

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
JUNE 30, 2017**

INTRODUCTORY SECTION

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TOWN OF HAGERMAN
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JUNE 30, 2017**

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TOWN OF HAGERMAN
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**STATE OF NEW MEXICO
TOWN OF HAGERMAN
OFFICIAL ROSTER
JUNE 30, 2017**

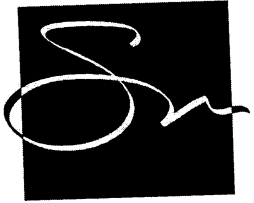
TOWN COUNCIL

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

TOWN OFFICIAL

Name	Title
Kami Mason	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, 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, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements 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 opinions 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, the aggregate remaining fund information, and the respective budgetary comparisons for the General Fund and major special revenue funds of the Town of Hagerman, New Mexico as of June 30, 2017, and, the respective changes in financial position and cash flows thereof 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

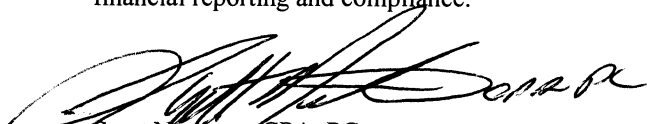
Management has elected to omit the MD&A for the year ended June 30, 2017, which is required to be presented to supplement the basic financial statements by accounting principles generally accepted in the United States of America. Such information, although not a part of the basic financial statements, 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 an opinion on the basic financial statements. The supplemental information as noted in the table of contents required by Section 2.2.2 NMAC is the responsibility of management and was 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 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
October 27, 2017

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
STATEMENT OF NET POSITION
JUNE 30, 2017**

	Governmental Activities	Business-Type Activities	Total
ASSETS AND DEFERRED OUTFLOWS			
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 530,662	\$ 337,033	\$ 867,695
NMFA Cash Equivalents	15,024	-	15,024
Accounts Receivable, Net	-	52,475	52,475
Lease Receivable	74,235	-	74,235
Taxes Receivable			
Gross Receipts	40,272	995	41,267
Infrastructure Gross Receipts	1,990	-	1,990
Franchise	4,558	-	4,558
Gasoline	3,258	-	3,258
Property	1,185	-	1,185
Total Current Assets	<u>671,184</u>	<u>390,503</u>	<u>1,061,687</u>
NONCURRENT ASSETS			
Restricted Cash and Cash Equivalents	13,700	49,329	63,029
Capital Assets, Net	<u>5,871,933</u>	<u>2,186,339</u>	<u>8,058,272</u>
Total Noncurrent Assets	5,885,633	2,235,668	8,121,301
DEFERRED OUTFLOWS OF RESOURCES			
Water Trust Board Loan Funds Available	-	87,287	87,287
Net Pension Liability Deferred Outflows	286,015	-	286,015
Post Measurement Date Employer Contributions	<u>49,644</u>	<u>-</u>	<u>49,644</u>
Total Deferred Outflows of Resources	<u>335,659</u>	<u>87,287</u>	<u>422,946</u>
Total Assets and Deferred Outflows	<u><u>\$ 6,892,476</u></u>	<u><u>\$ 2,713,458</u></u>	<u><u>\$ 9,605,934</u></u>

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	\$ 16,617	\$ 16,192	\$ 32,809
Accrued Payroll	6,705	3,268	9,973
Accrued Interest	389	1,104	1,493
Accrued Compensated Absences	3,768	9,832	13,600
Current Portion of Long-Term Debt	<u>52,035</u>	<u>12,255</u>	<u>64,290</u>
Total Current Liabilities	<u>79,514</u>	<u>42,651</u>	<u>122,165</u>
NONCURRENT LIABILITIES			
Customer Deposits	-	34,420	34,420
Long-Term Debt, Net of Current Portion	257,205	304,936	562,141
Net Pension Liability	<u>923,833</u>	<u>-</u>	<u>923,833</u>
Total Noncurrent Liabilities	<u>1,181,038</u>	<u>339,356</u>	<u>1,520,394</u>
DEFERRED INFLOW OF RESOURCES			
Net Pension Liability Deferred Inflows	<u>30,016</u>	<u>-</u>	<u>30,016</u>
Total Deferred Inflows of Resources	<u>30,016</u>	<u>-</u>	<u>30,016</u>
Total Liabilities and Deferred Inflows	<u>1,290,568</u>	<u>382,007</u>	<u>1,672,575</u>
NET POSITION			
Net Investment in Capital Assets	5,562,693	1,869,148	7,431,841
Restricted for:			
Special Revenue Funds	148,093	-	148,093
Debt Service	13,700	14,909	28,609
Unrestricted	<u>(122,578)</u>	<u>447,394</u>	<u>324,816</u>
Total Net Position	<u>5,601,908</u>	<u>2,331,451</u>	<u>7,933,359</u>
Total Liabilities, Deferred Inflows and Net Position	<u>\$ 6,892,476</u>	<u>\$ 2,713,458</u>	<u>\$ 9,605,934</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, 2017**

	Program Revenues			
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	
<i>Primary Government</i>				
Governmental Activities:				
General Administration	\$ 221,517	\$ 31,864	\$ 194,949	\$ 902,932
Streets	30,220	-	-	58,112
Public Safety	435,975	-	213,734	-
Culture, Parks and Recreation	16,870	-	-	-
Health and Welfare	80,120	-	10,175	-
Judicial	20,643	5,102	-	-
Interest and Fiscal Charges	5,355	-	-	-
Depreciation	254,240	-	-	-
<i>Total Governmental Activities</i>	<u>1,064,940</u>	<u>36,966</u>	<u>418,858</u>	<u>961,044</u>
Business-Type Activities:				
Utility Fund	563,912	569,065	-	-
Interest and Fiscal Charges	9,793	-	-	-
<i>Total Business-Type Activities</i>	<u>573,705</u>	<u>569,065</u>	<u>-</u>	<u>-</u>
Total - Primary Government	<u>\$ 1,638,645</u>	<u>\$ 606,031</u>	<u>\$ 418,858</u>	<u>\$ 961,044</u>

General Revenues

Taxes:

