

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
JUNE 30, 2016**

INTRODUCTORY SECTION

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TOWN OF HAGERMAN
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TOWN OF HAGERMAN
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**STATE OF NEW MEXICO
TOWN OF HAGERMAN
OFFICIAL ROSTER
JUNE 30, 2016**

TOWN COUNCIL

Name	Title
Cliff Waide	Mayor
Connie Andrews	Councilor
Tony Garcia	Councilor
Andrew Rodriguez	Councilor
Ricardo Rivera	Councilor

TOWN OFFICIAL

Name	Title
Gina Sterrett	Town Clerk/Treasurer

FINANCIAL SECTION



SCOTT NORTHAM, CPA, PC
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Timothy Keller, New Mexico State Auditor, and
Honorable Mayor and Councilors of
Town of Hagerman
Hagerman, New Mexico

Report on the Financial Statements

We have audited 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, enterprise fund, and major special revenue funds of the Town of Hagerman, New Mexico as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents. We have also audited the financial statements of each of the Town's nonmajor governmental funds and the budgetary comparisons for the major capital project fund, and all nonmajor funds presented as supplemental information, as defined by the Government Accounting Standards Board, in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2016, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Hagerman, New Mexico as of June 30, 2016, and, the respective changes in financial position and cash flows thereof and the respective budgetary comparison for the General Fund and major special revenue funds for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each nonmajor governmental funds of the Town as of June 30, 2016, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparisons for the major capital project fund, and all nonmajor funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the schedule of the Town's proportionate share of the net pension liability and the schedule of the Town's contributions as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance

Management has elected to omit the MD&A for the year ended June 30, 2016, which is required to be presented to supplement the basic financial statements by accounting principles generally accepted in the United States of America. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it an essential part of financial reporting. Our opinion on the basic financial statements is not affected by this omitted information.

Other Information

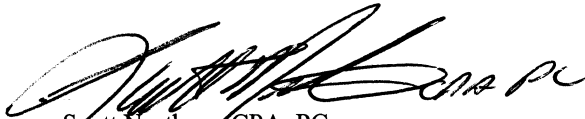
Our audit was conducted for the purpose of forming opinions on the financial statements the combining and individual fund financial statements, and the budgetary comparisons. The supplemental information as noted in the table of contents required by Section 2.2.2 NMAC are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules required by Section 2.2.2 NMAC are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Schedule of Vendor Expenditures required by Section 2.2.2 NMAC is presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Vendor Expenditures has not been subjected

to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2017 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 *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.



Scott Northam, CPA, PC
Ruidoso, New Mexico
February 10, 2017

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
STATEMENT OF NET POSITION
JUNE 30, 2016**

	Governmental Activities	Business-Type Activities	Total
ASSETS AND DEFERRED OUTFLOWS			
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 621,603	\$ 303,330	\$ 924,933
Accounts Receivable, Net	-	38,307	38,307
Lease Receivable	54,235	-	54,235
Taxes Receivable			
Gross Receipts	46,950	1,161	48,111
Infrastructure Gross Receipts	5,300	-	5,300
Franchise	4,624	-	4,624
Other	1,273	-	1,273
Gas	1,621	-	1,621
Total Current Assets	735,606	342,798	1,078,404
NONCURRENT ASSETS			
Restricted Cash and Cash Equivalents	20,056	47,529	67,585
Capital Assets, Net	5,940,846	1,330,148	7,270,994
Total Noncurrent Assets	5,960,902	1,377,677	7,338,579
DEFERRED OUTFLOWS OF RESOURCES			
Water Trust Board Grant/Loan	-	333,788	333,788
Net Pension Liability Deferred Outflows	42,638	-	42,638
Post Measurement Date Employer Contributions	66,468	-	66,468
Total Deferred Outflows	109,106	333,788	442,894
Total Assets and Deferred Outflows	\$ 6,805,614	\$ 2,054,263	\$ 8,859,877

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

	Governmental Activities	Business-Type Activities	Total
LIABILITIES, DEFERRED INFLOWS AND NET POSITION			
CURRENT LIABILITIES			
Accounts Payable	\$ 7,122	\$ 13,157	\$ 20,279
Accrued Payroll	2,333	2,033	4,366
Accrued Interest	1,695	1,104	2,799
Accrued Compensated Absences	2,887	11,729	14,616
Current Portion of Long-Term Debt	50,721	12,006	62,727
Total Current Liabilities	<u>64,758</u>	<u>40,029</u>	<u>104,787</u>
NONCURRENT LIABILITIES			
Customer Deposits	-	32,620	32,620
Long-Term Debt, Net of Current Portion	309,241	317,295	626,536
Net Pension Liability	619,163	-	619,163
Total Noncurrent Liabilities	<u>928,404</u>	<u>349,915</u>	<u>1,278,319</u>
DEFERRED INFLOW OF RESOURCES			
Net Pension Liability Deferred Inflows	23,799	-	23,799
Water Trust Board Grant	-	200,273	200,273
Total Deferred Inflows of Resources	<u>23,799</u>	<u>200,273</u>	<u>224,072</u>
Total Liabilities and Deferred Inflows	<u>1,016,961</u>	<u>590,217</u>	<u>1,607,178</u>
NET POSITION			
Net Investment in Capital Assets	5,579,189	1,000,847	6,580,036
Restricted for:			
Special Revenue Funds	126,430	-	126,430
Debt Service	20,056	14,909	34,965
Unrestricted	62,978	448,290	511,268
Total Net Position	<u>5,788,653</u>	<u>1,464,046</u>	<u>7,252,699</u>
Total Liabilities, Deferred Inflows and Net Position	<u>\$ 6,805,614</u>	<u>\$ 2,054,263</u>	<u>\$ 8,859,877</u>

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

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016**

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
<i>Primary Government</i>				
Governmental Activities:				
General Administration	\$ 106,020	\$ 63,889	\$ 281,329	\$ 98,889
Streets	37,231	-	-	-
Public Safety	496,175	-	40,000	-
Public Works	-	-	-	383,431
Culture and Recreation	27,142	-	-	-
Health and Welfare	65,913	-	240,325	-
Judicial	22,102	2,431	-	-
Interest and Fiscal Charges	8,462	-	-	-
Depreciation	246,733	-	-	-
	<u>1,009,778</u>	<u>66,320</u>	<u>561,654</u>	<u>482,320</u>
<i>Total Governmental Activities</i>				
Business-Type Activities:				
Utility Fund	535,269	515,198	-	-
	<u>535,269</u>	<u>515,198</u>	<u>-</u>	<u>-</u>
<i>Total Business-Type Activities</i>				
Total - Primary Government	<u>\$ 1,545,047</u>	<u>\$ 581,518</u>	<u>\$ 561,654</u>	<u>\$ 482,320</u>

General Revenues

Taxes:

- Gross Receipts
- Infrastructure Gross Receipts
- Franchise
- Property
- Motor Vehicle
- Gas
- Miscellaneous
- Interest

Total General Revenues

Change in Net Position

Net Position Beginning of Year

Equity Transfer of Capital Assets

Net Position End of Year

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ 338,087	\$ -	\$ 338,087
(37,231)	-	(37,231)
(456,175)	-	(456,175)
383,431	-	383,431
(27,142)	-	(27,142)
174,412	-	174,412
(19,671)	-	(19,671)
(8,462)	-	(8,462)
(246,733)	-	(246,733)
<u>100,516</u>	<u>-</u>	<u>100,516</u>
-	(20,071)	(20,071)
-	(20,071)	(20,071)
<u>100,516</u>	<u>(20,071)</u>	<u>80,445</u>
309,663	7,670	317,333
5,195	-	5,195
18,258	-	18,258
11,264	-	11,264
1,456		
18,865		
36,617		
136	(7,801)	(7,665)
<u>401,454</u>	<u>(131)</u>	<u>344,385</u>
501,970	(20,202)	424,830
5,678,239	1,092,692	6,770,931
(391,556)	391,556	-
<u>\$ 5,788,653</u>	<u>\$ 1,464,046</u>	<u>\$ 7,195,761</u>

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

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016**

	General Fund	Fire Protection Fund	Capital Projects Fund	Other Nonmajor Funds	Total Governmental Funds
ASSETS					
ASSETS					
Cash and Cash Equivalents					
Unrestricted	\$ 495,320	\$ 47,051	\$ 63,779	\$ 15,453	\$ 621,603
Restricted	20,056	-	-	-	20,056
Lease Receivable	54,235	-	-	-	54,235
Taxes Receivable					
Gross Receipts	46,950	-	-	-	46,950
Infrastructure Gross Receipts	5,300	-	-	-	5,300
Franchise	4,624	-	-	-	4,624
Other	1,273	-	-	-	1,273
Gas	-	-	-	1,621	1,621
Total Assets	<u>\$ 627,758</u>	<u>\$ 47,051</u>	<u>\$ 63,779</u>	<u>\$ 17,074</u>	<u>\$ 755,662</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts Payable	\$ 5,648	\$ 1,474	\$ -	\$ -	\$ 7,122
Accrued Payroll	2,333	-	-	-	2,333
Total Liabilities	<u>7,981</u>	<u>1,474</u>	<u>-</u>	<u>-</u>	<u>9,455</u>
FUND BALANCES					
Assigned	-	45,577	63,779	17,074	126,430
Unassigned	619,777	-	-	-	619,777
Total Fund Balances	<u>619,777</u>	<u>45,577</u>	<u>63,779</u>	<u>17,074</u>	<u>746,207</u>
Total Liabilities and Fund Balances	<u>\$ 627,758</u>	<u>\$ 47,051</u>	<u>\$ 63,779</u>	<u>\$ 17,074</u>	<u>\$ 755,662</u>

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

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
RECONCILIATION OF GOVERNMENTAL FUNDS
FUND BALANCE TO GOVERNMENT ACTIVITIES
NET POSITION
JUNE 30, 2016**

Total Fund Balance - Governmental Funds \$ 746,207

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds 5,940,846

Certain liabilities are not due and payable in the current period and therefore are not reported in the Governmental Funds. Those long-term liabilities include:

Accrued Compensated Absences	(2,887)	
Notes and Bonds Payable	(359,962)	
Accrued Interest	<u>(1,695)</u>	(364,544)

Net Pension liability and deferred outflows and inflows of resources related to the pension are applicable to future periods, and therefore are not included in the governmental funds.

