operating revenues and expenses is how individual transactions would be categorized for purposes of preparing a statement of cash flows. Transactions for which cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities normally are not reported as components of operating income.

Compensated Absences

Towns' employees are entitled to certain compensated absences based on their employment classification and length of employment. The Town allows employees with the exception of the Law Enforcement personnel to accumulate unused sick leave up to but not exceed 720 hours. The Town does not allow for any sick leave to be converted to cash payouts upon resignation or termination.

Full-time, permanent employees with the exception of the Law Enforcement personnel can accumulate unused vacation time up to but can not exceed 240 hours per calendar year and is payable upon resignation or termination of employment. The Town maintains vacation leave on a calendar basis. Law Enforcement Personnel time is set at 14 days per 12 month period, credited on the anniversary date of hire, any unused time can not be carried over on their next anniversary. All vacation pay leave is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts are reported in the governmental funds only if they have matured as a result of an employees resignation, termination or retirements.

STATE OF NEW MEXICO
TOWN OF HAGERMAN
Notes to the Financial Statements
June 30, 2008

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed by creditors, grantors or laws or regulations of other governments. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available it will first be applied to restricted resources.

NOTE B: RECONCILIATION OF BUDGETARY BASIS TO GAAP BASIS STATEMENTS

The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - all Governmental Fund Types is presented on the budgetary basis to provide a comparison of actual results with the budget. The major differences between the budget basis and GAAP (Generally Accepted Accounting Principles) basis are that:

- A. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
- B. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

The adjustments necessary to convert the results of operations for the year from GAAP basis to the budget basis for the governmental funds are presented on each individual Statement of Revenues, Expenditures, and Changes in Cash Balance - Budget and Actual (Budgetary Basis).

Reconciliations are located at the bottom of each budget actual.

NOTE C: CASH AND INVESTMENTS

The Town is required by New Mexico State Statute (Section 6-10-17) to be 50% collateralized. Following is a schedule calculating the requirement and disclosing the pledged securities.

Hagerman National	Account	Balance	Reconciled	Type
<u>Name of Account</u>	<u>Number</u>	<u>Per Bank</u>	<u>Balance</u>	
		<u>06/30/08</u>	<u></u>	
Operating Account	3102181	\$ 164,108	\$ 158,101	Checking
Certificate of Deposit	61607	64,819	64,819	Saving
TOTAL Deposited		<u>228,927</u>	<u>\$ 222,920</u>	
Less: FDIC Coverage		<u>(164,819)</u>		
Uninsured Amount		64,108		
50% collateral requirement		32,054		
Pledged securities		<u>255,000</u>		
Over (Under) requirement		<u>\$ 222,946</u>		

The following securities are pledged at **Hagerman National**:

<u>Type</u>	<u>CUSIP #</u>	<u>Market or</u>	<u>Maturity Date</u>	<u>Custodian</u>	<u>Place of</u>
		<u>Par Value</u>			<u>Safekeeping</u>
FHLB	3133XFLG9	\$ <u>255,000</u>	2/28/2012	TIB	Dallas, TX

STATE OF NEW MEXICO
TOWN OF HAGERMAN
Notes to the Financial Statements
June 30, 2008

	Account Number	Balance Per Bank 06/30/08	Reconciled Balance	Type
Wells Fargo				
Operating Account	120-5324513	\$ 362,903	\$ 362,903	Checking
TOTAL Deposited		362,903		
Less: FDIC Coverage		(100,000)		
Uninsured Amount		262,903		
50% collateral requirement		131,452		
Pledged securities		262,489		
Over (Under) requirement		\$ 131,037		

The following securities are pledged at **Wells Fargo**:

Type	CUSIP #	Market or Par Value	Maturity Date	Custodian	Place of Safekeeping
FGIOHOH0089	3128MS7G9	\$ 41,856	6/1/2037	Wells Fargo	California
FNCL	31409CV69	200,695	5/1/2036	Wells Fargo	California
FNCL	31409UUZ6	19,938	5/1/2036	Wells Fargo	California
		\$ 262,489			

The difference between the bank balance and the reconciled balance is outstanding deposits, outstanding checks and pending bank adjustments.

Custodial Credit Risk-Deposits

Depository Account	Bank Balance
Insured	\$ 264,819
Collateralized:	
Collateral held by the pledging bank in Town's name	0
Uninsured and uncollateralized	327,011
Total Deposits	\$ 591,830

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of June 30, 2008 \$327,011 of the Town's bank balance of \$591,830 was exposed to custodial credit risk.