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

Total General Revenues

Change in Net Position

Beginning Net Position - Originally Reported

Prior Period Adjustment

Beginning Net Position - As Adjusted

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
\$ 908,228	\$ -	\$ 908,228
27,892	-	27,892
(222,241)	-	(222,241)
(16,870)	-	(16,870)
(69,945)	-	(69,945)
(15,541)	-	(15,541)
(5,355)	-	(5,355)
(254,240)	-	(254,240)
<u>351,928</u>	<u>-</u>	<u>351,928</u>
-	5,153	5,153
-	(9,793)	(9,793)
-	(4,640)	(4,640)
<u>351,928</u>	<u>(4,640)</u>	<u>347,288</u>
274,127	5,520	279,647
10,575	-	10,575
18,460	-	18,460
12,371	-	12,371
1,497	-	1,497
23,949	-	23,949
7,305	-	7,305
625	-	625
<u>348,909</u>	<u>5,520</u>	<u>354,429</u>
700,837	880	701,717
5,788,653	1,464,046	7,252,699
(21,057)	-	(21,057)
5,767,596	1,464,046	7,231,642
(866,525)	866,525	-
<u>\$ 5,601,908</u>	<u>\$ 2,331,451</u>	<u>\$ 7,933,359</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, 2017**

	General Fund	Fire Protection Fund	Capital Projects Fund	Other Nonmajor Funds	Total Governmental Funds
ASSETS					
ASSETS					
Cash and Cash Equivalents					
Unrestricted	\$ 385,827	\$ 103,806	\$ 21,128	\$ 19,901	\$ 530,662
Restricted - USDA	13,700	-	-	-	13,700
NMFA Cash Equivalents	15,024	-	-	-	15,024
Lease Receivable	74,235	-	-	-	74,235
Taxes Receivable					
Gross Receipts	40,272	-	-	-	40,272
Infrastructure Gross Receipts	1,990	-	-	-	1,990
Franchise	4,558	-	-	-	4,558
Gasoline	-	-	-	3,258	3,258
Property	1,185	-	-	-	1,185
Total Assets	<u><u>\$ 536,791</u></u>	<u><u>\$ 103,806</u></u>	<u><u>\$ 21,128</u></u>	<u><u>\$ 23,159</u></u>	<u><u>\$ 684,884</u></u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts Payable	\$ 16,617	\$ -	\$ -	\$ -	\$ 16,617
Accrued Payroll	6,705	-	-	-	6,705
Total Liabilities	<u>23,322</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,322</u>
FUND BALANCES					
Assigned	-	103,806	21,128	23,159	148,093
Unassigned	513,469	-	-	-	513,469
Total Fund Balances	<u>513,469</u>	<u>103,806</u>	<u>21,128</u>	<u>23,159</u>	<u>661,562</u>
Total Liabilities and Fund Balances	<u><u>\$ 536,791</u></u>	<u><u>\$ 103,806</u></u>	<u><u>\$ 21,128</u></u>	<u><u>\$ 23,159</u></u>	<u><u>\$ 684,884</u></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, 2017**

Total Fund Balance - Governmental Funds	\$	661,562
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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.		5,871,933
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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	(3,768)		
Notes and Bonds Payable	(309,240)		
Accrued Interest	<u>(389)</u>		(313,397)

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	49,644		
NPL Deferred Outflows	286,015		
NPL Deferred Inflows	(30,016)		
Net Pension Liability	<u>(923,833)</u>		(618,190)

Net Position of Governmental Activities	\$	<u>5,601,908</u>
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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, 2017**

	General Fund	Fire Protection Fund	Capital Projects Fund	Other Nonmajor Funds	Total Governmental Funds
REVENUES					
Taxes					
Gross Receipts	\$ 274,127	\$ -	\$ -	\$ -	\$ 274,127
Infrastructure Gross Receipts	10,575	-	-	-	10,575
Franchise	18,460	-	-	-	18,460
Property	12,371	-	-	-	12,371
Motor Vehicle	1,497	-	-	-	1,497
Gas	-	-	-	23,949	23,949
Intergovernmental					
State	217,449	151,334	902,932	90,687	1,362,402
Local	17,500	-	-	-	17,500
Charges for Service	6,445	-	-	-	6,445
Miscellaneous	4,641	2,664	-	-	7,305
Licenses, Fees and Permits	1,419	-	-	-	1,419
Fines and Forfeits	782	-	-	4,320	5,102
Lease Income	24,000	-	-	-	24,000
Interest	468	-	-	157	625
Total Revenues	<u>589,734</u>	<u>153,998</u>	<u>902,932</u>	<u>119,113</u>	<u>1,765,777</u>
EXPENDITURES					
Current					
General Administration	134,546	-	1,756	-	136,302
Streets	29,422	-	-	798	30,220
Public Safety	344,277	69,769	-	21,929	435,975
Culture, Parks and Recreation	16,870	-	-	-	16,870
Health and Welfare	80,120	-	-	-	80,120
Judicial	20,643	-	-	-	20,643
Debt Service					
Principal	-	-	-	50,721	50,721
Interest and Administrative Fees	-	-	-	6,661	6,661
Capital Outlay	7,094	-	1,003,276	77,483	1,087,853
Total Expenditures	<u>632,972</u>	<u>69,769</u>	<u>1,005,032</u>	<u>157,592</u>	<u>1,865,365</u>
Excess (Deficit) of Revenues over Expenditures	<u>(43,238)</u>	<u>84,229</u>	<u>(102,100)</u>	<u>(38,479)</u>	<u>(99,588)</u>
OTHER FINANCING SOURCES (USES)					
Transfers In	-	-	59,449	44,564	104,013
Transfers Out	(78,013)	(26,000)	-	-	(104,013)
Total Other Financing Sources (Uses)	<u>(78,013)</u>	<u>(26,000)</u>	<u>59,449</u>	<u>44,564</u>	<u>-</u>
Net Change in Fund Balance	<u>(121,251)</u>	<u>58,229</u>	<u>(42,651)</u>	<u>6,085</u>	<u>(99,588)</u>
Beginning Fund Balance, As Reported	619,777	45,577	63,779	17,074	746,207
Prior Period Adjustment	14,943	-	-	-	14,943
Beginning Fund Balance, As Adjusted	<u>634,720</u>	<u>45,577</u>	<u>63,779</u>	<u>17,074</u>	<u>761,150</u>
Fund Balance, End of Year	<u>\$ 513,469</u>	<u>\$ 103,806</u>	<u>\$ 21,128</u>	<u>\$ 23,159</u>	<u>\$ 661,562</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, 2017