Contributions Subsequent to the Measurement Date	66,468	
NPL Deferred Outflows	42,638	
NPL Deferred Inflows	(23,799)	
Net Pension Liability	<u>(619,163)</u>	(533,856)

Net Position of Governmental Activities	\$ 5,788,653
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**STATE OF NEW MEXICO
TOWN OF HAGERMAN
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016**

	General Fund	Fire Protection Fund	Capital Projects Fund	Other Nonmajor Funds	Total Governmental Funds
REVENUES					
Taxes					
Gross Receipts	\$ 309,663	\$ -	\$ -	\$ -	\$ 309,663
Infrastructure Gross Receipts	5,195	-	-	-	5,195
Franchise	18,258	-	-	-	18,258
Property	11,264	-	-	-	11,264
Motor Vehicle	1,456	-	-	-	1,456
Gas	-	-	-	18,865	18,865
Intergovernmental					
State	185,154	147,920	482,320	96,175	911,569
Charges for Service	8,343	-	-	-	8,343
Miscellaneous	76,617	92,405	-	-	169,022
Licenses, Fees and Permits	1,311	-	-	-	1,311
Fines and Forfeits	1,756	-	-	675	2,431
Lease Income	54,235	-	-	-	54,235
Interest	136	-	-	-	136
Total Revenues	<u>673,388</u>	<u>240,325</u>	<u>482,320</u>	<u>115,715</u>	<u>1,511,748</u>
EXPENDITURES					
Current					
General Administration	137,470	-	-	-	137,470
Streets	30,071	-	-	7,160	37,231
Public Safety	340,581	119,576	-	36,018	496,175
Culture and Recreation	27,142	-	-	-	27,142
Health and Welfare	65,913	-	-	-	65,913
Judicial	22,102	-	-	-	22,102
Debt Service					
Principal	13,439	56,767	-	11,000	81,206
Interest and Administrative Fees	5,116	1,247	-	2,099	8,462
Capital Outlay	<u>-</u>	<u>49,850</u>	<u>418,541</u>	<u>84,259</u>	<u>552,650</u>
Total Expenditures	<u>641,834</u>	<u>227,440</u>	<u>418,541</u>	<u>140,536</u>	<u>1,428,351</u>
Excess (Deficiency) of Revenues over Expenditures	31,554	12,885	63,779	(24,821)	83,397
Fund Balance, Beginning of Year	<u>588,223</u>	<u>32,692</u>	<u>-</u>	<u>41,895</u>	<u>662,810</u>
Fund Balance, End of Year	<u>\$ 619,777</u>	<u>\$ 45,577</u>	<u>\$ 63,779</u>	<u>\$ 17,074</u>	<u>\$ 746,207</u>

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

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
RECONCILIATION OF GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE TO THE GOVERNMENTAL ACTIVITIES
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016**

Net Changes in Fund Balance - Governmental Funds **\$ 83,397**

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

Governmental funds report capital outlays over \$5,000 as expenditures in the Governmental Funds, but the cost of those assets is reported as capital assets in the Statement of Net Position. 552,650

Depreciation Expense allocated the cost of capital assets over their useful lives in the Statement of Activities, but the cost of the capital assets has already been expended in prior periods in the Governmental Funds. (246,733)

Changes in long-term liabilities are reported as expenditures in the Governmental Funds but as changes in liabilities in the Statement of Activities.

. Those changes in long-term liabilities include:

Change in Accrued Compensated Absences	746	
Long-Term Obligations Principal Payments	81,206	81,952

Changes in the Net Pension Liability and deferred outflows and inflows of resources related to the pension are expended in the Statement of Activities but applicable to future periods in the Governmental Funds, and therefore are not included in the Governmental Funds. 30,704

Change in Net Position of Governmental Activities **\$ 501,970**

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BASIS)
GENERAL FUND
YEAR ENDED JUNE 30, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES				
Taxes				
Gross Receipts	\$ 255,001	\$ 286,112	\$ 274,720	\$ (11,392)
Infrastructure Gross Receipts	5,500	5,610	5,195	(415)
Franchise	30,000	18,258	18,258	-
Property	10,800	11,264	11,264	-
Motor Vehicle	1,350	1,575	1,456	(119)
Intergovernmental				
State	220,000	185,154	292,366	107,212
Charges for Service	11,050	8,343	8,343	-
Miscellaneous	78,000	76,617	76,617	-
Licenses, Fees and Permits	1,300	1,311	1,311	-
Fines and Forfeits	4,500	1,756	1,756	-
Lease Income	-	-	-	-
Interest	70	85	136	51
Total Revenues	<u>617,571</u>	<u>596,085</u>	<u>691,422</u>	<u>95,337</u>
EXPENSES				
Current				
General Administration	154,517	137,470	137,470	-
Streets	25,000	30,071	30,071	-
Public Safety	437,500	340,581	340,581	-
Culture and Recreation	14,500	27,142	27,142	-
Health and Welfare	55,000	65,913	65,913	-
Judicial	46,755	22,102	22,102	-
Debt Service				
Principal	-	-	13,439	(13,439)
Interest and Administrative Fees	-	-	5,116	(5,116)
Total Expenditures	<u>733,272</u>	<u>623,279</u>	<u>641,834</u>	<u>(18,555)</u>
Excess of Revenues over Expenditures	(115,701)	(27,194)	49,588	76,782
Cash Balance, Beginning of Year	<u>465,788</u>	<u>465,788</u>	<u>465,788</u>	<u>-</u>
Cash Balance, End of Year	<u>\$ 350,087</u>	<u>\$ 438,594</u>	<u>\$ 515,376</u>	<u>\$ 76,782</u>
Reconciliation to GAAP Basis				
Excess of Revenues over Expenditures - Budget Basis			\$ 49,588	
Change in:				
Taxes Receivable			34,943	
Lease Receivable			54,235	
Interfund Balance			<u>(107,212)</u>	
Excess of Revenues over Expenditures - GAAP Basis			<u>\$ 31,554</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 BALANCE - BUDGET AND ACTUAL (NON-GAAP BASIS)
FIRE PROTECTION FUND
YEAR ENDED JUNE 30, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES				
Intergovernmental				
State	\$ 117,168	\$ 89,906	\$ 147,920	\$ 58,014
Miscellaneous	-	92,312	92,405	93
Total Revenues	<u>117,168</u>	<u>182,218</u>	<u>240,325</u>	<u>58,107</u>
EXPENSES				
Current				
Public Safety	117,168	119,576	119,576	-
Debt Service				
Principal	-	-	56,767	(56,767)
Interest and Administrative Fees	-	-	1,247	(1,247)
Capital Outlay	<u>-</u>	<u>49,850</u>	<u>49,850</u>	<u>-</u>
Total Expenditures	<u>117,168</u>	<u>169,426</u>	<u>227,440</u>	<u>(58,014)</u>
Excess of Revenues over Expenditures	-	12,792	12,885	93
Cash Balance, Beginning of Year	<u>32,692</u>	<u>32,692</u>	<u>32,692</u>	<u>-</u>
Cash Balance, End of Year	<u>\$ 32,692</u>	<u>\$ 45,484</u>	<u>\$ 45,577</u>	<u>\$ 93</u>
Reconciliation to GAAP Basis				
Excess of Revenues over Expenditures - Budget Basis			<u>\$ 12,885</u>	
Excess of Revenues over Expenditures - GAAP Basis			<u>\$ 12,885</u>	

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2016**

	Utility Fund
ASSETS AND DEFERRED OUTFLOWS	
Current Assets	
Cash and Cash Equivalents	\$ 303,330
Accounts Receivable, Net	38,307
Environmental Gross Receipt Taxes Receivable	<u>1,161</u>
Total Current Assets	342,798
Noncurrent Assets	
Restricted Cash and Cash Equivalents	
Customer Deposits	32,620
USDA-RUS Debt Service	14,909
Capital Assets, Net	<u>1,330,148</u>
Total Noncurrent Assets	<u>1,377,677</u>
Deferred Outflows	
Water Trust Board Grant/Loan	<u>333,788</u>
Total Assets and Deferred Outflows	<u><u>\$ 2,054,263</u></u>

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

**Utility
Fund**

LIABILITIES, DEFERRED INFLOWS AND NET POSITION

LIABILITIES AND DEFERRED INFLOWS

Current Liabilities

Accounts Payable	\$ 13,157
Accrued Payroll	2,033
Accrued Interest	1,104
Accrued Compensated Absences	11,729
Current Portion of Long Term Debt	<u>12,006</u>

Total Current Liabilities 40,029

Noncurrent Liabilities

Customer Deposits	32,620
Long-Term Debt, Net of Current Portion	<u>317,295</u>

Total Noncurrent Liabilities 349,915

Deferred Inflows

Water Trust Board Grant	<u>200,273</u>
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Total Liabilities and Deferred Inflows 590,217

NET POSITION

Net Investment in Capital Assets	1,000,847
Restricted - Debt Service	14,909
Unrestricted	<u>448,290</u>

Total Fund Net Position 1,464,046

Total Liabilities and Net Position \$ 2,054,263

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2016**

	Utility Fund
OPERATING REVENUES	
Charges for Services	
Water	\$ 221,179
Sewer	79,867
Sanitation	190,415
Late Fees	9,472
Other Revenue	<u>14,265</u>
Total Operating Revenues	515,198
OPERATING EXPENSES	
Personnel Services and Benefits	214,189
Professional and Contracted Services	173,012
Repairs and Maintenance, Supplies and Materials	38,476
Other Expenses	47,735
Depreciation	<u>61,857</u>
Total Operating Expenses	<u>535,269</u>
Operating Loss	(20,071)
NONOPERATING REVENUE (EXPENSES)	
Environmental Gross Receipts Tax	7,670
Interest Expense	<u>(7,801)</u>
Total Nonoperating Revenue (Expenses)	<u>(131)</u>
Change in Net Position	(20,202)
Net Position, Beginning of Year	1,092,692
Equity Transfer from Governmental Funds	<u>391,556</u>
Net Position, End of Year	<u><u>\$ 1,464,046</u></u>

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

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2016**

	Utility Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers and Users	\$ 516,166
Payments to and on Behalf of Employees	(209,905)
Payments to Suppliers and Contractors	(259,223)
	47,038
CASH FLOWS FROM INVESTING ACTIVITIES	
Capital Asset Purchases	(27,702)
	(27,702)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Environmental Gross Receipts Tax	7,670
	7,670
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Principal Payments on Capital Debt	(9,424)
Interest and Fees Paid on Capital Debt	(10,270)
	(19,694)
NET CHANGE IN CASH	7,312
CASH AT BEGINNING OF YEAR	343,547
CASH AT END OF YEAR	\$ 350,859
Reconciliation of Operating Income to Net Cash Provided	
by Operating Activities	
Operating Loss	\$ (20,071)
Adjustments to Reconcile Operating Loss to Cash	
Provided by Operating Activities:	
Depreciation	61,857
Changes In:	
Environmental Gross Receipt Taxes Receivable	(677)
Customer Deposits	1,645
Accrued Payroll	973
Accrued Compensated Absences	3,311
	47,038
Net Cash Provided by Operating Activities	\$ 47,038
Reconciliation to the Balance Sheet	
Unrestricted	\$ 303,330
Restricted	47,529
	\$ 350,859
CASH AT END OF YEAR	\$ 350,859
Supplemental Non-Cash Disclosures	
Construction In Progress Transferred from	
Governmental Activities	\$ 391,556

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

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This following summary presentation of significant accounting policies of the Town of Hagerman (the Town) is to assist in the understanding of the Town's financial statements. The financial statements and notes are the representation of the Town's management who is responsible for their integrity and objectivity. The financial statements of the Town have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units and 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 Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures, and Financial Accounting Standards Board (FASB) pronouncements applicable to governmental agencies.