NOTE D: CAPITAL ASSETS

Capital Assets Balances and Activity for the Year Ended June 30, 2008, is as follows:

	Balance 6/30/07	Increases	Decreases	Balance 6/30/08
Governmental Activities				
Capital Assets, not being Depreciated				
Land	\$ 138,730	\$ 0	\$ 0	\$ 138,730
Construction on Progress	303,186	265,501	0	568,687
Total Capital Assets not being Depreciated	441,916	265,501	0	707,417
Capital Assets, being Depreciated				
Infrastructure	188,438	20,674	0	209,112
Buildings & Improvements	2,099,251	0	0	2,099,251
Equipment & Vehicles	1,364,815	39,365	0	1,404,180
Total Capital Assets, being Depreciated	3,652,504	60,039	0	3,712,543
Total Capital Assets	\$ 4,094,420	\$ 325,540	\$ 0	\$ 4,419,960

STATE OF NEW MEXICO
TOWN OF HAGERMAN
Notes to the Financial Statements
June 30, 2008

Less Accumulated Depreciation

Infrastructure	\$	0	\$	0	\$	0	\$	0
Buildings & Improvements		0		0		0		0
Equipment & Vehicles		0		0		0		0
Total Accumulated Depreciation		<u>0</u>		<u>0</u>		<u>0</u>		<u>0</u>
Capital Assets, net	\$	<u>4,094,420</u>	\$	<u>325,540</u>	\$	<u>0</u>	\$	<u>4,419,960</u>

Depreciation expense was not allocated to governmental activities.
Total depreciation expenses \$ 0

	Balance 6/30/07	Increases	Decreases	Balance 6/30/08
Business-Type Activities				
Capital Assets not being Depreciated				
Land	\$ 9,890	\$ 0	\$ 0	\$ 9,890
Water Rights	145,000	0	0	145,000
Total Capital Assets not being Depreciated	<u>154,890</u>	<u>0</u>	<u>0</u>	<u>154,890</u>
Capital Assets, being Depreciated				
Buildings & Improvements	103,053	0	0	103,053
Equipment & Vehicles	950,228	0	0	950,228
Water System	202,705	0	0	202,705
Sewer System	224,573	509,352	0	733,925
Total Capital Assets, being Depreciated	<u>1,480,559</u>	<u>509,352</u>	<u>0</u>	<u>1,989,911</u>
Total Capital Assets	<u>1,635,449</u>	<u>509,352</u>	<u>0</u>	<u>2,144,801</u>

Less Accumulated Depreciation

Buildings & Improvements	87,585	2,061	0	89,646
Machinery & Equipment	751,336	31,199	0	782,535
Water System	76,994	3,818	0	80,812
Sewer System	72,046	5,614	0	77,660
Total Accumulated Depreciation	<u>987,961</u>	<u>42,692</u>	<u>0</u>	<u>1,030,653</u>
Capital Assets, net	\$ <u>647,488</u>	\$ <u>466,660</u>	\$ <u>0</u>	\$ <u>1,114,148</u>

NOTE E: LONG TERM DEBT

A summary of activity in the Long-Term Debt is as follows:

	Governmental Activity	Business-Type Activity
\$34,498 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.	\$ 15,858	\$ 0
\$287,481 December 1, 2007 loan held by New Mexico Finance Authority with annual payment of \$42,000 with interest at 6% through May 1, 2016. The debt is paid for out of the General Fund.	287,481	0
\$125,000 1997 loan held by Rural Utility Services with annual installments of \$7,019, including interest at 4.875% through February 19, 2037.	0	109,679
\$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.	0	124,600
	<u>\$ 303,339</u>	<u>\$ 234,279</u>

STATE OF NEW MEXICO
TOWN OF HAGERMAN
Notes to the Financial Statements
June 30, 2008

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, 2007	Additions	Reductions	Balance June 30, 2008	Due Within One Year
Capital Leases:					
NMFA	\$ 23,758	0	7,900	15,858	\$ 7,919
NMFA Fire Truck	287,481	0	0	287,481	25,401
Compensated Absences	9,432	1,903	1,240	10,095	0
Liabilities	<u>\$ 320,671</u>	<u>1,903</u>	<u>9,140</u>	<u>313,434</u>	<u>\$ 33,320</u>

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

Business-Type Activities:

	Balance June 30, 2007	Additions	Reductions	Balance June 30, 2008	Due Within One Year
RUS 1997	\$ 111,396	0	1,717	109,679	\$ 1,717
RUS 1999	126,301	0	1,701	124,600	1,700
Compensated Absences	3,783	3,438	2,558	4,663	0
Liabilities	<u>\$ 241,480</u>	<u>3,438</u>	<u>5,976</u>	<u>238,942</u>	<u>\$ 3,417</u>

Governmental Activities:

The annual requirements to amortize the NMFA Ambulance loan outstanding as of June 30, 2008, including interest payments are as follows:

	Principal	Interest	Total
2009	\$ 7,919	\$ 0	\$ 7,919
2010	7,939	0	7,939
	<u>\$ 15,858</u>	<u>\$ 0</u>	<u>\$ 15,858</u>