Net Changes in Fund Balance - Governmental Funds **\$ (99,588)**

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

Capital outlays over \$5,000 are reported as expenditures in the Governmental Funds, but the cost of those assets is reported as capital assets in the Statement of Net Position. 1,087,853

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. (254,240)

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	(881)	
Change in Accrued Interest	1,306	
Long-Term Obligations Principal Payments	50,721	51,146

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. (84,334)

Change in Net Position of Governmental Activities **\$ 700,837**

**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, 2017**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES				
Taxes				
Gross Receipts	\$ 256,114	\$ 256,114	\$ 280,805	\$ 24,691
Infrastructure Gross Receipts	4,778	4,778	13,885	9,107
Franchise	19,751	19,751	18,526	(1,225)
Property	8,538	8,538	12,459	3,921
Motor Vehicle	1,458	1,458	1,497	39
Intergovernmental				
State	175,000	175,000	217,449	42,449
Local	-	-	17,500	17,500
Charges for Service	7,501	7,501	6,445	(1,056)
Miscellaneous	80,674	80,674	4,641	(76,033)
Licenses, Fees and Permits	1,186	1,186	1,419	233
Fines and Forfeits	1,693	1,693	782	(911)
Lease Income	-	-	4,000	4,000
Interest	72	72	468	396
Total Revenues	<u>556,765</u>	<u>556,765</u>	<u>579,876</u>	<u>23,111</u>
EXPENSES				
Current				
General Administration	124,169	124,169	123,577	592
Streets	30,500	30,500	29,422	1,078
Public Safety	325,690	365,690	339,905	25,785
Culture and Recreation	25,500	25,500	16,870	8,630
Health and Welfare	57,650	82,650	80,120	2,530
Judicial	23,846	23,846	20,643	3,203
Capital Outlay	<u>-</u>	<u>-</u>	<u>7,094</u>	<u>(7,094)</u>
Total Expenditures	<u>587,355</u>	<u>652,355</u>	<u>617,631</u>	<u>34,724</u>
Excess (Deficit) of Revenues over Expenditures	<u>(30,590)</u>	<u>(95,590)</u>	<u>(37,755)</u>	<u>57,835</u>
OTHER FINANCING SOURCES (USES)				
Transfers Out	-	(78,013)	(78,013)	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>(78,013)</u>	<u>(78,013)</u>	<u>-</u>
Net Change in Fund Balance	(30,590)	(173,603)	<u>\$ (115,768)</u>	<u>\$ 57,835</u>
Cash Balance, Beginning of Year	515,376	515,376		
Cash Balance, End of Year	<u>\$ 484,786</u>	<u>\$ 341,773</u>		
Reconciliation to GAAP Basis				
Excess (Deficit) of Revenues over Expenditures - Budget Basis			\$ (37,755)	
Change in:				
Taxes Receivable				
Gross Receipts			(6,678)	
Infrastructure Gross Receipts			(3,310)	
Franchise			(66)	
Other			(88)	
Lease Receivable			20,000	
Accounts Payable			(10,969)	
Accrued Payroll			(4,372)	
Excess (Deficit) of Revenues over Expenditures - GAAP Basis			<u>\$ (43,238)</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, 2017

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Intergovernmental				
State	\$ 125,334	\$ 125,334	\$ 151,334	\$ 26,000
Miscellaneous	-	-	2,664	2,664
Total Revenues	125,334	125,334	153,998	28,664
EXPENSES				
Current				
Public Safety	125,334	125,334	69,769	55,565
Total Expenditures	125,334	125,334	69,769	55,565
Excess (Deficit) of Revenues over Expenditures	-	-	84,229	84,229
OTHER FINANCING SOURCES (USES)				
Transfers Out	-	(26,000)	(26,000)	-
Total Other Financing Sources (Uses)	-	(26,000)	(26,000)	\$ -
Change in Fund Balance	-	(26,000)	\$ 58,229	
Cash Balance, Beginning of Year	47,051	47,051		
Cash Balance, End of Year	\$ 47,051	\$ 21,051		
Reconciliation to GAAP Basis				
Excess (Deficit) of Revenues over Expenditures - Budget Basis			\$ 84,229	
Excess (Deficit) of Revenues over Expenditures - GAAP Basis			\$ 84,229	

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

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2017**

	Utility Fund
ASSETS AND DEFERRED OUTFLOWS	
Current Assets	
Cash and Cash Equivalents	\$ 337,033
Accounts Receivable, Net	52,475
Environmental Gross Receipt Taxes Receivable	<u>995</u>
Total Current Assets	390,503
Noncurrent Assets	
Restricted Cash and Cash Equivalents	
Customer Deposits	34,420
USDA-RUS Debt Service	14,909
Capital Assets, Net	<u>2,186,339</u>
Total Noncurrent Assets	<u>2,235,668</u>
Deferred Outflows	
Water Trust Board Loan Funds Available	<u>87,287</u>
Total Assets and Deferred Outflows	<u><u>\$ 2,713,458</u></u>

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

**Utility
Fund**

LIABILITIES AND NET POSITION

LIABILITIES

Current Liabilities

Accounts Payable	\$ 16,192
Accrued Payroll	3,268
Accrued Interest	1,104
Accrued Compensated Absences	9,832
Current Portion of Long Term Debt	<u>12,255</u>

Total Current Liabilities 42,651

Noncurrent Liabilities

Customer Deposits	34,420
Long-Term Debt, Net of Current Portion	<u>304,936</u>

Total Noncurrent Liabilities 339,356

Total Liabilities 382,007

NET POSITION

Net Investment in Capital Assets	1,869,148
Restricted - USDA RUS Debt Service	14,909
Unrestricted	<u>447,394</u>

Total Fund Net Position 2,331,451

Total Liabilities and Net Position \$ 2,713,458

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2017**

	Utility Fund
OPERATING REVENUES	
Charges for Services	
Water	\$ 241,955
Sewer	100,860
Sanitation	190,689
Late Fees	10,194
Other Revenue	25,367
	569,065
OPERATING EXPENSES	
Water	273,026
Sewer	95,143
Sanitation	130,236
Depreciation	65,507
	563,912
Operating Income	5,153
NONOPERATING REVENUE (EXPENSE)	
Environmental Gross Receipts Tax	5,520
Interest Expense	(9,793)
	(4,273)
Change in Net Position	880
Net Position, Beginning of Year	1,464,046
Equity Transfer from Governmental Funds	866,525
Net Position, End of Year	\$ 2,331,451