Organization - The Town is a political subdivision of the State of New Mexico and was incorporated under provisions of Chapter 3, Article 2, NMSA 1978 as amended. The Town operates under the mayor-council form of government. The Town provides the following authorized services: public safety (police and fire), highways and streets, water, sanitation, health and welfare, social services, culture and recreation, public improvements, and general administrative services. The Town's basic financial statements include all activities and accounts of the Town's financial reporting entity.

The financial reporting entity consists of the primary government, and any another organization for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The GASB 14 definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body, and either it is able to impose its will on that organization, or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, activities, or level of services performed or provided by the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

Based upon the GASB 14 criteria above, there are no component units of the Town, nor is the Town considered a component unit of another governmental agency during the fiscal year ended June 30, 2016.

Measurement Focus, Basis of Accounting, Financial Statement Presentation

Government-wide Financial Statements - The basic financial statements include both government-wide (based on the Town as a whole) and fund financial statements. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund 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 relies on fees and charges for support. The Statement of Net Position and the Statement of Activities were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions*.

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

In accordance with GASB Statement No. 33, the Town follows the following revenue recognition principles applied to non-exchange transactions:

- Derived tax revenues are recognized as revenue in the period when the underlying exchange transaction has occurred and the resources are available. Derived tax revenues include gross receipts, gasoline, and cigarette taxes.
- Imposed non-exchange revenue other than property taxes are recognized in the period when an enforceable legal claim has arisen and the resources are available.
- Property tax revenue is recorded on a cash basis and the revenue is recognized in the fiscal year for which the taxes are levied.
- Government-mandated non-exchange transactions and voluntary non-exchange transactions are recognized when all applicable eligibility requirements have been met and the resources are available. These include grant revenues, state shared taxes and intergovernmental revenue. Grant revenues are recognized as revenues when the related costs are incurred.

The Town considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Generally, intergovernmental revenues and grants are recognized when all eligibility requirements are met and the revenues are available. 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, franchise, sales and public service tax revenues associated with the current fiscal period are recognized under the susceptible to accrual concept. Licenses and permits, charges for services, fines and forfeitures, contributions, and miscellaneous revenues are recorded as revenues when received in cash, as the resulting receivable is immaterial. Taxes and other items not properly included among program revenues are reported as general revenues. Grants and similar items are recognized as revenue as soon as all the eligibility requirements of time, reimbursement, and contingencies imposed by the provider are met.

The Chaves County Treasurer levies and collects property taxes on behalf of the Town. Property taxes are levied in November and are payable in two installments, half on November 10, which becomes delinquent on December 10, and half on April 10, which becomes delinquent on May 10, which is also the lien date.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended for the specific purpose or project before any amounts will be paid to the Town; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met. Investment earnings are recorded as earned since they are measurable and available.

Other revenues susceptible to accrual are investment income and charges for services. All other revenues are recognized when they are received and are not susceptible to accrual because they are usually not measurable until payment is actually received.

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The government-wide statement of activities demonstrates the degree to which the direct expenses of a function category (general government, public safety, etc.) or activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. 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 activity; 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or activity; and 3) grants and contributions that are restricted to meeting the capital requirements of a particular function or activity.

The Town reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. The Town does not currently employ indirect cost allocation systems. Depreciation expense is a specifically identified function and is included as a separate line item on the Statement of Activities rather than a direct expense of each function. Interest on general and long-term debt is considered an indirect expense and is reported separately on the Statement of Activities. Transfers between funds and other internal activity are eliminated at the government-wide financial statements.

The government-wide focus is more on the sustainability of the Town as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The focus of the governmental fund financial statements is on the major individual funds of the governmental and business-type categories. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Non-exchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations.

Governmental Fund Financial Statements - Governmental fund level financial statements report activity using the current financial resources measurement focus and the modified accrual basis of accounting. The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balance of financial resources) rather than upon net income. Revenue recognition is as soon as they are both measurable and available.

Separate fund based financial statements are provided for governmental funds and proprietary funds. Major individual government funds and major individual enterprise funds are reported as separate columns in the fund financial statements. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category for the governmental and enterprise combined) for the determination of major funds. Management also has the option to report a fund as major even though it does not fit the criteria. The nonmajor funds are combined in a column in the fund financial statements. The nonmajor funds are detailed in the Supplemental information section of the report.

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

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

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Town 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. Revenues are provided through property and other taxes, federal sources, state sources, charges for services, licenses and fees, and other miscellaneous recoveries and revenue. Expenditures include all costs associated with the daily operation of the Town except for items included in other funds.

The **Fire Protection Fund** is a special revenue fund which accounts for the receipts and expenditures of special gasoline taxes authorized under Section 7-1-6.1 NMSA 1978 which are restricted for use in repairing and maintaining roads and streets within the Town. This fund was created under the authority provided by Section 3- 31-1 NMSA 1978.

The **Capital Projects Fund** was created by Council authority to accounts for all resources for the general capital outlay expenditures of the Town, and any reimbursements from external sources.

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

Business-Type Activities – Business-Type Activities and all proprietary funds are accounted for on a flow of economic resources measurement focus and on an accrual basis. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases and decreases (e.g., revenues and expenses) in net total position.

Proprietary funds use the *flow of economic resources measurement focus* for accounting purposes. The accounting objectives are a determination of net income, financial position, and changes in cash flow. The Proprietary Funds are accounted for using the *accrual basis of accounting*. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred..

The Town reports the following major proprietary funds:

- The **Utility Fund** is used to account for the provision of water, wastewater and sanitation services to the residents of the Town, and is considered an enterprise fund. 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, billing and collection.

Budgetary Information - Budgets for all funds are prepared by management and is approved by the Town Council and the New Mexico Department of Finance and Administration.

The Town clerk/treasurer is responsible for preparing the budget from requests submitted by department heads. The appropriated budget is prepared by line item within object class, program, department and fund; revenues expected to be available are estimated to provide an approved budget. The comprehensive budget package is brought before the Town Council for approval by resolution. The proposed budget is then submitted by June 1st to the New Mexico Department of Finance and Administration Local Government Division (DFA) for approval. DFA certifies a pending budget by July 1st with final certification of the original budget by the first Monday of September. The expenditure section of the budget, once adopted, is legally binding. Exceeding the budgeted expenditures may result in an audit finding. Based on the final certified budget submitted, DFA certifies the allowable tax rates for property taxes in September.

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

These budgets are prepared on the non-GAAP cash basis, and secure appropriation of funds for only one year. Carryover funds from the previous fiscal year are re-appropriated in the budget of the subsequent fiscal year. The budget process in the state of New Mexico requires that the beginning cash balance be utilized to fund deficit budgets appropriated in the budget of the subsequent fiscal year. Such appropriated balance is presented as a committed portion of fund balance.

Actual expenditures may not exceed the budget on a fund basis. Budgets may be amended in two ways. If a budget transfer is necessary within a fund, this may be accomplished with only Town Council approval. If a transfer between "funds" or a budget increase is required, approval must be obtained from the Department of Finance and Administration. The budgetary information presented in these financial statements has been prepared in accordance with the above procedures.

Budget Violations – The Town exceeded the budgetary authority in the General Fund by approximately \$18,555 and the Fire Protection Fund by approximately \$58,014.

Assets, Liabilities, Net Position or Fund Equity, Other Matters

Cash and Investments - Cash includes amounts in demand deposits and short-term investments. Cash deposits are reported at carrying amount, which reasonably estimates fair value. All investments are stated at fair value, which is determined by using selected bases. Interest income and realized gains and losses on investment transactions are included for financial statement purposes as investment income.

Cash Flow Liquidity - For purposes of the statement of cash flows, 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.

Restricted Cash - The Town restricts a compensating amount of cash equal to the amount of the customer deposits held on hand. These reserves are not required but are separated by management.

Use of Restricted Cash - When the Town incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.

Grants and Contributions - The Town receives grants as well as contributions in the course of operations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

Utility Receivables - Substantially all of the Town's outstanding utility receivables are due from its customers for water and sewer service and solid waste collection. Collateral is generally not required on receivables, but a deposit is required to activate new service.

Allowance for Doubtful Accounts – Management reviews the accounts receivable periodically to determine which accounts may not be collectible and adjust the account accordingly.

Customer Deposits - The Town requires a deposit to establish service for the customer. Deposits are not considered revenue for the Town unless or until the customer closes their account, at which time any remaining balance due on the account is deducted from the deposit and the customer is refunded the excess.

Concentration of Credit Risk - The Town grants credit without collateral to its customers for its services, but the customers are subject to security deposits at the start of service and service termination if the receivables are not settled within a specified time frame. The customer deposits held by the Town helps mitigate the credit risk.

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Inventory - Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies and materials. The consumption accounting method is used to record the Town's inventories. An asset is recorded when the supplies are purchased and the recognition of the expenditure is deferred to the period in which the inventories are actually used

Prepaid Items - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when used rather than purchased.

Property and Equipment - Capital assets which may include software, property, plant, equipment, vehicles, and infrastructure assets (e.g., building, roads, bridges, sidewalks, and similar items) are reported in the government-wide financial statements. 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. Land owned by the Town is always capitalized.

GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* allows Phase III governments an exemption from the retroactive application of the capitalization requirements to major general infrastructure assets. The Town has elected not to retroactively record infrastructure assets since being considered a Phase III municipality. However, it must report all infrastructure assets purchased or built after July 1, 2003.

Assets are recorded at historical cost or estimated historical cost if purchased or constructed. 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.