The annual requirements to amortize the NMFA Fire loan outstanding as of June 30, 2008, including interest payments are as follows:

	Principal	Interest	Total
2009	\$ 25,401	\$ 16,310	\$ 41,711
2010	34,343	7,657	42,000
2011	35,305	6,695	42,000
2012	36,305	5,698	42,003
2013	37,347	4,658	42,005
2014-2016	118,780	7,254	126,034
	<u>\$ 287,481</u>	<u>\$ 48,272</u>	<u>\$ 335,753</u>

STATE OF NEW MEXICO
TOWN OF HAGERMAN
Notes to the Financial Statements
June 30, 2008

Business-Type Activities:

The annual requirements to amortize the 1997 Rural Utility Service loan outstanding as of June 30, 2008, including interest payments are as follows:

	Principal	Interest	Total
2009	\$ 1,802	\$ 5,307	\$ 7,109
2010	1,892	5,217	7,109
2011	1,986	5,123	7,109
2012	2,086	5,024	7,110
2013	2,190	4,920	7,110
2014-2018	12,698	22,848	35,546
2019-2023	16,194	19,351	35,545
2024-2028	20,654	14,892	35,546
2029-2033	26,343	9,203	35,546
2034-2038	23,834	2,242	26,076
	<u>\$ 109,679</u>	<u>\$ 94,127</u>	<u>\$ 203,806</u>

The annual requirements to amortize the 1999 Rural Utility Service loan outstanding as of June 30, 2008, including interest payments are as follows:

	Principal	Interest	Total
2009	\$ 1,800	\$ 6,000	\$ 7,800
2010	1,800	5,900	7,700
2011	2,000	5,800	7,800
2012	2,000	5,700	7,700
2013	2,200	5,600	7,800
2014-2018	12,300	26,400	38,700
2019-2023	15,700	23,100	38,800
2024-2028	19,700	19,000	38,700
2029-2033	24,900	13,900	38,800
2034-2038	31,200	7,500	38,700
2039	11,000	600	11,600
	<u>\$ 124,600</u>	<u>\$ 119,500</u>	<u>\$ 244,100</u>

NOTE F: PROPERTY TAXES

The County collects the Town's share of property taxes assessed. Property taxes attach an enforceable lien on property as of January 1st. Tax notices are sent by the County treasurer to property owners by November 1st of each year to be paid in whole or in two installments by November 10th and April 10th of each year. The County collects such taxes and distributes them to the Town on a monthly basis. The Town accounts for its share of property taxes in the General Fund. Only those collections received are recorded as revenues for the budget presentation.

NOTE G: RECEIVABLES

Receivables as of June 30, 2008, were as follows:

	General	Non Major	Utility	Total
Taxes	\$ 21,302	\$ 1,103	\$ 481	\$ 22,886
Accounts	0	0	59,503	59,503
	<u>\$ 21,302</u>	<u>\$ 1,103</u>	<u>\$ 59,984</u>	<u>\$ 82,389</u>

All receivable balances are expected to be collected within one year.

NOTE H: INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

As of June 30, 2008, the Town had no interfund receivables, payables or transfers.

NOTE I: DEFINED BENEFIT PENSION PLAN

Plan Description. Substantially all of the Town's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement 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 for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, NM 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 salary, respectively. The Town is required to contribute 10% for law enforcement 7% for all other plan members. The contribution requirements of plan members and the Town are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The employees contribute 1.75% of their gross salary with the Town contributing 5.25% of the employees portion as well as all of the Town's portion. The Town contributions to PERA for the fiscal years ending June 30, 2008, 2007 and 2006 were approximately \$30,370, \$26,588, and \$24,808 respectively, which equal the amount of the required contributions for each fiscal year.

NOTE J: RETIREE HEALTH CARE ACT CONTRIBUTIONS

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

NOTE K: RISK MANAGEMENT

The Town is exposed to various risks of loss to torts; theft, damage and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The workers compensation insurance is through New Mexico Mutual Casualty Insurance Company. The Town's health insurance is through New Mexico Self Insurance Fund. Insurance on general liability, auto crime inland marine, building and contents, equipment breakdowns law enforcement officers and public official's liability was obtained through the Insurance Company of Hanover. The fire and EMS accident insurance is through Nationwide Life Insurance Company. The New Mexico Self Insurance Fund determines annually how to change participating New Mexico municipalities for employee health care coverage.

All participating municipalities pay the same cost per employee each year, as determined by New Mexico Self Insurance 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 New Mexico Self Insurance Fund in the fiscal year then ended, compare to the previous year.

NOTE L: RELATED PARTY

The Town purchased supplies and services from Waide Irrigation in the amount of \$2,279. Town Mayor Cliff Waide is the owner of Waide Irrigation.