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, 2017**

**Utility
Fund**

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers and Users	\$ 556,697
Payments to and on Behalf of Employees	(228,448)
Payments to Suppliers and Contractors	(267,584)
	60,665
Net Cash Provided by Operating Activities	60,665

CASH FLOWS FROM INVESTING ACTIVITIES

Capital Asset Purchases	(8,945)
Net Cash Used by Investing Activities	(8,945)

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Environmental Gross Receipts Tax	5,686
Net Cash Provided by Non-Capital Financing Activities	5,686

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Principal Payments on Capital Debt	(12,110)
Interest and Fees Paid on Capital Debt	(9,793)
Net Cash Used by Capital Financing Activities	(21,903)

NET CHANGE IN CASH

35,503

CASH AT BEGINNING OF YEAR

350,859

CASH AT END OF YEAR

\$ 386,362

Reconciliation of Operating Income to Net Cash Provided

by Operating Activities

Operating Income	\$ 5,153
Adjustments to Reconcile Operating Income to Cash Provided by Operating Activities:	
Depreciation	65,507
Changes In:	
Accounts Receivable, Net	(14,168)
Accounts Payable	3,035
Customer Deposits	1,800
Accrued Payroll	1,235
Accrued Compensated Absences	(1,897)
Net Cash Provided by Operating Activities	\$ 60,665

Reconciliation to the Balance Sheet

Unrestricted	\$ 337,033
Restricted	49,329
	386,362

CASH AT END OF YEAR

\$ 386,362

Supplemental Non-Cash Disclosures

Construction In Progress Paid from NMFA Funds	\$ 46,228
Construction In Progress Transferred from Governmental Activities	866,525

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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 governmental units and the Governmental Accounting Standards Board (GASB) as the accepted standard-setting bodies 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 (EMS, police and fire), highways and streets, water and sewer, 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, 2017.

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 rely 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, 2017**

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 occurs 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 is enacted and the resources are available.
- Property tax revenue is recorded 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 miscellaneous revenues are usually not susceptible to accrual because they are usually not measurable until payment is constructively received.

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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 does not currently employ indirect cost allocation systems. Depreciation expense for Governmental Activities 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. Business-type depreciation expense is reported as a separate line item on the Statement of Net Position and included in the business-type expenses on the Statement of Activities. 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 the 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.

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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 for the operation and maintenance of the fire department. It is financed by specific allocations from the New Mexico State Fire Marshall's Office. This fund was created under the authority provided by Section 59A-53-1 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.

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. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, 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 (such as revenues and expenses) in net total position.

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 - Annual budgets of the Town are prepared prior to June 1 and must be approved by resolution of the Town Council, and submitted to the Department of Finance and Administration for State approval. Once the budget has been formally approved, any amendments must also be approved by the Town Council and the Department of Finance and Administration. A separate budget is prepared for each fund. Line items within each fund budget may be over-expended; however, it is not legally permissible to over-expend any fund's budget in total. Over-expending the authorized budget in a fund will result in a finding.

These budgets are prepared on the Non-GAAP budgetary basis, excluding encumbrances, and secure appropriation of funds for only one year. The budgetary information presented in these financial statements has been amended in accordance with the above procedures.

Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, Capital Projects Funds, and Proprietary Funds.

The accompanying Statements of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual and Statement of Revenues, Expenses and Changes in Net Position (Non-GAAP Budgetary Basis) and Actual present comparisons of the legally adopted budget with actual data on a budgetary basis. Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles, a reconciliation of resultant basis, perspective, equity and timing differences in the excess (deficiency) of revenues and other sources of financial resources for the year ended June 30, 2017 is presented.

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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

Budget Violations – The Town did not exceed its budgetary authority at the end of the fiscal year.

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 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. The Town is also required to restrict cash equivalent to an annual payment for each of the USDA notes outstanding.

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. 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 adjusts 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.

Property and Equipment - Capital assets which may include software, property, plant, equipment, vehicles, and infrastructure assets (e.g., buildings, 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.

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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

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, 2017.

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. Any issuance costs associated with notes 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.

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 are reported in the government-wide Statement of Net Position for governmental funds, and is recorded as a long-term liability in the proprietary funds. No liability is recorded for non-vesting 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.

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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

Fund Balance - 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.

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.

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

Operating expenditures - 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 expenditures - 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.

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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

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.

NOTE B - CASH AND CASH EQUIVALENTS

The Town pools its cash of the various funds to facilitate effective cash management. The pooled cash accounts balance is available to meet current operating requirements for each fund. The table below reconciles the cash amount in the financial statements to the amount of cash deposited with the financial institution.

	Governmental Activities	Business-type Activities	Total
Unrestricted Cash	\$ 530,662	\$ 337,033	\$ 867,695
Restricted Cash			
USDA Required	13,700	14,909	28,609
Customer Deposits	<u>-</u>	<u>34,420</u>	<u>34,420</u>
Total Cash and Cash Equivalents	<u>\$ 544,362</u>	<u>\$ 386,362</u>	<u>\$ 930,724</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 \$13,700 in the General Fund and \$14,909 in the Utility Fund for USDA requirements. The Town has also restricted \$34,420 in the Utility Fund for customer deposits.

At June 30, 2017, 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, 2017, of the cash and cash equivalents on deposit with the financial institution.

Custodial Credit Risk - Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to them. The Town does not have a deposit policy for custodial credit risk other than following state statutes. As of June 30, 2017, \$602,583 of the Town's bank balance of \$953,660 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.

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE B - CASH AND CASH EQUIVALENTS (Cont.)

	Bank Balance June 30, 2017	Net Items Outstanding	Book Balance June 30, 2017
JP Stone Community Bank			
Demand Deposit Accounts:			
Grant Account	\$ 65	\$ -	\$ 65
Pooled Cash Account	852,518	(22,936)	829,582
Time and Savings Accounts:			
Certificate of Deposit	<u>101,077</u>	<u>-</u>	<u>101,077</u>
Total – JPS Community Bank	<u>\$ 953,660</u>	<u>\$ (22,936)</u>	<u>\$ 930,724</u>

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, 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	\$ 953,660
Less FDIC Coverage	<u>(351,077)</u>
Uninsured Funds	602,583
Pledged Collateral Securities	<u>348,458</u>
Uninsured and Uncollateralized	<u>\$ 254,125</u>
50% Pledged Collateral Requirement per Statute	\$ 301,292
Pledged Collateral	<u>348,458</u>
(Over) Under Collateralized	<u>\$ (47,166)</u>

JPS Community Bank Pledged Collateral:	Maturity	Market Value	Par Value
FHLB Qtrly Call Step	06/30/2021	\$ 196,445	\$ 200,000
Clovis NM Muni SD #1 BQ Go Bond	08/01/2018	100,985	100,000
Roswell NM SD Series A GO Bond	08/01/2020	<u>51,028</u>	<u>50,000</u>
Total Collateral Pledged		<u>\$ 348,458</u>	<u>\$ 335,000</u>

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE B - CASH AND CASH EQUIVALENTS (Cont.)