Assets of the Town are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings, Structures and Improvements	10-40
Water and Wastewater Systems	25
Infrastructure	25
Office and Maintenance Equipment	7
Vehicles	5

Analysis of Impairments - Management reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is determined based on comparison of future cash flows to the recorded value of the assets. Impairment losses are measured based on the fair value of the impaired assets. No such impairment losses were recorded during the year ended June 30, 2016.

Long-Term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, or business-type activities within the statement of net position. Issuance costs associated with notes entered into are expensed in the year of issuance.

Long-term obligations are reported as debt in the proprietary fund. In the governmental funds the long-term obligations are not reported as liabilities. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Compensated Absences - Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as expenditure and a fund liability of the governmental fund that will pay it. Even though the Town has appropriated, accumulated and earmarked expendable available fund resources for these amounts, the

portion not normally expected to be liquidated with expendable available financial resources is not reported as a fund liability in accordance with Interpretation No. 6 of the Governmental Accounting Standards Board Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

Deferred Outflows of Resources - In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a use of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that time.

Deferred Inflows of Resources - Deferred inflows of resources represent the acquisition of net position that is applicable to a future reporting period.

- ***Government-Wide Statements*** - Unearned revenues represent the prepaid revenues advanced to the Town. Such advances are reported as unearned revenue until the earnings process is complete.
- ***Fund Financial Statements*** - Within the governmental funds, revenues must be available in order to be recognized. Revenues, such as property taxes that have been assessed and remain uncollected, are reflected as unearned revenues if they are not available in the current period, which the Town has established as sixty days after year end.

Fund Equity - Governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of resources: Non-spendable, Restricted, Committed, Assigned and Unassigned. The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form, e.g., prepaid items or inventories; or (b) legally or contractually required to be maintained intact. Restricted fund balances have limitations placed on the funds by external means or legislation. Committed fund balances have self-imposed limitations. Assigned fund balances have an intended use factor for a specific fund, and unassigned fund balances are excess funds not categorized in the other classifications.

Net Position - The government-wide financial statements and proprietary funds utilize a net position presentation. Net position is reported represents the difference between assets plus deferred outflows and liabilities plus deferred inflows. Net position is reported in three categories:

- ***Net investment in capital assets*** – This category reflects the portion of net position that is associated with capital assets, net of accumulated depreciation reduced by the outstanding capital asset-related debt and adding back unspent proceeds.
- ***Restricted net position*** – This category reflects the portion of net position that has third party limitations on its use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.
- ***Unrestricted net position*** – This category reflects net position of the Town, not restricted for any project or other purpose.

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Operating and Non-operating Revenues - Revenues are classified as operating or non-operating according to the following criteria:

Operating revenue - include activities which have the characteristic of exchange transactions, such as charges for services and fees, net of any allowance for uncollectible amounts.

Non-operating revenues - include activities which have the characteristics of non-exchange transactions, such as capital grants and investment income.

Interfund Activity - Interfund activity is reported as loans, services provided, reimbursements or transfers. Loans are reported as interfund balances 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 reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental funds are netted as part of the reconciliation to the government-wide financial statements.

Expenses - Expenses are classified as operating or non-operating according to the following criteria:

Operating expenses - include activities that have the characteristics of an exchange transaction such as employee salaries, benefits, and related expenses; maintenance, operations and contractual services; materials and supplies; office expenses; and depreciation expenses related to Town capital assets.

Non-operating expenses - include activities that have the characteristics of non-exchange transactions such as interest on capital asset-related debt and bond expenses that are defined as non-operating expenses by GASB Statement No. 9 - *Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*, and GASB Statement No. 34.

Encumbrances - 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 and Capital Projects Funds.

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

Risk Management - The Town is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any preceding years. A surety bond as required by Section 12-6-7 NMSA 1978 Compilation and the New Mexico State Auditor Rule covers the officials and certain employees of the Town.

Subsequent Events - FASB ASC 855-10-50-1 requires reporting entities to disclose the date through which subsequent events have been evaluated and whether that date is the date the financial statements were issued or available to be issued. Management has evaluated subsequent events through the date of the auditor's report, which is the date the financial statements were available to be issued.

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE B - CASH AND CASH EQUIVALENTS

The Town pools its cash of the various funds to facilitate effective cash management. Cash applicable to a particular fund is readily identifiable. The pooled cash accounts balance is available to meet current operating requirements.

At June 30, 2016, the Town had cash and cash equivalents on deposit with a local financial institution, consisting of non-interest and interest-bearing checking accounts and certificates of deposit. Checking accounts required for debt service or for grant purposes are prohibited from accruing interest. Following is a schedule as of June 30, 2016, of the cash and cash equivalents.

	Bank Balance June 30, 2016	Net Items Outstanding	Book Balance June 30, 2016
JP Stone Community Bank			
Demand Deposit Accounts:			
Grant Account	\$ 7,343	\$ -	\$ 7,343
Pooled Cash Account	888,546	(4,398)	884,148
Time and Savings Accounts:			
Certificate of Deposit	<u>101,027</u>	<u>-</u>	<u>101,027</u>
Total – JPS Community Bank	<u>\$ 996,916</u>	<u>\$ (4,398)</u>	<u>\$ 992,518</u>

Restricted Cash – The USDA-RUS requires the Town to restrict funds equal to one annual payment until the loans mature. The Town has restricted \$20,056 in the General Fund and \$14,909 in the Utility Fund for USDA requirements. The Town has also restricted \$32,620 in the Utility Fund for customer deposits.

Collateralization - The FDIC provides coverage of up to \$250,000 for interest -bearing and non-interest-bearing demand accounts separately from an additional \$250,000 for interest-bearing time and savings accounts. Excess coverage from one category is not transferrable to the other. No security is required for the deposit of public money being insured by the Federal Deposit Insurance Corporation.

In accordance with Section 6-10-17, NMSA 1978 compilation, deposits of public monies are required to be collateralized. Pledged collateral is required in amounts in aggregate equal to one half of the amount of uninsured public money in each account during the fiscal year. Securities which are obligations of the State of New Mexico, its agencies, institutions, counties, or municipalities or other subdivisions are accepted as security at par value; all other securities are accepted as security at market value.

	JP Stone Community Bank
Deposits	\$ 996,916
Less FDIC Coverage	<u>(351,027)</u>
Uninsured Funds	645,889
Pledged Collateral Securities	<u>339,494</u>
Uninsured and Uncollateralized	<u>\$ 306,395</u>
50% Pledged Collateral Requirement per Statute	\$ 322,945
Pledged Collateral	<u>339,494</u>
(Over) Under Collateralized	<u>\$ (16,549)</u>

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE B - CASH AND CASH EQUIVALENTS (Cont.)

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 them. The Town does not have a deposit policy for custodial credit risk. As of June 30, 2016, \$739,603 of the Town's bank balance of \$996,946 was exposed to custodial credit risk before applying the pledged collateral. The Independent Bankers Bank in Dallas, Texas holds the securities pledged toward the Town.

JPS Community Bank Pledged Collateral:	Maturity	Market Value	Par Value
FNMA – 3136GOVJ7	08/13/2027	\$ 60,018	\$ 60,000
Clovis NM Muni SD #1 BQ Go Bond	08/01/2018	102,483	100,000
Eunice NM Public SD #8 GO Bond	07/15/2016	125,074	125,000
Roswell NM SD Series A GO Bond	08/01/2020	<u>51,919</u>	<u>50,000</u>
Total Collateral Pledged		<u>\$ 339,494</u>	<u>\$ 335,000</u>

NOTE C - RECEIVABLES

Government Activities - The Town fully reserves delinquent property taxes that are outstanding as of fiscal year-end. Total delinquent property taxes receivable as of June 30, 2016 is approximately \$18,565, with the full amount of the delinquent taxes fully reserved.

The Towns operates the local ambulance service and bills Medicaid and other private insurance carriers for their services, with the transported patient billed for any remainder not covered by insurance. As of June 30, 2016, the Town has approximately \$44,685 in outstanding ambulance charges. The full amount of the ambulance charges have been fully reserved at fiscal year end.

The Town leases a building to a local retail food product manufacturer at \$2,000 per month. As of June 30, 2016, the Town is carrying a receivable from the manufacturer of approximately \$54,235 in rental and reimbursement charges.

The Town records gross receipts, franchise and other taxes collected within sixty days of year end as receivables at year end. The following amount are considered receivable at the fiscal year end.

	Total
Gross Receipts Tax	\$ 46,950
Infrastructure Gross Receipts Tax	5,300
Franchise Tax	4,624
Other Taxes	<u>1,273</u>
Accounts Receivables - Net	<u>\$ 58,147</u>

Business-type Activities – The Town reserves a portion of the utility accounts receivable due to the accounts not being susceptible to collection. The amount of the allowance for the Proprietary fund is below as of the fiscal year end:

	Total
Gross Accounts Receivables	\$ 52,610
Less Allowance for Doubtful Accounts	<u>(14,303)</u>
Accounts Receivables - Net	<u>\$ 38,307</u>

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE C – RECEIVABLES (Cont.)

Concentrations of Risk - The Town depends on financial resources flowing from, or associated with, property taxes, gross receipts taxes, the Federal Government and the State of New Mexico. Because of this dependency, the Town is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State Appropriations; changes in gross receipts tax rates, collections, tourism, and property values.

NOTE D - CAPITAL ASSETS

The following capital asset activity for the year ended June 30, 2016 is as follows:

	Balance June 30, 2015	Increases and Transfers	Decreases and Transfers	Balance June 30, 2016
Governmental Activities:				
Non-depreciable Capital Assets				
Construction in Progress	\$ 8,125	\$ 383,431	\$ (391,556)	\$ -
Land	<u>138,730</u>	<u>-</u>	<u>-</u>	<u>138,730</u>
Total Non-depreciable Capital Assets	146,855	383,431	(391,556)	138,730
Depreciable Capital Assets				
Buildings and Improvements	7,071,734	35,110	-	7,106,844
Streets and Other Infrastructure	583,005	84,259	-	667,264
Vehicles, Machinery and Equipment	<u>1,298,118</u>	<u>49,850</u>	<u>-</u>	<u>1,347,968</u>
Total Depreciable Capital Assets	<u>8,952,857</u>	<u>169,219</u>	<u>-</u>	<u>9,122,076</u>
Accumulated Depreciation				
Buildings and Improvements	(2,025,605)	(160,195)	-	(2,185,800)
Streets and Other Infrastructure	(244,158)	(29,813)	-	(273,971)
Vehicles, Machinery and Equipment	<u>(839,464)</u>	<u>(56,725)</u>	<u>-</u>	<u>(896,189)</u>
Accumulated Depreciation	<u>(3,109,227)</u>	<u>(246,733)</u>	<u>-</u>	<u>(3,355,960)</u>
Total Depreciable Capital Assets, Net	<u>5,843,630</u>	<u>(77,514)</u>	<u>-</u>	<u>5,766,116</u>
Capital Assets, Net	<u>\$ 5,990,485</u>	<u>\$ 305,917</u>	<u>\$ (391,556)</u>	<u>\$ 5,940,846</u>

Management has elected to present the Governmental Activities depreciation expense of \$246,733 as a separate line-item expense on the Statement of Activities rather than allocating the expense to each function within the primary government.