NOTE M: SURETY BOND

The officials and certain employees of the Town are covered by a surety bond as required by Section 12-6-7, NMSA, 1978 Compilation.

NOTE N: CONTINGENCIES

The Town participates in a number of federal, state and county programs that are fully or partially funded by grants that are received from other governmental agencies. Expenditures financed by grants are subject to be audited by the appropriate grantor government. If expenditures are disallowed due to noncompliance with the grant program regulations, the Town may be required to reimburse the grantor government. The 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.

NOTE O: CONSTRUCTION COMMITMENTS

The Town has two ongoing construction projects. The Town Hall is being remodeled and an Industrial Park is being developed.

**SUPPLEMENTAL INFORMATION RELATED TO
NON MAJOR FUNDS**

NONMAJOR SPECIAL REVENUE FUNDS

Law Enforcement Protection Fund

To account for funds received from the State of New Mexico for law enforcement purposes. The fund was created by the authority of state grant provisions. (NMSA 29-13-3)

Emergency Medical Services Fund

To account for the operation and maintenance of the Town's EMS Department. Financing is primarily from an annual EMS allotment. The fund was created by the authority of state grant provisions. (NMSA 59A-53-1)

Correction Fund

To account for the collection of fines which are used to supplement the cost of prisoner housing. The fund was created by the authority of state statute. (Section 29-1301 NASA 1978)

Street Fund

To account for the distributions of tax revenues distributed to the Town for use in financing improvement projects. The fund was created by the authority of state grant provisions. (3-34-3, NMSA 1978).

Recreation Fund

To account for the operation and maintenance of the Town's youth recreation program. Financing is provided by the state shared cigarette tax. The fund was created by the authority of state statute. (NMSA 7-12-15)

STATE OF NEW MEXICO
TOWN OF HAGERMAN
NONMAJOR SPECIAL REVENUE FUNDS
Combining Balance Sheet
June 30, 2008

	Law Enforcement Protection Fund	Emergency Medical Services Fund	Corrections Fund
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and Cash Equivalents	\$ 5,627	\$ 0	\$ 5,491
Receivables			
Taxes	0	0	0
Total Assets	<u>\$ 5,627</u>	<u>\$ 0</u>	<u>\$ 5,491</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts Payable	<u>\$ 2,988</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Liabilities	<u>2,988</u>	<u>0</u>	<u>0</u>
Fund Balance			
Reserved Reported In:			
Special Revenue	<u>2,639</u>	<u>0</u>	<u>5,491</u>
Total Fund Balance	<u>2,639</u>	<u>0</u>	<u>5,491</u>
 Total Liabilities and Fund Balance	 <u>\$ 5,627</u>	 <u>\$ 0</u>	 <u>\$ 5,491</u>

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
TOWN OF HAGERMAN
NONMAJOR SPECIAL REVENUE FUNDS
Combining Balance Sheet
June 30, 2008

	<u>Streets Fund</u>	<u>Recreation Fund</u>	<u>Total</u>
ASSETS			
Cash and Cash Equivalents	\$ 19,500	\$ 2,957	\$ 33,575
Receivables			
Taxes	1,038	65	1,103
Total Assets	<u>\$ 20,538</u>	<u>\$ 3,022</u>	<u>\$ 34,678</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts Payable	\$ 0	\$ 0	\$ 2,988
Total Liabilities	<u>0</u>	<u>0</u>	<u>2,988</u>
Fund Balance			
Reserved Reported In:			
Special Revenue	20,538	3,022	31,690
Total Fund Balance	<u>20,538</u>	<u>3,022</u>	<u>31,690</u>
 Total Liabilities and Fund Balance	 <u>\$ 20,538</u>	 <u>\$ 3,022</u>	 <u>\$ 34,678</u>

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
TOWN OF HAGERMAN
NONMAJOR SPECIAL REVENUE FUNDS
Combining Statement of Revenues, Expenditures
and Changes in Fund Balance
For the Year Ended June 30, 2008

	Law Enforcement Protection Fund	Emergency Medical Services Fund	Corrections Fund
Revenues			
Taxes			
Gasoline Taxes	\$ 0	\$ 0	\$ 0
Cigarette Taxes	0	0	0
Fees	0	0	1,568
State & Local Grants	21,800	18,281	0
Total Revenues	<u>21,800</u>	<u>18,281</u>	<u>1,568</u>
Expenditures			
Current			
Public Safety	19,161	17,041	448
Culture & Recreation	0	0	0
Debt Service			
Principal	0	0	0
Interest	0	0	0
Total Expenditures	<u>19,161</u>	<u>17,041</u>	<u>448</u>
Excess (Deficiency) of Revenues Over Expenditures	2,639	1,240	1,120
Fund Balances at Beginning of Year	<u>0</u>	<u>(1,240)</u>	<u>4,371</u>
Fund Balance End of Year	<u>\$ 2,639</u>	<u>\$ 0</u>	<u>\$ 5,491</u>