New Mexico Finance Authority Deposits – The Town has approximately \$15,024 on deposit with the New Mexico Finance Authority (NMFA). The amounts on deposits are being held in escrow by NMFA for debt service purposes. The amounts on deposit with NMFA are not covered by FDIC and not considered in the collateralization requirement calculation.

Prior Period Adjustment – The financial statements for the fiscal year ended June 30, 2016 omitted the amounts on deposit with NMFA. A prior period adjustment of \$14,943 was made to the financial statements to properly report the amount on deposit with NMFA as of the beginning of the fiscal year.

NOTE C - RECEIVABLES

Government Activities – The following receivables are reported in the Governmental Activities column on the Statement of Net Position:

Property Taxes - The Town fully reserves delinquent property taxes that are outstanding as of fiscal year-end. Total delinquent property taxes receivable and reserved as of June 30, 2017 is approximately \$1,185.

Ambulance - The Town 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, 2017, the Town has approximately \$59,551 in outstanding ambulance charges. The amount of the ambulance receivables are fully reserved at fiscal year-end, and any subsequent collections are reported as income when received.

Building Lease - The Town leases a building to a local retail food product manufacturer at \$2,000 per month. As of June 30, 2017, the Town is carrying a receivable from the manufacturer of approximately \$74,235 in rental and reimbursement charges.

Taxes - 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	\$ 40,272
Infrastructure Gross Receipts Tax	1,990
Gasoline	3,258
Franchise Tax	4,558
Property Taxes	<u>1,185</u>
Total Taxes Receivables	<u>\$ 51,263</u>

Business-type Activities – The Town reports the following receivables in the Business-type activities on the Statement of Set Position:

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE C – RECEIVABLES (Cont.)

Utility Receivable - 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 Utility Fund is below as of the fiscal year end:

	Total
Gross Accounts Receivable	\$ 57,592
Less Allowance for Doubtful Accounts	<u>(5,117)</u>
Accounts Receivable - Net	<u>\$ 52,475</u>

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, 2017 is as follows:

	Balance June 30, 2016	Increases	Decreases and Transfers	Balance June 30, 2017
Governmental Activities:				
Non-depreciable Capital Assets				
Construction in Progress	\$ -	\$ 866,525	\$ (866,525)	\$ -
Land	<u>138,730</u>	<u>-</u>	<u>-</u>	<u>138,730</u>
Total Non-depreciable Capital Assets	138,730	866,525	(866,525)	138,730
Depreciable Capital Assets				
Buildings and Improvements	7,106,844	7,094	-	7,113,938
Streets and Other Infrastructure	667,264	214,233	-	881,497
Vehicles, Machinery and Equipment	<u>1,347,968</u>	<u>-</u>	<u>-</u>	<u>1,347,968</u>
Total Depreciable Capital Assets	<u>9,122,076</u>	<u>221,327</u>	<u>-</u>	<u>9,343,403</u>
Accumulated Depreciation				
Buildings and Improvements	(2,185,800)	(161,366)	-	(2,347,166)
Streets and Other Infrastructure	(273,971)	(32,621)	-	(306,592)
Vehicles, Machinery and Equipment	<u>(896,189)</u>	<u>(60,253)</u>	<u>-</u>	<u>(956,442)</u>
Accumulated Depreciation	<u>(3,355,960)</u>	<u>(254,240)</u>	<u>-</u>	<u>(3,610,200)</u>
Total Depreciable Capital Assets, Net	<u>5,766,116</u>	<u>(32,913)</u>	<u>-</u>	<u>5,733,203</u>
Capital Assets, Net	<u>\$ 5,904,846</u>	<u>\$ 833,612</u>	<u>\$ (866,525)</u>	<u>\$ 5,871,933</u>

Management has elected to present the Governmental Activities depreciation expense of \$254,240 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, 2017**

NOTE D - CAPITAL ASSETS (Cont.)

Prior Period Adjustment – Capital assets for the Governmental Activities were overstated by \$36,000 in the Statement of Financial Position for the fiscal year ended June 30, 2016. A prior period adjustment was made in the government-wide financial statements to properly report the net book value at the beginning of the current fiscal year. No adjustment was necessary in the Governmental Funds financial statements.

	Balance June 30, 2016	Increases and Transfers	Decreases and Transfers	Balance June 30, 2017
Business-type Activities:				
Non-depreciable Capital Assets				
Land and Water Rights	\$ 154,890	\$ -	\$ -	\$ 154,890
Construction in Progress	<u>391,556</u>	<u>912,753</u>	<u>-</u>	<u>1,304,309</u>
Total Non-depreciable Capital Assets	546,446	912,753	-	1,459,199
Depreciable Capital Assets				
Water System	1,412,983	-	-	1,412,983
Sewer System	769,894	-	-	769,894
Vehicles, Machinery and Equipment	<u>73,242</u>	<u>8,945</u>	<u>-</u>	<u>82,187</u>
Total Depreciable Capital Assets	<u>2,256,119</u>	<u>8,945</u>	<u>-</u>	<u>2,265,064</u>
Accumulated Depreciation				
Water System	(959,372)	(28,726)	-	(988,098)
Sewer System	(503,740)	(26,863)	-	(530,603)
Vehicles, Machinery and Equipment	<u>(9,305)</u>	<u>(9,918)</u>	<u>-</u>	<u>(19,223)</u>
Accumulated Depreciation	<u>(1,472,417)</u>	<u>(65,507)</u>	<u>-</u>	<u>(1,537,924)</u>
Total Depreciable Capital Assets, Net	<u>783,702</u>	<u>(56,562)</u>	<u>-</u>	<u>727,140</u>
Capital Assets, Net	<u>\$ 1,330,148</u>	<u>\$ 856,191</u>	<u>\$ -</u>	<u>\$ 2,186,339</u>

NOTE E - TRANSFERS

From the General Fund, the Town transferred \$18,564 to the Debt Service Fund for payment of long-term obligations and \$59,449 to the Capital Projects Fund to assist in the funding of capital outlay. The Fire Protection Fund transferred \$26,000 to the Debt Service Fund for payment on long-term obligations.