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE D - CAPITAL ASSETS (Cont.)

	Balance June 30, 2015	Increases and Transfers	Decreases and Transfers	Balance June 30, 2016
Business-type Activities:				
Non-depreciable Capital Assets				
Land and Water Rights	\$ 154,890	\$ -	\$ -	\$ 154,890
Construction in Progress	<u>-</u>	<u>391,556</u>	<u>-</u>	<u>391,556</u>
Total Non-depreciable Capital Assets	154,890	391,556	-	546,446
Depreciable Capital Assets				
Water System	1,412,983	-	-	1,412,983
Sewer System	769,894	-	-	769,894
Vehicles, Machinery and Equipment	<u>45,540</u>	<u>27,702</u>	<u>-</u>	<u>73,242</u>
Total Depreciable Capital Assets	<u>2,228,417</u>	<u>27,702</u>	<u>-</u>	<u>2,256,119</u>
	Balance June 30, 2015	Increases and Transfers	Decreases and Transfers	Balance June 30, 2016
Business-type Activities:				
Accumulated Depreciation				
Water System	(930,646)	(28,726)	-	(959,372)
Sewer System	(476,877)	(26,863)	-	(503,740)
Vehicles, Machinery and Equipment	<u>(3,037)</u>	<u>(6,268)</u>	<u>-</u>	<u>(9,305)</u>
Accumulated Depreciation	<u>(1,410,560)</u>	<u>(61,857)</u>	<u>-</u>	<u>(1,472,417)</u>
Total Depreciable Capital Assets, Net	<u>817,857</u>	<u>(34,155)</u>	<u>-</u>	<u>783,702</u>
Capital Assets, Net	<u>\$ 972,747</u>	<u>\$ 357,401</u>	<u>\$ -</u>	<u>\$ 1,330,148</u>

NOTE E - COMPENSATED ABSENCES

Vacation and sick leave are earned by employees during the year based on time worked, are non-cumulative and considered to be a current liability. Vacation leave due, if any, is paid upon an employee's termination. Compensation for sick leave is limited to time off and is not monetarily compensated. The activity of the vacation leave due to employees as of June 30, 2016 is detailed below. Vacation for the governmental activities are paid by the General Fund. The Utility Fund incurs the expenditures for the Business-type activities for the employees assigned to the respective fund.

	Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016	Payable Within One Year
Governmental Activities	\$ 3,633	\$ 3,353	\$ (4,099)	\$ 2,887	\$ 2,887
Business-type Activities	<u>8,418</u>	<u>6,826</u>	<u>(3,515)</u>	<u>11,729</u>	<u>11,729</u>
Total	<u>\$ 12,051</u>	<u>\$ 10,179</u>	<u>\$ (7,614)</u>	<u>\$ 14,616</u>	<u>\$ 14,616</u>

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE F - LONG-TERM DEBT

The Town had the following long-term debt obligations as of June 30, 2016:

Governmental Activities:

NMFA 2136-PP – Industrial Park Buildings Purchase - The Town entered into an agreement with NMFA in March 2008 to fund the purchase and improvements to the Town’s industrial park buildings. Initial principal was \$99,500 with repayment terms of 20 annual payments of approximately \$8,042, bearing variable interest rates between 4.17% and 5.38% with interest paid semi-annually and maturing in May 2028. The debt is paid out of the General Fund.

NMFA 2742-PP – Fire Station Completion - The Town entered into an agreement with New Mexico Finance Authority (NMFA) in August 2012 to fund improvements of the fire station building. Initial principal was \$228,578 with repayment terms of annual payments of ranging from \$15,205 to \$26,000, bearing interest of 0% and maturing in May 2023. The debt is paid from intercept funds from the Fire Protection Fund.

NMFA 2753-PP – Industrial Park Buildings Purchase - The Town entered into an agreement with NMFA in September 2012 to fund the purchase of an ambulance and EMS equipment. Initial principal was \$91,350 with repayment terms of 10 annual payments of approximately \$10,264, bearing a variable interest rate between 0.27% and 2.2% with interest paid semi-annually and maturing in May 2022. The debt is paid from revenue generated by ambulance services in the General Fund.

USDA Series 2015 – Police Vehicles - The Town entered into an agreement with the USDA in March, 2015 to fund the purchase of police vehicles. Initial principal was \$59,700 with repayment terms of 5 annual payments between \$11,000 and \$13,700 of principal plus accrued interest at 3.75% paid annually and maturing in March 2020. The debt is paid from revenue received from the State of New Mexico in the Law Enforcement Protection. The loan covenant requires the Town to have the cash equivalent to the annual payment restricted for debt service for the life of the loan.

The Town paid approximately \$8,462 in interest expense during the fiscal year from the governmental funds. Long-term debt activity for the year ended June 30, 2016 was as follows:

Governmental	Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016	Due Within One Year
NMFA 2025-PP	\$ 40,767	\$ -	\$ (40,767)	\$ -	\$ -
NMFA 2136-PP	75,553	-	(4,165)	71,388	4,380
NMFA 2742-PP	198,000	-	(16,000)	182,000	26,000
NMFA 2753-PP	67,148	-	(9,274)	57,874	9,341
USDA Series 2015	<u>59,700</u>	<u>-</u>	<u>(11,000)</u>	<u>48,700</u>	<u>11,000</u>
Total Long-term Debt	<u>\$ 441,168</u>	<u>\$ -</u>	<u>\$ (81,206)</u>	<u>\$ 359,962</u>	<u>\$ 50,721</u>

Business-type Activities:

USDA-RUS 1997 - The Town entered into an agreement with the USDA-Rural Utilities Service in 1997 to fund construction and improvements to the Town’s utility infrastructure. Initial principal was \$125,000 with repayment terms of 40 annual payments of approximately \$7,109, bearing interest of 4.875% with interest paid annually and maturing in June 2037. The loan covenant requires the Town to have the cash equivalent to the annual payment restricted for debt service for the life of the loan.

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE F - LONG-TERM DEBT (Cont.)

USDA-RUS 1999 - The Town entered into an agreement with the USDA-Rural Utilities Service in June 1999 to fund construction and improvements to the Town's utility infrastructure. Initial principal was \$137,000 with repayment terms of 40 annual payments ranging from \$7,700 to \$7,800, bearing interest of 4.5% to 5.5% with interest paid annually and maturing in June 2039. The loan covenant requires the Town to have the cash equivalent to the annual payment restricted for debt service for the life of the loan.

NMFA 0337-WTB - Colonias Infrastructure Project Grant - The Town entered into an agreement with NMFA in January 2016 to administer a Grant/Loan project to improve the water and wastewater infrastructure of the Town to remain in compliance with NMED and the EPA. The Town has committed to approximately \$333,788 of system improvements, of which \$200,273 is grant funds and the remaining \$133,515 is a loan financed through NMFA. Terms of the loan are 20 annual, non-interest bearing payments of approximately \$7,074, and maturing in June 2035. The grant funds have until June 20, 2019 to be drawn down or any remaining funds will revert back at that time.

The Town paid approximately \$10,270 in interest expense and other fees during the fiscal year from the proprietary fund funds. Long-term debt activity for the year ended June 30, 2016 was as follows:

Proprietary	Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016	Due Within One Year
USDA-RUS 1997	\$ 95,010	\$ -	\$ (4,609)	\$ 90,401	\$ 2,660
USDA-RUS 1999	110,200	-	(2,400)	107,800	2,600
NMFA - 0337-WTB	<u>-</u>	<u>133,515</u>	<u>(2,415)</u>	<u>131,100</u>	<u>6,746</u>
Total Long-term Debt	<u>\$ 205,210</u>	<u>\$ 133,515</u>	<u>\$ (9,424)</u>	<u>\$ 329,301</u>	<u>\$ 12,006</u>

Long-term debt service requirements to maturity for the Town is as follows:

Fiscal Year Ending June 30,	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2017	\$ 50,721	\$ 2,814	\$ 53,535	\$ 12,006	\$ 9,977	\$ 21,983
2018	52,035	2,332	54,367	12,255	9,628	21,883
2019	52,393	1,786	54,180	12,612	9,371	21,983
2020	54,497	1,209	55,706	12,775	9,108	21,883
2021	41,240	548	41,788	13,245	8,738	21,983
2022-2026	93,778	659	94,436	70,965	38,650	109,615
2027-2031	15,298	58	15,356	81,457	28,258	109,715
2032-2036	-	-	-	87,000	15,540	102,540
2037-2041	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,986</u>	<u>2,779</u>	<u>29,765</u>
	<u>\$ 359,962</u>	<u>\$ 9,406</u>	<u>\$ 369,368</u>	<u>\$ 329,301</u>	<u>\$ 132,049</u>	<u>\$ 461,350</u>

NOTE G - RETIRE HEALTH CARE ACT CONTRIBUTIONS

The Retiree Health Care Act (10-7C-1 to 10-7C-16, NMSA 1978) provides comprehensive care group health insurance for persons who have retired from certain public service in New Mexico. The Town has elected not to participate in the program.

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE H- PERA PENSION PLAN

Pensions. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the New Mexico Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, on the economic resources measurement focus and accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Plan Description. This fund has six divisions of members, including State General, State Police/Adult Correction Officer, Municipal General, Municipal Police/Detention Officers, Municipal fire, and State Legislative Divisions, and offers 24 different types of coverage within the PERA plan. All assets accumulated may be used to pay benefits, including refunds of member contributions, to any of the plan members or beneficiaries, as defined by the terms of this plan. Certain coverage plans are only applicable to a specific division. Eligibility for membership in the PERA Fund is set forth in the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). Except as provided for in the Volunteer Firefighters Retirement Act (10-11A-1 to 10-11A-7, NMSA 1978), the Judicial Retirement Act (10-12B-1 to 10-12B-19, NMSA 1978), the Magistrate Retirement Act (10-12C- 1 to 10-12C-18, NMSA 1978), and the Educational Retirement Act (Chapter 22, Article 11, NMSA 1978), and the provisions of Sections 29-4-1 through 29-4-11, NMSA 1978 governing the State Police Pension Fund, each employee and elected official of every affiliated public employer is required to be a member in the PERA Fund.