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
TOWN OF HAGERMAN
NONMAJOR SPECIAL REVENUE FUNDS
Combining Statement of Revenues, Expenditures
and Changes in Fund Balance
For the Year Ended June 30, 2008

	<u>Streets Fund</u>	<u>Recreation Fund</u>	<u>Total</u>
Revenues			
Taxes			
Gasoline Taxes	\$ 12,559	\$ 0	\$ 12,559
Cigarette Taxes	0	371	371
Fees	0	0	1,568
State & Local Grants	0	0	40,081
Total Revenues	<u>12,559</u>	<u>371</u>	<u>54,579</u>
Expenditures			
Current			
Public Safety	0	0	36,650
Culture & Recreation	0	0	0
Debt Service			
Principal	0	0	0
Interest	0	0	0
Total Expenditures	<u>0</u>	<u>0</u>	<u>36,650</u>
Excess (Deficiency) of Revenues Over Expenditures	12,559	371	17,929
Fund Balances at Beginning of Year	<u>7,979</u>	<u>2,651</u>	<u>13,761</u>
Fund Balance End of Year	<u>\$ 20,538</u>	<u>\$ 3,022</u>	<u>\$ 31,690</u>

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
TOWN OF HAGERMAN
SPECIAL REVENUE FUND-LAW ENFORCEMENT PROTECTION FUND
Statement of Revenues, Expenditures, and Changes in Cash Balance -
Budget and Actual (Budgetary Basis)
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget- Over (Under)
	Original	Final		
Revenues				
State & Local Grants	\$ 21,800	\$ 21,800	\$ 21,800	\$ 0
Total Revenues	<u>21,800</u>	<u>21,800</u>	<u>21,800</u>	<u>0</u>
Expenditures				
Public Safety				
Operating Expenses	21,800	21,800	16,173	5,627
Total Public Safety	<u>21,800</u>	<u>21,800</u>	<u>16,173</u>	<u>5,627</u>
Total Expenditures	<u>21,800</u>	<u>21,800</u>	<u>16,173</u>	<u>5,627</u>
Excess (Deficiency) of Revenues Over Expenditures	0	0	5,627	5,627
Cash Balance Beginning of Year	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Cash Balance End of Year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 5,627</u>	<u>\$ 5,627</u>
Reconciliation of Budgetary Basis to GAAP Basis				
Excess (Deficiency) of Revenues Over Expenditures-Cash Basis			\$ 5,627	
Net Change in Accounts Payables			<u>(2,988)</u>	
Excess (Deficiency) of Revenues Over Expenditures-GAAP Basis			<u>\$ 2,639</u>	

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
TOWN OF HAGERMAN
SPECIAL REVENUE FUND-EMERGENCY MEDICAL SERVICES FUND
Statement of Revenues, Expenditures, and Changes in Cash Balance -
Budget and Actual (Budgetary Basis)
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget- Over (Under)
	Original	Final		
Revenues				
State & Local Grants	\$ 13,038	\$ 18,281	\$ 18,281	\$ 0
Total Revenues	<u>13,038</u>	<u>18,281</u>	<u>18,281</u>	<u>0</u>
Expenditures				
Public Safety				
Operating Expenses	18,281	18,281	18,281	0
Total Public Safety	<u>18,281</u>	<u>18,281</u>	<u>18,281</u>	<u>0</u>
Total Expenditures	<u>18,281</u>	<u>18,281</u>	<u>18,281</u>	<u>0</u>
Excess (Deficiency) of Revenues Over Expenditures	(5,243)	0	0	0
Cash Balance Beginning of Year	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Cash Balance End of Year	<u>\$ (5,243)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Reconciliation of Budgetary Basis to GAAP Basis				
Excess (Deficiency) of Revenues Over Expenditures-Cash Basis			\$ 0	
Net Change in Accounts Payables			<u>1,240</u>	
Excess (Deficiency) of Revenues Over Expenditures-GAAP Basis			<u>\$ 1,240</u>	