NOTE F - 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 accrued leave due to employees as of June 30, 2017 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.

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE F - COMPENSATED ABSENCES (Cont.)

	Balance June 30, 2016	Increases	Decreases	Balance June 30, 2017	Payable Within One Year
Governmental Activities	\$ 2,887	\$ 1,884	\$ (1,003)	\$ 3,768	\$ 3,768
Business-type Activities	<u>11,729</u>	<u>8,904</u>	<u>(10,801)</u>	<u>9,832</u>	<u>9,832</u>
Total	<u>\$ 14,616</u>	<u>\$ 10,788</u>	<u>\$ (11,804)</u>	<u>\$ 13,600</u>	<u>\$ 13,600</u>

NOTE G - LONG-TERM DEBT

The Town had the following long-term debt obligations as of June 30, 2017:

Governmental Activities:

NMFA 2136-PP – Industrial Park Buildings Purchase - The Town entered into an agreement with New Mexico Finance Authority (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 NMFA in August 2012 to fund improvements of the fire station building. Initial principal was \$228,578 with repayment terms of annual payments 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 – Ambulance and EMS Equipment - 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 partially 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 Fund. 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 \$6,661 in interest expense during the fiscal year from the Debt Service Fund, which was funded by transfer from the General and Fire Protection Funds. Long-term debt activity for the year ended June 30, 2017 was as follows:

Governmental	Balance June 30, 2016	Increases	Decreases	Balance June 30, 2017	Due Within One Year
NMFA 2136-PP	\$ 71,388	\$ -	\$ (4,380)	\$ 67,008	\$ 4,610
NMFA 2742-PP	182,000	-	(26,000)	156,000	26,000
NMFA 2753-PP	57,873	-	(9,341)	48,532	9,425
USDA Series 2015	<u>48,700</u>	<u>-</u>	<u>(11,000)</u>	<u>37,700</u>	<u>12,000</u>
Total Long-term Debt	<u>\$ 359,961</u>	<u>\$ -</u>	<u>\$ (50,721)</u>	<u>\$ 309,240</u>	<u>\$ 52,035</u>

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE G - LONG-TERM DEBT (Cont.)

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.

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 approximately \$87,287 of loan funds still available for system improvements. Terms of the loan are 20 annual, non-interest-bearing payments of approximately \$7,074, and maturing in June 2035.

The Town paid approximately \$9,793 in interest expense and other fees during the fiscal year from the Utility Fund. Long-term debt activity for the year ended June 30, 2017 was as follows:

Proprietary	Balance June 30, 2016	Increases	Decreases	Balance June 30, 2017	Due Within One Year
USDA-RUS 1997	\$ 90,401	\$ -	\$ (2,764)	\$ 87,637	\$ 2,792
USDA-RUS 1999	107,800	-	(2,600)	105,200	2,700
NMFA - 0337-WTB	<u>131,100</u>	<u>-</u>	<u>(6,746)</u>	<u>124,354</u>	<u>6,763</u>
Total Long-term Debt	<u>\$ 329,301</u>	<u>\$ -</u>	<u>\$ (12,110)</u>	<u>\$ 317,191</u>	<u>\$ 12,255</u>

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

Fiscal Year Ending June 30,	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
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	41,730	339	42,068	13,423	8,460	21,883
2023-2027	59,487	358	59,845	72,985	36,730	109,715
2028-2032	7,858	20	7,878	83,635	25,980	109,615
2033-2037	-	-	-	78,461	12,557	91,018
2038-2041	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,800</u>	<u>1,500</u>	<u>19,300</u>
	<u>\$ 309,240</u>	<u>\$ 6,592</u>	<u>\$ 315,832</u>	<u>\$ 317,191</u>	<u>\$ 122,072</u>	<u>\$ 439,263</u>

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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. The 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-B.

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, 2016 available at:
[www.pera.state.nm.us/pdf/AuditFinancialStatements/366 Public Employees Retirement Association 2016.pdf](http://www.pera.state.nm.us/pdf/AuditFinancialStatements/366%20Public%20Employees%20Retirement%20Association%202016.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.

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, 2016. The PERA pension liability amounts for each division were rolled forward from the valuation date to the Plan year ending June 30, 2016, using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date June 30, 2016.

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, 2016.

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE H- PERA PENSION PLAN (Cont.)

Only employer contributions for the pay period end dates that fell within the period of July 1, 2015 to June 30, 2016 were included in the total contributions for a specific employer. Regular and any adjustment contributions that applied to FY 2016 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, 2017, the Town reported a liability of \$290,775 for its proportionate share of the net pension liability at June 30, 2016. At June 30, 2017, the Town's proportion was 0.0182%, which was slightly lower than its 0.0188% proportion measured as of June 30, 2016.

For the year ended June 30, 2017, the Town recognized PERA Fund - General, pension expense of \$31,954. At June 30, 2017, 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	\$ 17,051	\$ 48
Changes in Proportion	9,160	4,741
Differences Between Expected and Actual Experience	14,528	2,838
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	53,502	-
Post Measurement Date Employer Contributions	<u>15,690</u>	<u>-</u>
Totals	<u>\$ 109,931</u>	<u>\$ 7,627</u>

For the General Division, \$15,689 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date June 30, 2016 and will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2018. 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,	
2018	\$ 20,495
2019	20,495
2020	32,224
2021	<u>13,400</u>
Totals	<u>\$ 86,614</u>

PERA Fund Division - Police. At June 30, 2017, the Town reported a liability of \$290,775 for its proportionate share of the net pension liability at June 30, 2016. As of June 30, 2016, the Town's proportion was 0.0858%, which was slightly lower than its 0.0889% proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the Town recognized PERA Fund - Police, pension expense of \$82,682. 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:

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE H- PERA PENSION PLAN (Cont.)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in Assumption	\$ 41,930	\$ 11,417
Changes in Proportion	3,246	10,972
Differences Between Expected and Actual Experience	46,476	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	100,122	-
Post Measurement Date Employer Contributions	<u>33,954</u>	<u>-</u>
Totals	<u>\$ 225,728</u>	<u>\$ 22,389</u>

For the Police Division, \$33,954 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date June 30, 2016 and will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2018. 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,	
2018	\$ 40,181
2019	40,181
2020	63,726
2021	<u>25,297</u>
Totals	<u>\$ 169,385</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, 2015 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, 2016 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, 2016. These actuarial methods and assumptions were adopted by the Board for use in the June 30, 2015 actuarial valuation.