PERA issues a publicly available financial report and a comprehensive annual financial report that can be obtained at <http://saonm.org> using the Audit Report Search function for agency 366.

Benefits Provided. For a description of the benefits provided and recent changes to the benefits see Note I in the PERA audited financial statements for the fiscal year ended June 30, 2015 available at:
[www.pera.state.nm.us/pdf/AuditFinancialStatements/366 Public Employees Retirement Association 2014.pdf](http://www.pera.state.nm.us/pdf/AuditFinancialStatements/366%20Public%20Employees%20Retirement%20Association%202014.pdf).

Contributions. The contribution requirements of defined benefit plan members and the Town are established in state statute under Chapter 10, Article 11, NMSA 1978. The contribution requirements may be amended by acts of the legislature. For the employer and employee contribution rates in effect for FY 14 for the various PERA coverage options, for both Tier I and Tier II, see the tables available in the note disclosures on pages 29 through 31 of the PERA FY 14 annual audit report at [http://osanm.org/media/audits/366 Public Employees Retirement Association 2014.pdf](http://osanm.org/media/audits/366%20Public%20Employees%20Retirement%20Association%202014.pdf). The PERA coverage options that apply to Town are: General Division and Police Division. Statutorily required contributions to the pension plan from the Town were \$150,684 and employer paid member benefits that were "picked up" by the employer were \$0 for the year ended June 30, 2015.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. The PERA pension liability amounts, net pension liability amounts, and sensitivity information were based on an annual actuarial valuation performed as of June 30, 2015. The PERA pension liability amounts for each division were rolled forward from the valuation date to the Plan year ending June 30, 2015, using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date June 30, 2015.

The assets of the PERA fund are held in one trust, but there are six distinct membership groups (municipal general members, municipal police members, municipal fire members, state general members, state police members and legislative members) for whom separate contribution rates are determined each year pursuant to chapter 10, Article 11 NMSA 1978. Therefore, the calculations of the net pension liability, pension expense and deferred Inflows and Outflows were performed separately for each of the membership groups: municipal general members; municipal police members; municipal fire members; state general members; state police members and legislative members. The Town's proportion of the net pension liability for each membership group that the employer participates in is based on the employer contributing entity's percentage of that membership group's total employer contributions for the fiscal year ended June 30, 2015.

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE H- PERA PENSION PLAN (Cont.)

Only employer contributions for the pay period end dates that fell within the period of July 1, 2014 to June 30, 2015 were included in the total contributions for a specific employer. Regular and any adjustment contributions that applied to FY 2015 are included in the total contribution amounts. In the event that an employer is behind in reporting to PERA its required contributions, an estimate (receivable) was used to project the unremitted employer contributions. This allowed for fair and consistent measurement of the contributions with the total population. This methodology was used to maintain consistent measurement each year in determining the percentages to be allocated among all the participating employers.

PERA Fund Division - General. At June 30, 2016, the Town reported a liability of \$191,682 for its proportionate share of the net pension liability. At June 30, 2015, the Town's proportion was 0.0188%, which was higher than its 0.0172% proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Town recognized PERA Fund - General, pension expense of \$18,656. At June 30, 2016, the Town reported PERA Fund Division - General deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in Assumption	\$ -	\$ 75
Changes in Proportion	9,531	-
Differences Between Expected and Actual Experience	-	4,246
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	606
Town Contributions Subsequent to Measurement Date	<u>18,656</u>	<u>-</u>
Totals	<u>\$ 88,187</u>	<u>\$ 4,927</u>

For the General Division, \$18,656 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date June 30, 2015 and will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	
2017	\$ (5,077)
2018	(5,077)
2019	(5,077)
2020	<u>10,304</u>
Totals	<u>\$ (4,927)</u>

PERA Fund Division - Police. At June 30, 2016, the Town reported a liability of \$427,481 for its proportionate share of the net pension liability. At June 30, 2015, the Town's proportion was 0.0889%, which was higher than its 0.0876% proportion measured as of June 30, 2014.

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE H- PERA PENSION PLAN (Cont.)

For the year ended June 30, 2016, the Town recognized PERA Fund - Police, pension expense of \$38,388. At June 30, 2016, the Town reported PERA Fund Division - Police deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in Assumption	\$ -	\$ 17,686
Changes in Proportion	3,236	-
Differences Between Expected and Actual Experience	29,871	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	1,186
Town Contributions Subsequent to Measurement Date	<u>47,812</u>	<u>-</u>
Totals	<u>\$ 80,919</u>	<u>\$ 18,872</u>

For the Police Division, \$47,812 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date June 30, 2015 and will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	
2017	\$ (3,640)
2018	(3,640)
2019	(3,640)
2020	<u>21,919</u>
Totals	<u>\$ 10,999</u>

Actuarial assumptions. As described above, the PERA Fund member group pension liabilities and net pension liabilities are based on actuarial valuations performed as of June 30, 2014 for each of the membership groups. Then each PERA Fund member group pension liability was rolled forward from the valuation date to the Plan year ending June 30, 2015 using generally accepted actuarial principles. There were no significant events or changes in benefit provisions that required an adjustment to the roll-forward liabilities as of June 30, 2015. These actuarial methods and assumptions were adopted by the Board for use in the June 30, 2015 actuarial valuation.

Actuarial Valuation Date	June 30, 2014
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Pay
Amortization Period	Solved for Based on Statutory Rates
Asset Valuation Method	Fair Value
Actuarial Assumptions:	
Investment Rate of Return	7.75% Annual Rate, Net of Investment Expense
Projected Benefit Payment	100 Years
Payroll Growth	3.50% Annual Rate
Projected Salary Increases	3.50% to 14.25% Annual Rate
Included Inflation at	3.00% Annual Rate

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE H- PERA PENSION PLAN (Cont.)

The long-term expected rate of return on pension plan investments was determined using a statistical analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and most recent best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

ALL FUNDS – Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US Equity	21.1%	5.00 %
International Equity	24.8	5.20
Private Equity	7.0	8.20
Core and Global Fixed Income	26.1	1.85
Fixed Income Plus Sectors	5.0	4.80
Real Estate	5.0	5.30
Real Assets	7.0	5.70
Absolute Return	<u>4.0</u>	4.15
Totals	<u>100.0%</u>	

Discount rate: The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that future contributions will be made in accordance with statutory rates. On this basis, the pension plan's fiduciary net position together with the expected future contributions are sufficient to provide all projected future benefit payments of current plan members as determined in accordance with GASBS 67. Therefore, the 7.75% assumed long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Association's proportionate share of the net pension liability to changes in the discount rate - The following table show the sensitivity of the net pension liability to changes in the discount rate. In particular, the tables present the Association's net pension liability in each PERA Fund Division in which the Association participates, under the current single rate assumption, as if it were calculated using a discount rate one percentage point lower (6.75%) or one percentage point higher (8.75%) than the single discount rate.

Proportionate Share of Net Pension Liability	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
General	\$ 326,359	\$ 191,682	\$ 79,708
Police	<u>705,959</u>	<u>427,481</u>	<u>199,035</u>
	<u>\$ 1,032,318</u>	<u>\$ 619,163</u>	<u>\$ 278,743</u>

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued FY15 PERA financial report. The report is available at: www.pera.state.nm.us/publications.html.

Payables to the pension plan. At June 30, 2016, the Town had \$3,482 in outstanding contributions to the pension plan which is reported within accounts payables in the General Fund.

REQUIRED SUPPLEMENTAL INFORMATION

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
SCHEDULES OF PROPORTIONATE SHARE OF NET PENSION
LIABILITY AND REQUIRED CONTRIBUTIONS
LAST 10 FISCAL YEARS***

Actuarial Valuation Date **6/30/15** **6/30/16**

Municipal General Division

Proportionate Share of Net Pension Liability

Proportion of Net Pension Liability	0.0172%	0.0188%
Net Pension Liability	134,178	191,682
Annual Covered Payroll	174,985	209,623
NPL as Percentage of Covered Payroll	77%	92%
Fiduciary Net Position as a Percentage of Total Pension Liability	81.29%	76.99%

Schedule of Required Contributions

Contractually Required Contribution	37,291	18,656
Contributions Made	37,291	18,656
Contributions as Percentage of Covered Payroll	8.9%	8.9%

Municipal Police Division

Proportionate Share of Net Pension Liability

Proportion of Net Pension Liability	0.0876%	0.0889%
Net Pension Liability	285,566	427,481
Annual Covered Payroll	175,948	177,486
NPL as Percentage of Covered Payroll	163%	241%
Fiduciary Net Position as a Percentage of Total Pension Liability	81.29%	76.99%

Schedule of Required Contributions

Contractually Required Contribution	35,893	36,207
Contributions Made	35,893	36,207
Contributions as Percentage of Covered Payroll	20.4%	20.4%

*The amounts presented above for trend analysis are determined as of June 30. These schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Town will present information for those years for which information is available.

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
YEAR ENDED JUNE 30, 2016**

Changes of Benefit Terms. The PERA Fund COLA and retirement eligibility benefits changes in recent years are described in Note 1 of the PERA FY15 audit available at:
http://www.pera.state.nm.us/pdf/AuditFinancialStatements/366_Public_Employees_Retirement_Association_2015.pdf.

Changes of Assumptions. Changes of assumptions. The Public Employees Retirement Association (PERA) of New Mexico Annual Actuarial Valuation as of June 30, 2015 report is available at:
http://www.pera.state.nm.us/pdf/Investments/RetirementFundValuationReports/6-30-2015%20PERA%20Valuation%20Report_FINAL.pdf.

The summary of Key Findings for the PERA Fund (on page 2 of the report) states “based on a recent experience study for the five-year period ending June 30, 2013, the economic and demographic assumptions were updated for this valuation. The changes in assumptions resulted in a decrease of \$30.8 million to Fund liabilities and an increase of 0.13% to the funded ratio.

For details about changes in the actuarial assumptions, see Appendix B on page 60 of the report.

SUPPLEMENTAL INFORMATION

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
NONMAJOR FUND DESCRIPTIONS
JUNE 30, 2016**

Local Government Correction Fund - Account for the fees imposed upon conviction of an individual as stipulated under Sections 34-9-12 and 35-14-11 NMSA 1978. The funds collected are restricted to be used in the operation and maintenance of the Town's jail facilities.

Emergency Medical Services Fund - Accounts for an annual ambulance subsidy from the State of New Mexico and related expenditures. Authority for this fund is Section 24-10A-3 NMSA 1978.