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
TOWN OF HAGERMAN
SPECIAL REVENUE FUND-CORRECTIONS FUND
Statement of Revenues, Expenditures, and Changes in Cash Balance -
Budget and Actual (Budgetary Basis)
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget- Over (Under)
	Original	Final		
Revenues				
Fees	\$ 2,520	\$ 2,520	\$ 1,568	\$ (952)
Total Revenues	<u>2,520</u>	<u>2,520</u>	<u>1,568</u>	<u>(952)</u>
Expenditures				
Public Safety				
Local Fees	20	20	10	10
Judicial	180	180	102	78
Automation	540	540	336	204
Housing of Prisoners	6,151	6,151	0	6,151
Total Public Safety	<u>6,891</u>	<u>6,891</u>	<u>448</u>	<u>6,443</u>
Total Expenditures	<u>6,891</u>	<u>6,891</u>	<u>448</u>	<u>6,443</u>
Excess (Deficiency) of Revenues Over Expenditures	(4,371)	(4,371)	1,120	5,491
Cash Balance Beginning of Year	<u>4,371</u>	<u>4,371</u>	<u>4,371</u>	<u>0</u>
Cash Balance End of Year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 5,491</u>	<u>\$ 5,491</u>
Reconciliation of Budgetary Basis to GAAP Basis				
Excess (Deficiency) of Revenues Over Expenditures-Cash Basis			\$ 1,120	
Excess (Deficiency) of Revenues Over Expenditures-GAAP Basis			<u>\$ 1,120</u>	

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
TOWN OF HAGERMAN
SPECIAL REVENUE FUND-STREETS FUND
Statement of Revenues, Expenditures, and Changes in Cash Balance -
Budget and Actual (Budgetary Basis)
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget- Over (Under)
	Original	Final		
Revenues				
Taxes	\$ 11,000	\$ 11,000	\$ 11,938	\$ 938
State Grants	61,962	61,962	0	(61,962)
Total Revenues	<u>72,962</u>	<u>72,962</u>	<u>11,938</u>	<u>(61,024)</u>
Expenditures				
Public Works				
Capital Outlay	0	0	0	0
Total Public Works	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Expenditures	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Excess (Deficiency) of Revenues Over Expenditures	72,962	72,962	11,938	(61,024)
Cash Balance Beginning of Year	<u>7,562</u>	<u>7,562</u>	<u>7,562</u>	<u>0</u>
Cash Balance End of Year	<u>\$ 80,524</u>	<u>\$ 80,524</u>	<u>\$ 19,500</u>	<u>\$ (61,024)</u>
Reconciliation of Budgetary Basis to GAAP Basis				
Excess (Deficiency) of Revenues Over Expenditures-Cash Basis			\$ 11,938	
Net Change in Taxes Receivables			621	
Excess (Deficiency) of Revenues Over Expenditures-GAAP Basis			<u>\$ 12,559</u>	

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
TOWN OF HAGERMAN
SPECIAL REVENUE FUND-RECREATION FUND
Statement of Revenues, Expenditures, and Changes in Cash Balance -
Budget and Actual (Budgetary Basis)
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget- Over (Under)
	Original	Final		
Revenues				
Cigarette Taxes	\$ 900	\$ 900	\$ 415	\$ (485)
Total Revenues	<u>900</u>	<u>900</u>	<u>415</u>	<u>(485)</u>
Expenditures				
Culture & Recreation				
Operating Expense	3,440	3,440	0	3,440
Total Culture & Recreation	<u>3,440</u>	<u>3,440</u>	<u>0</u>	<u>3,440</u>
Total Expenditures	<u>3,440</u>	<u>3,440</u>	<u>0</u>	<u>3,440</u>
Excess (Deficiency) of Revenues Over Expenditures	(2,540)	(2,540)	415	2,955
Cash Balance Beginning of Year	<u>2,542</u>	<u>2,542</u>	<u>2,542</u>	<u>0</u>
Cash Balance End of Year	<u>\$ 2</u>	<u>\$ 2</u>	<u>\$ 2,957</u>	<u>\$ 2,955</u>
Reconciliation of Budgetary Basis to GAAP Basis				
Excess (Deficiency) of Revenues Over Expenditures-Cash Basis			\$ 415	
Net Change in Taxes Receivables			<u>(44)</u>	
Excess (Deficiency) of Revenues Over Expenditures-GAAP Basis			<u>\$ 371</u>	

The notes to the financial statements are an integral part of this statement.

ENTERPRISE FUNDS

Utility

To account for the provision of water and sewer service to the residents of the Town. All activities necessary to provide such services are accounted for in this fund, including, but not limited to administration, operations, maintenance, financing and related debt service, and billing and collections.