Actuarial Valuation Date	June 30, 2015
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Pay, Open
Amortization Period	Solved for Based on Statutory Rates
Asset Valuation Method	Fair Value
Actuarial Assumptions:	
Investment Rate of Return	7.48% Annual Rate, Net of Investment Expense
Projected Benefit Payment	100 Years
Payroll Growth	2.75% Annual Rate for first 10 years, then 3.25% annual rate
Projected Salary Increases	2.75% to 14.25% Annual Rate
Included Inflation at	2.25% Annual Rate first 10 years, then 2.75% all other years
Mortality Assumption	RP-2000 Mortality Tables
Experience Study Dates	July 1, 2008 – June 30, 2013 (demographic) July 1, 2010 – June 30, 2015 (economic)

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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
Global Equity	43.50%	7.39 %
Risk Reduction & Mitigation	21.50	1.79
Credit Oriented Fixed Income	15.00	5.77
Real Assets to Include Real Estate Equity	20.00	7.35
Totals	<u>100.00%</u>	

Discount Rate: The discount rate used to measure the total pension liability was 7.25% for the first ten years (select period) then 7.75% for all other years (ultimate). The equivalent blended rate of 7.48% will be used to measure the total pension liability. 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 7.48% 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 shows 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 (6.48%) or one percentage point higher (8.48%) than the single discount rate.

Proportionate Share of Net Pension Liability	1% Decrease (6.48%)	Current Discount Rate (7.48%)	1% Increase (8.48%)
General	\$ 433,520	\$ 290,775	\$ 172,375
Police	<u>931,386</u>	<u>633,058</u>	<u>389,061</u>
	<u>\$ 1,364,906</u>	<u>\$ 923,833</u>	<u>\$ 561,436</u>

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is available in the separately issued FY16 PERA financial report. The report is available at: www.pera.state.nm.us/publications.html.

Payables to the Pension Plan. At June 30, 2017, the Town did not have any outstanding contributions to the pension plan reported within accounts payables in the General Fund.

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE I - RETIRE HEALTH CARE ACT

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

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***

Municipal General Division

Actuarial Valuation Date	6/30/15	6/30/16	6/30/17
Proportionate Share of Net Pension Liability			
Proportion of Net Pension Liability	0.0172%	0.0188%	0.0182%
Net Pension Liability	134,178	191,682	290,775
Annual Covered Payroll	174,985	209,623	205,581
NPL as Percentage of Covered Payroll	77%	92%	142%
Fiduciary Net Position as a Percentage of Total Pension Liability	81.29%	76.99%	69.18%
Schedule of Required Contributions			
Contractually Required Contribution	37,291	18,656	15,690
Contributions Made	37,291	18,656	15,690
Contributions as Percentage of Covered Payroll	8.9%	8.9%	7.63%

Municipal Police Division

Actuarial Valuation Date	6/30/15	6/30/16	6/30/17
Proportionate Share of Net Pension Liability			
Proportion of Net Pension Liability	0.0876%	0.0889%	0.0858%
Net Pension Liability	285,566	427,481	633,058
Annual Covered Payroll	175,948	177,486	177,486
NPL as Percentage of Covered Payroll	163%	241%	357%
Fiduciary Net Position as a Percentage of Total Pension Liability	81.29%	76.99%	69.18%
Schedule of Required Contributions			
Contractually Required Contribution	35,893	36,207	33,954
Contributions Made	35,893	36,207	33,954
Contributions as Percentage of Covered Payroll	20.4%	20.4%	19.13%

*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, 2017**

Changes of Benefit Terms. The Public Employees Retirement Association of New Mexico (PERA) Fund COLA and retirement eligibility benefits changes in recent years are described in Note 1 of the PERA FY16 audit available at: http://www.pera.state.nm.us/pdf/AuditFinancialStatements/366_Public_Employees_Retirement_Association_2016.pdf.

Changes of Assumptions. PERA Annual Actuarial Valuation as of June 30, 2016 report is available at:
http://www.pera.state.nm.us/pdf/Investments/RetirementFundValuationReports/6-30-2016%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, 2017**

Local Government Correction Fund - Accounts 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
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS
JUNE 30, 2017

	Correction Fund	Emergency Medical Services Fund	Law Enforcement Protection Fund	Streets Fund	Debt Service Fund	Total Nonmajor Governmental Funds
ASSETS						
ASSETS						
Cash and Cash Equivalents	\$ 16,468	\$ 21	\$ 1,405	\$ 1,842	\$ 165	\$ 19,901
Taxes Receivable						
Gasoline Tax	-	-	-	3,258	-	3,258
Total Assets	<u>\$ 16,468</u>	<u>\$ 21</u>	<u>\$ 1,405</u>	<u>\$ 5,100</u>	<u>\$ 165</u>	<u>\$ 23,159</u>
FUND BALANCE						
FUND BALANCES						
Assigned	<u>\$ 16,468</u>	<u>\$ 21</u>	<u>\$ 1,405</u>	<u>\$ 5,100</u>	<u>\$ 165</u>	<u>\$ 23,159</u>
Total Fund Balances	<u>16,468</u>	<u>21</u>	<u>1,405</u>	<u>5,100</u>	<u>165</u>	<u>23,159</u>
Total Fund Balances	<u>\$ 16,468</u>	<u>\$ 21</u>	<u>\$ 1,405</u>	<u>\$ 5,100</u>	<u>\$ 165</u>	<u>\$ 23,159</u>

STATE OF NEW MEXICO
TOWN OF HAGERMAN
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2017