Law Enforcement Protection Fund - Accounts for the operations and maintenance of a special grant for the police department. Financing is provided by a grant from the State. The grant may be used only for the operations of the police department. Authority is Section 29-13-3 NMSA 1978.

Street Improvement Fund - Accounts for funds designated for street repairs. This fund was created by the authority of state grant provisions and Section 3-34-3, NMSA 1978.

STATE OF NEW MEXICO
TOWN OF HAGERMAN
COMBINED BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS
JUNE 30, 2016

	Correction Fund	Emergency Medical Services Fund	Law Enforcement Protection Fund	Streets Fund	Total Nonmajor Governmental Funds
ASSETS					
ASSETS					
Cash and Cash Equivalents	\$ 12,564	\$ 325	\$ 2,865	\$ (301)	\$ 15,453
Taxes Receivable					
Gasoline Tax	-	-	-	1,621	1,621
Total Assets	<u>\$ 12,564</u>	<u>\$ 325</u>	<u>\$ 2,865</u>	<u>\$ 1,320</u>	<u>\$ 17,074</u>
 LIABILITIES AND FUND BALANCE					
FUND BALANCES					
Assigned	\$ 12,564	\$ 325	\$ 2,865	\$ 1,320	\$ 17,074
Total Fund Balances	<u>12,564</u>	<u>325</u>	<u>2,865</u>	<u>1,320</u>	<u>17,074</u>
Total Liabilities and Fund Balances	<u>\$ 12,564</u>	<u>\$ 325</u>	<u>\$ 2,865</u>	<u>\$ 1,320</u>	<u>\$ 17,074</u>

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
COMBINED SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2016**

	Correction Fund	Emergency Medical Services Fund	Law Enforcement Protection Fund	Streets Fund	Total Nonmajor Governmental Funds
REVENUES					
Taxes					
Gas	\$ -			\$ 18,865	\$ 18,865
Intergovernmental					
State	-	8,319	22,400	65,456	96,175
Fines and Forfeits	675	-	-	-	675
	<u>675</u>	<u>8,319</u>	<u>22,400</u>	<u>84,321</u>	<u>115,715</u>
Total Revenues	675	8,319	22,400	84,321	115,715
EXPENDITURES					
Current					
Streets	-	-	-	7,160	7,160
Public Safety	6,140	7,994	21,884	-	36,018
Debt Service					
Principal	-	-	11,000	-	11,000
Interest	-	-	2,099	-	2,099
Capital Outlay	-	-	-	84,259	84,259
	<u>6,140</u>	<u>7,994</u>	<u>34,983</u>	<u>91,419</u>	<u>140,536</u>
Total Expenditures	6,140	7,994	34,983	91,419	140,536
Excess (Deficit) of Revenues over Expenditures	(5,465)	325	(12,583)	(7,098)	(24,821)
Fund Balance, Beginning of Year	<u>18,029</u>	<u>-</u>	<u>15,448</u>	<u>8,418</u>	<u>41,895</u>
Fund Balance, End of Year	<u>\$ 12,564</u>	<u>\$ 325</u>	<u>\$ 2,865</u>	<u>\$ 1,320</u>	<u>\$ 17,074</u>

STATE OF NEW MEXICO
TOWN OF HAGERMAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BASIS)
CORRECTION FUND
YEAR ENDED JUNE 30, 2016

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Fines and Forfeits	\$ 5,055	\$ 675	\$ 675	\$ -
Total Revenues	5,055	675	675	-
EXPENSES				
Current				
Public Safety	5,055	6,140	6,140	-
Total Expenditures	5,055	6,140	6,140	-
Deficiency of Revenues over Expenditures	-	(5,465)	(5,465)	-
 Cash Balance, Beginning of Year	 18,029	 18,029	 18,029	 -
Cash Balance, End of Year	\$ 18,029	\$ 12,564	\$ 12,564	\$ -
 Reconciliation to GAAP Basis				
Deficiency of Revenues over Expenditures - Budget Basis			\$ (5,465)	
Deficiency of Revenues over Expenditures - GAAP Basis			\$ (5,465)	

STATE OF NEW MEXICO
TOWN OF HAGERMAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BASIS)
EMS FUND
YEAR ENDED JUNE 30, 2016

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Intergovernmental				
State	\$ 8,319	\$ 8,319	\$ 8,319	\$ -
Miscellaneous			-	-
Total Revenues	8,319	8,319	8,319	-
EXPENSES				
Current				
Public Safety	8,319	7,994	7,994	-
Total Expenditures	8,319	7,994	7,994	-
Excess of Revenues over Expenditures	-	325	325	-
Cash Balance, Beginning of Year	325	325	325	-
Cash Balance, End of Year	\$ 325	\$ 650	\$ 650	\$ -
Reconciliation to GAAP Basis				
Excess of Revenues over Expenditures - Budget Basis			\$ 325	
Excess of Revenues over Expenditures - GAAP Basis			\$ 325	

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 BALANCE - BUDGET AND ACTUAL (NON-GAAP BASIS)
LAW ENFORCEMENT PROTECTION FUND
YEAR ENDED JUNE 30, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES				
Intergovernmental				
State	\$ 22,400	\$ 22,400	\$ 22,400	\$ -
Total Revenues	<u>22,400</u>	<u>22,400</u>	<u>22,400</u>	<u>-</u>
EXPENSES				
Current				
Public Safety	24,159	21,884	21,884	-
Debt Service				
Principal	11,000	11,000	11,000	-
Interest	<u>2,099</u>	<u>2,099</u>	<u>2,099</u>	<u>-</u>
Total Expenditures	<u>37,258</u>	<u>34,983</u>	<u>34,983</u>	<u>-</u>
Deficiency of Revenues over Expenditures	(14,858)	(12,583)	(12,583)	-
Cash Balance, Beginning of Year	<u>15,448</u>	<u>15,448</u>	<u>15,448</u>	<u>-</u>
Cash Balance, End of Year	<u>\$ 590</u>	<u>\$ 2,865</u>	<u>\$ 2,865</u>	<u>\$ -</u>
Reconciliation to GAAP Basis				
Deficiency of Revenues over Expenditures - Budget Basis			<u>\$ (12,583)</u>	
Deficiency of Revenues over Expenditures - GAAP Basis			<u>\$ (12,583)</u>	

STATE OF NEW MEXICO
TOWN OF HAGERMAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BASIS)
STREETS FUND
YEAR ENDED JUNE 30, 2016

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Taxes				
Gas	\$ 16,573	\$ 18,865	\$ 18,865	\$ -
Intergovernmental				
State	-	65,456	65,456	-
Total Revenues	16,573	84,321	84,321	-
EXPENSES				
Current				
Streets	18,532	7,160	7,160	-
Capital Outlay	-	84,259	84,259	-
Total Expenditures	18,532	91,419	91,419	-
Deficiency of Revenues over Expenditures	(1,959)	(7,098)	(7,098)	-
Cash Balance, Beginning of Year	8,418	8,418	8,418	-
Cash Balance, End of Year	\$ 6,459	\$ 1,320	\$ 1,320	\$ -
Reconciliation to GAAP Basis				
Deficiency of Revenues over Expenditures - Budget Basis			\$ (7,098)	
Deficiency of Revenues over Expenditures - GAAP Basis			\$ (7,098)	

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BASIS)
CAPITAL PROJECTS FUND
YEAR ENDED JUNE 30, 2016**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Intergovernmental				
State	\$ 1,863,399	\$ 587,840	\$ 482,320	\$ (105,520)
Miscellaneous	-	-	-	-
Total Revenues	1,863,399	587,840	482,320	(105,520)
EXPENSES				
Capital Outlay	1,689,529	418,541	418,541	-
Total Expenditures	1,689,529	418,541	418,541	-
Excess of Revenues over Expenditures	173,870	169,299	63,779	(105,520)
Cash Balance, Beginning of Year	-	-	-	-
Cash Balance, End of Year	\$ 173,870	\$ 169,299	\$ 63,779	\$ (105,520)
Reconciliation to GAAP Basis				
Excess of Revenues over Expenditures - Budget Basis			63,779	
Excess of Revenues over Expenditures - GAAP Basis			\$ 63,779	

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND NET POSITION - BUDGET AND ACTUAL (NON-GAAP BASIS)
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES				
Charges for Services				
Water	\$ 205,859	\$ 234,915	\$ 221,179	\$ (13,736)
Sewer	71,690	79,971	79,867	(104)
Sanitation	174,348	190,562	190,415	(147)
Late Fees	-	-	9,472	9,472
Other Revenue	-	-	15,036	15,036
	<u>451,897</u>	<u>505,448</u>	<u>515,969</u>	<u>10,521</u>
OPERATING EXPENSES				
Current				
Water	237,729	269,338	240,607	28,731
Sewer	68,611	69,559	69,559	-
Sanitation	180,500	158,088	158,088	-
Capital Outlay			27,702	(27,702)
Debt Service				
Principal	9,424	9,424	9,424	-
Interest	7,854	7,854	10,270	(2,416)
	<u>504,118</u>	<u>514,263</u>	<u>515,650</u>	<u>(1,387)</u>
Total Operating Expenses				
Operating Income	(52,221)	(8,815)	319	9,134
NONOPERATING REVENUE (EXPENSES)				
Environmental Gross Receipts Tax	6,421	7,547	6,993	(554)
	<u>6,421</u>	<u>7,547</u>	<u>6,993</u>	<u>(554)</u>
Total Nonoperating Revenue (Expenses)				
Change in Net Position	(45,800)	(1,268)	7,312	8,580
Cash - Beginning of Year	<u>343,547</u>	<u>343,547</u>	<u>343,547</u>	<u>-</u>
Cash - End of Year	<u>\$ 297,747</u>	<u>\$ 342,279</u>	<u>\$ 350,859</u>	<u>\$ 16,606</u>
Reconciliation to GAAP Basis				
Change in Net Position - Budget Basis			\$ 7,312	
Depreciation			(61,857)	
Capital Outlay			27,702	
Principal Payments			9,424	
Change in:				
Environmental Gross Receipt Taxes Receivable			(677)	
Accounts Payable			(2,470)	
Accrued Compensated Absences			2,140	
Customer Meter Deposits			(1,645)	
Change in Net Position - GAAP Basis			<u>\$ (20,071)</u>	

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

STATE OF NEW MEXICO
TOWN OF HAGERMAN
SCHEDULE OF VENDOR EXPENDITURES
PURCHASES OF OVER \$60,000 (EXCLUDING GRT)
(UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2016

<i>RFB#/RFP# (If applicable)</i>	<i>Type of Procurement</i>	<i>Vendor Name</i>	<i>Did Vendor Win Contract?</i>	<i>\$ Amount of Awarded Contract</i>
N/A	Sole Source	Waste Management, Inc.	N/A	\$ 112,853

<i>\$ Amount of Amended Contract</i>	<i>Physical address of vendor (City, State)</i>	<i>Did the Vendor provide documentation of eligibility for in-state preference?</i>	<i>Did the Vendor provide documentation of eligibility for veterans' preference?</i>	<i>Brief Description of the Scope of Work</i>
\$ 112,853	PO Box 78251, Phoenix, AZ 85062	N	N	Trash Collection

INTERNAL CONTROL AND COMPLIANCE



SCOTT NORTHAM, CPA, PC
Certified Public Accountants

**INDEPENDENT AUDITOR'S 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***

Timothy Keller,
New Mexico State Auditor, and
Mayor and Town Council
Town of Hagerman
Hagerman, New Mexico

We have audited 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, New Mexico as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents. We have also audited the financial statements of each of the Town's nonmajor governmental funds and the budgetary comparisons for the major capital project fund, and all nonmajor funds presented as supplemental information, as defined by the Government Accounting Standards Board, in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2016, as listed in the table of contents and have issued our report thereon dated February 10, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be either a material weakness or a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompany schedule of findings and responses as item 2016-003 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and responses as item 2015-005 and 2016-002 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free from 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 deficiencies described in the accompany schedule of findings and responses as items 2015-001 and 2016-001 as items of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and Section 12-6-5 NMSA 1978.