STATE OF NEW MEXICO
TOWN OF HAGERMAN
PROPRIETARY FUND-UTILITY FUND
Statement of Revenues, Expenditures, and Changes in Cash Balance -
Budget and Actual (Budgetary Basis)
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget- Over (Under)
	Original	Final		
Revenues				
Sales & Service	\$ 386,815	\$ 386,815	\$ 419,964	\$ 33,149
Environmental Gross Receipt Tax	5,000	5,000	5,744	744
Grants	550,000	550,000	487,818	(62,182)
Total Revenues	<u>941,815</u>	<u>941,815</u>	<u>913,526</u>	<u>(28,289)</u>
Expenditures				
Personnel Services	145,967	145,967	153,403	(7,436)
Operating Expenses	232,546	232,546	243,791	(11,245)
Capital Outlay	565,000	565,000	509,352	55,648
Debt Service				
Interest	11,393	11,393	11,393	0
Principal	3,416	3,416	3,416	0
Total Expenditures	<u>958,322</u>	<u>958,322</u>	<u>921,355</u>	<u>36,967</u>
Excess (Deficiency) of Revenues Over Expenditures	(16,507)	(16,507)	(7,829)	8,678
Cash Balance Beginning of Year	<u>29,472</u>	<u>29,472</u>	<u>29,472</u>	<u>0</u>
Cash Balance End of Year	\$ <u>12,965</u>	\$ <u>12,965</u>	\$ <u>21,643</u>	\$ <u>8,678</u>
Reconciliation of Budgetary Basis to GAAP Basis				
Excess (Deficiency) of Revenues Over Expenditures-Cash Basis			\$ (7,829)	
Depreciation			(42,692)	
Purchase of Capital Assets			509,352	
Principal Paid			3,416	
Net Changes in Taxes Receivable			11	
Net Changes in Accounts Receivable			16,463	
Net Changes in Accounts Payable			(8,919)	
Net Changes in Accrued Salaries & Benefits			(549)	
Net Changes in Accrued Interest			0	
Net Changes in Compensated Absences			(881)	
Change in Net Assets			<u>\$ 468,372</u>	

The notes to the financial statements are an integral part of this statement.

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*

Mr. Hector Balderas
State Auditor of the State of New Mexico
Board Members of the TOWN OF HAGERMAN

Mr. Balderas and Members of the Board

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, 2008, 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 11, 2010. 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, 2008 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 the Town's internal control over financial reporting as a basis for designing the audit procedures for the purpose of expressing opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 2003-2, 2004-1, 2004-2, 2004-3, and 2004-7 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 2003-2, 2004-1, 2004-2, 2004-3, 2004-7 and 2007-1 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, and 2004-9.

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 management, the New Mexico State Legislature and its committees, the Office of the State Auditor, the New Mexico Department of Finance and Administration - Local Government and federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

De'Ann Willoughby CPA PC

March 11, 2010

Prior Year Audit Findings

	<u>Status</u>
2003-1 Late Audit Report	Repeated
2003-2 Capital Assets	Repeated
2004-1 Preparation of Financial Statements	Repeated
2004-2 Inadequate Internal Controls over Information Technology	Repeated
2004-3 Lack of Internal Controls	Repeated
2004-4 1099 Forms Not Being Used	Repeated
2004-7 Utility Billings Understated and Meter Deposits Misstated	Repeated
2004-9 Payroll	Repeated
2007-1 Expenditure Documentation	Repeated & Modified
2007-2 Department of Labor Payments	Resolved

Current Year Audit Findings

2003-1 Late Audit Report

Condition

The June 30, 2008 audit report was submitted to the Office of the New Mexico State Auditor after the December 1, 2008 deadline. The report was received at the Office of the New Mexico State Auditor on March 15, 2010.

Criteria

Towns audits are to be submitted to the State Auditor by December 1 as required by NMAC 2.2.2.9A (1) (d).

Effect

Those relying on the financial statements including but not limited to the NM Department of Finance and Administration (DFA) and Local Government Division (LGD) did not have audited financial statements to facilitate their oversight function.

Cause

The audit contract was not signed until after the report was already late.

Recommendation

The Town should contract with an auditor that will perform and submit the audit reports timely.

Response

The Town has hired the current auditor to get audits up to date. The June 30, 2009 audits are being submitted; audits for the June 30, 2010 and beyond will be submitted by the statutory deadline.

2003-2 Capital Assets

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.

Criteria

To comply with 1 NMAC 1.2.1.8 and 12-6-10 NMSA 1978, a complete capital asset listing including current year additions and deletions should be maintained at all times.

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 accounting for and inventoried each year.

Cause

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

Recommendation

We recommend the Town develop a current depreciation schedule for its capital assets, whether through an accounting software or an excel spreadsheet that is updated and maintained monthly if necessary. Either report should be able to generate accurate and detailed information to reconcile capital assets additions and deletions, current year depreciation expense and accumulated depreciation to roll forward the schedules each fiscal year. We recommend that the Town contract with a consultant to obtain assistance or receive training if necessary, to accomplish this work.

Response

A depreciation schedule will be available by the June 30, 2010 audit.

2004-1 SAS 112 Compliance

Condition

The Auditing Standards Board has issued *Statement on Auditing Standards No. 112, Communicating Internal Control Related Matters Identified in an Audit* (SAS 112). The new standard provides guidance to auditors on communicating matters related to an audit of financial statements. The standard requires the auditor to evaluate identified control deficiencies and determine whether these deficiencies, individually or in combination, are significant deficiencies or material weaknesses.