Town's Responses to Findings

The Town's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Town's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Scott Northam, CPA, PC
Ruidoso, New Mexico
February 10, 2017

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2016**

2015-001 - Legal Compliance with Budget - Compliance

CONDITION - The Town actual expenditures exceeded the authorized General Fund by \$18,555, and the Fire Protection Fund budget by approximately \$58,014. The Town did not make significant progress on their corrective action plan in resolving this finding from the previous year because the budget preparation did not include the intercept funds.

CRITERIA - Section 6-6-6 of the New Mexico State Statutes prohibits any payments in excess of the approved budget.

CAUSE - The Town prepares its budget on the cash basis and did not take into consideration NMFA gross receipts intercept funds and debt service principal repayment scheduled on the loan paid from those loans.

EFFECT – Not all transactions affecting the fund were not recorded which consequently could not provide adequate reporting for budgetary purposes.

RECOMMENDATION – The Town should review externally-generated transactions that affect the accounting records and include those transactions to properly report the activity and to identify any potential budget issues. In addition, review transfers in which one fund subsidizing another and properly record the subsidy to ensure they are balanced and all related budgets are appropriate.

MANAGEMENT RESPONSE AND PLANNED CORRECTIVE ACTION – The Town Clerk will review the coming fiscal year's intercept funds and adjust the budget to reflect the intercept funds and related debt service expenditures. This will be an ongoing review and the finding is expected to be resolved before the fourth quarter of the 2017 fiscal year.

2015-005 – PERA Miscalculation and Underreporting – Significant Deficiency (Revised, Repeated)

CONDITION - The Town did not update the PERA employer contribution rates in their payroll software which went into effect as of July 1, 2014, which affected the 26 pay periods for the 2015 fiscal year and the first eight pay periods of the 2016 fiscal year until the update was entered and the liability calculation was corrected. In addition, of the 26 PERA reports for the respective pay periods in the fiscal year, 11 were filed outside of the required filing period. No significant progress was made on their corrective action plan resolving this finding from the previous year because the Town Clerk did not receive instructions on how to correct the issue on PERA's online system.

CRITERIA - State Statute 10-11-126-A NMSA 1978 requires public employers to remit contributions in accordance with the procedures and schedules established by PERA. Per Section 2 of the PERA Employer Guide, contributions are due no later than the fifth business day after the payday applicable to the payroll period being reported. If an employer fails to make the required member deductions and employer contributions, the employer will be responsible for correcting the omission and responsible for any assessed interest charges.

CAUSE – The change in the employer rate was not implemented until November 1, 2015. Late filings were the result of personnel absences and timing issues.

EFFECT - Town is out of compliance with the PERA and State Statute and has a liability to PERA as of the fiscal year end of approximately \$3,482 for the underpayment of the contributions for the 34 pay periods.

RECOMMENDATION – The Town should readdress the filing issues with personnel and coordinate with PERA to correct the filings for the 34 pay periods affected by the change of contribution rate.

MANAGEMENT RESPONSE AND PLANNED CORRECTIVE ACTION - The Town Clerk coordinated with PERA representatives and updated the employee and employer contributions and remitted the amount due in August, 2016. This finding was resolved at that time.

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2016**

2016-001 - Late Submission of Audit Report – Compliance

CONDITION - The audit report for the fiscal year ended June 30, 2016 was not submitted by the New Mexico State Audit Rule deadline.

CRITERIA - New Mexico State Auditor Rule 2.2.2.9A(1) requires audit reports for municipalities be submitted by December 15th following the end of the fiscal year.

CAUSE - Technical delays including loss of audit information with hard drive crashes and corrupted backups, and personnel and personal issues at the external auditor's office provided significant delays in the completion the audit fieldwork and drafting of the financial statements which put the Town behind on submitting the report to the Office of the State Auditor.

EFFECT - The Town is out of compliance with New Mexico State Auditor Rule 2.2.2.9A (1).

RECOMMENDATION - Because the fault lies with the contracted auditor's office, there is no recommendation for the Town to correct the compliance issue.

MANAGEMENT RESPONSE AND PLANNED CORRECTIVE ACTION - Town management agrees with the recommendation and expects the issues plaguing the external auditor's office to be corrected and resolved during the year so that next year's audit report is timely submitted.

2016-002 – Gross Receipts Tax Miscalculations – Significant Deficiency

CONDITION - The Town was miscalculating the gross receipts tax liability due the state on the utility collections, using in incorrect rate on the collections and including the employee state withholding tax in the gross receipts calculations.

CRITERIA – State Statute 7-9-3.2 NMSA 1978 imposes a governmental gross receipts tax rate of 5% on the collection of sanitation, water and sewage services by a utility owned or operated by a county, municipality or other political subdivision of the state.

CAUSE – The tax liability on water collections was being calculated at 7.5%, while sewer and sanitation charges were properly being calculated at 5%. A gross receipts tax rate of 7.5% was also being applied to the employee state income tax withholding for the month.

EFFECT – Reviewing the CRS payments for the past three fiscal years, the Town overcalculated and over-remitted approximately \$14,588 to the Taxation and Revenue Department.

RECOMMENDATION – The Town Clerk should review the appropriate statutes on governmental gross receipts and adjust the method of calculation for future months.

MANAGEMENT RESPONSE AND PLANNED CORRECTIVE ACTION - The Town Clerk coordinated with Taxation and Revenue Department representatives and filed corrected CRS-1 reports for the affected periods and requested a refund of the overpayment in August, 2016. This finding was resolved at that time.

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2016**

2016-003 – Contract Violations – Material Weakness

CONDITION – The Town leases a building to a local manufacturing company (lessee) under an agreement executed in May, 2013. The following contract violations were noted in through the end of the 2016 fiscal year.

- The Town has an account receivable with the lessee as of June 30, 2016 of \$44,000, of which \$38,000 is arrears for nonpayment of the monthly lease rent, in violation of Section 3 of the Agreement.
- The Town is not charging a late payment assessment of 1% of the amount due per month or interest at the Chase Manhattan Prime rate on the unpaid amounts over 30 days, which a violation of Section 3 of the Agreement. The total amount of the interest and late payment assessments have not been calculated.
- Town personnel were authorized to perform weed maintenance around the building, as indicated in the minutes to the Council meeting on March 8, 2016, which is a violation of Section 6 of the Agreement. A dollar amount of this action cannot be valued due to lack of specific information regarding the actions.
- A lease credit was authorized for approximately \$10,235 of repairs and maintenance expenses incurred by the lessee to the building, which is a violation of Section 3 of the Agreement.

CRITERIA – The agreement with the lessee was ratified by the Town Council, which makes it an enforceable legal document with the lessee. Article IX, Section 14 of the New Mexico Constitution (the Anti-Donation Clause) prohibits the state, county, school district or municipality, except as otherwise provided in this constitution, from directly or *indirectly* lending or pledging its credit *or make any donation to or in aid of any person, association or public or private corporation* or in aid of any private enterprise.

CAUSE – Control overrides and lax enforcement and collection efforts by Town management.

EFFECT - By not taking action on the collection of the rent and providing Town personnel to perform maintenance, the Town has effectively indirectly subsidized the lessee's operations by incurring an economic loss of a minimum of \$54,235, not including interest and late fees and uncalculated personnel costs, violating the Anti-Donation Clause of the New Mexico Constitution.

RECOMMENDATION – The Town needs to coordinate with the lessee to develop a payment plan for the outstanding receivables and for the payment of the improper lease credit.

MANAGEMENT RESPONSE AND PLANNED CORRECTIVE ACTION – The Lessee has agreed to a payment plan which will bring the Lessee current with the City. First payment occurred January, 31, 2017. The Council will consider additional action in the February meeting. This finding will be monitored and resolved when the lessee is current on the rent payments.

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
STATUS OF PRIOR YEAR FINDINGS
JUNE 30, 2016**

Finding	Status
2015-001 Expenditures over Budget	Revised, Repeated
2015-002 Late Payment of Expenditures and Recordkeeping	Resolved
2015-003 Purchase Orders Not Used Consistently	Resolved
2015-004 Insufficient Pledged Collateral	Resolved
2015-005 PERA Miscalculation and Underreporting	Revised, Repeated

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
EXIT CONFERENCE
JUNE 30, 2016**

The contents of this report were discussed with the Town of Hagerman representatives on February 10, 2017. The following individuals were present for the conference:

Town of Hagerman

Scott Northam, CPA, PC

Cliff Waide, Mayor
Angela Villa, Town Clerk

Scott Northam, CPA

The financial statements of the Town of Hagerman were prepared by Scott Northam, CPA, PC from original books and records provided by and with assistance from the management of the Town.

Although standards strongly emphasize the Town prepare its own financial statements, the consensus between Town management and the auditor was that it would be more time and cost efficient for the auditor to prepare the financial statements and the related notes. Accordingly, the Town designated a competent management-level individual to oversee the auditor's services, make all management decisions and perform all management functions. The Town reviewed, approved, and accepted responsibility for the accompanying financial statements and related notes and Supplemental schedules, and for ensuring that the underlying accounting records adequately support the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America and that the records are current and in balance.