Criteria

Statement on Auditing Standards (SAS) 112, Communication of Internal Control Related Matters Identified in an Audit, requires that management clearly accept responsibility for preparing all financial information and company's financial statements.

Effect

The Town's management may not be able to detect errors in reporting or financial presentation if they exist. Management may not be qualified to review the financial statements prepared by the auditor.

Cause

The Towns staff has not been trained on Governmental Accounting Standards and related procedures to prepare financial statements.

Recommendation

We recommend that the employees who participate in the accounting function obtain training in governmental accounting and the preparation of financial statements.

Response

The Town will continue to rely on the auditor to prepare the financial statements.

2004-2 Inadequate Internal Controls over Information Technology**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 proper authorized individuals. Lack of controls were noticed in Monitoring, Physical Access, Information Security Policy/User Awareness, Identification and Authentication, and Configuration of Access Rules/Access Administration. 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.

Criteria

The State of New Mexico guidelines S-GUIDE-002.003 (per NMSA 1978 Section 15-1C-1 et. Seq. and NMAC 1.12.6 and NMAC 1.12.2) establishes that protection of IT assets and resources including data and information. The policy establishes that the protection must provide 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 to establish that controls must maintain over information systems, resources, and data/information sufficient to contain risk of loss or misuse of information.

Effect

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

Cause

The Town is not properly safeguarding IT assets and resources. They lack the policies and administrative knowledge of this area to be effective in reconciling this deficiency.

Recommendation

We recommend that the Town establishes a policy that will govern IT use and security. And that all personnel are to read and sign the policy stating they understand the significance of following all policies regarding IT control.

Response

An IT policy will be established and disseminated.

2004-3 Lack of Internal Controls

Condition

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; amounts and related data were recorded that expenditure appropriately; that expenditure transactions and events have been recorded in the proper accounts. Also, during our audit, we noted that adequate controls for access to programs and data have not been established by management to restrict access to proper authorized individuals. We noticed that the bookkeeper was leaving her work area without protecting her computer from unauthorized users.

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.

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.

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.

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.

Response

Bookkeeping program will be closed when the employee is absent from the work area. Additionally, offices have been remodeled and access is limited.

2004-4 1099 Forms Not Being Used**Condition**

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

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.

Effect

IRS regulations were not followed. IRS could assess a \$50 penalty per 1099 form not prepared. These penalties are not budgeted for.

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 the Form 1096.

Recommendation

The Town should implement a review process at the end of the year to ensure that all contract labor requiring a 1099 actually receives one and that they file the Forms 1099 and Form 1096 with the IRS.

Response

Forms 1099 and Form 1096 were filed for calendar year 2009 and will continue to be filed annually.

2004-7 Utility Billings Understated and Meter Deposits Misstated**Condition**

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

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).

Effect

The utility receivables may be materially 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.

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.

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.

Response

UB Billing Software was not working properly and reports that had been successfully generated for past audits were not retrievable. A new software program with in-state support has been installed and in use as of February/March 2010.

2004-9 Payroll**Condition**

During our testing of payroll, we noted that fringe benefit the employees of the Town received were not reported on the employees' W-2s.

Criteria

In accordance with IRS Publication 15-B, Employer's Tax Guide to Fringe Benefits, the benefits should be included on the W-2s.

Effect

Taxable wages were understated and IRS regulations were violated allowing penalties to be assessed by the IRS.

Cause

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

Recommendation

We recommend the fringe benefits be added to the employees' W-2s.

Response

Fringe benefits were added to our 2009 W-2's and will continue to be added annually.

2007-1 Expenditure Documentation**Condition**

As a result of internal control problems the Town has inadequate documentation to show that: all its expenditure transactions and events that should have been recorded are recorded; amounts and related data were recorded that expenditure 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. Documentation could not be located for 1 of 152 expenditures sampled. The dollar amount of the check was \$3,500.00.

Criteria

NMAC 6.20.2.17 states that each municipality shall establish and implement written policies and procedures for purchasing, which shall be in compliance with the procurement code section 13-1-21, NMSA 1978.

Effect

The proper maintenance of supporting documentation relating to financial transaction is necessary to mitigate possible dual payments and invoices, resolution of disputes with vendors, etc.

Cause

Management was not able or was careless with their recordkeeping responsibilities.

Recommendation

We recommend the Town follows all policies and procedures.

Response

We will be more careful with documentation and filing procedures to correct these deficiencies.

Financial Statement Preparation

The financial statements were prepared by De'Aun Willoughby, CPA.

Exit Conference

An exit conference was held on March 11, 2010 in attendance was Cliff Waide-Mayor, Jim Pilley-Mayor Pro-Tem, Beverly West-Town Clerk and De'Aun Willoughby, CPA.