	Correction Fund	Emergency Medical Services Fund	Law Enforcement Protection Fund	Streets Fund	Debt Service Fund	Total Nonmajor Governmental Funds
REVENUES						
Taxes						
Gasoline Tax	\$ -	\$ -	\$ -	\$ 23,949	\$ -	\$ 23,949
Intergovernmental						
State	-	10,175	22,400	58,112	-	90,687
Fines and Forfeits	4,320	-	-	-	-	4,320
Interest Income	-	-	-	-	157	157
Total Revenues	<u>4,320</u>	<u>10,175</u>	<u>22,400</u>	<u>82,061</u>	<u>157</u>	<u>119,113</u>
EXPENDITURES						
Current						
Streets	-	-	-	798	-	798
Public Safety	416	10,479	11,034	-	-	21,929
Debt Service						
Principal	-	-	11,000	-	39,721	50,721
Interest	-	-	1,826	-	4,835	6,661
Capital Outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>77,483</u>	<u>-</u>	<u>77,483</u>
Total Expenditures	<u>416</u>	<u>10,479</u>	<u>23,860</u>	<u>78,281</u>	<u>44,556</u>	<u>157,592</u>
Excess (Deficit) of Revenues over Expenditures	3,904	(304)	(1,460)	3,780	(44,399)	(38,479)
OTHER FINANCING SOURCES						
Transfers In	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>44,564</u>	<u>44,564</u>
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>44,564</u>	<u>44,564</u>
Net Change in Fund Balance	3,904	(304)	(1,460)	3,780	165	6,085
Fund Balance, Beginning of Year	<u>12,564</u>	<u>325</u>	<u>2,865</u>	<u>1,320</u>	<u>-</u>	<u>17,074</u>
Fund Balance, End of Year	<u>\$ 16,468</u>	<u>\$ 21</u>	<u>\$ 1,405</u>	<u>\$ 5,100</u>	<u>\$ 165</u>	<u>\$ 23,159</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, 2017

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Fines and Forfeits	\$ 1,675	\$ 1,675	\$ 4,320	\$ 2,645
Total Revenues	1,675	1,675	4,320	2,645
EXPENSES				
Current				
Public Safety	1,675	1,675	416	1,259
Total Expenditures	1,675	1,675	416	1,259
Excess of Revenues over Expenditures	-	-	\$ 3,904	\$ 3,904
Cash Balance, Beginning of Year	12,564	12,564		
Cash Balance, End of Year	\$ 12,564	\$ 12,564		
Reconciliation to GAAP Basis				
Excess of Revenues over Expenditures - Budget Basis			\$ 3,904	
Excess of Revenues over Expenditures - GAAP Basis			\$ 3,904	

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)
EMS FUND
YEAR ENDED JUNE 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES				
Intergovernmental				
State	\$ 7,000	\$ 10,175	\$ 10,175	\$ -
Total Revenues	7,000	10,175	10,175	-
EXPENSES				
Current				
Public Safety	7,000	10,500	10,479	21
Total Expenditures	7,000	10,500	10,479	21
Deficiency of Revenues over Expenditures	-	(325)	<u>\$ (304)</u>	<u>\$ 21</u>
Cash Balance, Beginning of Year	325	325		
Cash Balance, End of Year	<u>\$ 325</u>	<u>\$ -</u>		
Reconciliation to GAAP Basis				
Excess of Revenues over Expenditures - Budget Basis			<u>\$ (304)</u>	
Excess of Revenues over Expenditures - GAAP Basis			<u>\$ (304)</u>	

**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, 2017**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Intergovernmental State	\$ 22,400	\$ 22,400	\$ 22,400	\$ -
Total Revenues	22,400	22,400	22,400	-
EXPENSES				
Current				
Public Safety	9,574	12,436	11,034	1,402
Debt Service				
Principal	11,000	11,000	11,000	-
Interest	1,826	1,826	1,826	-
Total Expenditures	22,400	25,262	23,860	1,402
Deficiency of Revenues over Expenditures	-	(2,862)	\$ (1,460)	\$ 1,402
Cash Balance, Beginning of Year	2,865	2,865		
Cash Balance, End of Year	\$ 2,865	\$ 3		
Reconciliation to GAAP Basis				
Deficiency of Revenues over Expenditures - Budget Basis			\$ (1,460)	
Deficiency of Revenues over Expenditures - GAAP Basis			\$ (1,460)	

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)
STREETS FUND
YEAR ENDED JUNE 30, 2017**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Taxes				
Gasoline	\$ 15,996	\$ 15,996	\$ 22,312	\$ 6,316
Intergovernmental				
State	77,483	77,483	58,112	(19,371)
Total Revenues	93,479	93,479	80,424	(13,055)
EXPENSES				
Current				
Streets	7,800	7,800	798	7,002
Capital Outlay				
	77,483	77,483	77,483	-
Total Expenditures	85,283	85,283	78,281	7,002
Excess of Revenues over Expenditures	8,196	8,196	\$ 2,143	\$ (6,053)
Cash Balance, Beginning of Year	(301)	(301)		
Cash Balance, End of Year	\$ 7,895	\$ 7,895		
Reconciliation to GAAP Basis				
Deficiency of Revenues over Expenditures - Budget Basis			\$ 2,143	
Change in:				
Gasoline Taxes Receivable			1,637	
Deficiency of Revenues over Expenditures - GAAP Basis			\$ 3,780	

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, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES				
Intergovernmental				
State	<u>\$ 1,308,941</u>	<u>\$ 1,308,941</u>	<u>\$ 902,932</u>	<u>\$ (406,009)</u>
Total Revenues	1,308,941	1,308,941	902,932	(406,009)
EXPENSES				
Current				
General Administration	-	-	1,756	(1,756)
Capital Outlay	<u>1,308,788</u>	<u>1,308,788</u>	<u>1,003,276</u>	<u>305,512</u>
Total Expenditures	<u>1,308,788</u>	<u>1,308,788</u>	<u>1,005,032</u>	<u>303,756</u>
Excess of Revenues over Expenditures	153	153	(102,100)	(102,253)
OTHER FINANCING SOURCES				
Transfers In	-	59,449	59,449	-
Total Other Financing Sources (Uses)	-	59,449	59,449	-
Net Change in Fund Balance	153	59,602	<u>\$ (42,651)</u>	<u>\$ (102,253)</u>
Cash Balance, Beginning of Year	<u>63,779</u>	<u>63,779</u>		
Cash Balance, End of Year	<u>\$ 64,085</u>	<u>\$ 242,432</u>		
Reconciliation to GAAP Basis				
Excess of Revenues over Expenditures - Budget Basis			<u>(102,100)</u>	
Excess of Revenues over Expenditures - GAAP Basis			<u>\$ (102,100)</u>	

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BASIS)
DEBT SERVICE FUND
YEAR ENDED JUNE 30, 2017**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Interest Income	-	160	157	(3)
Total Revenues	-	160	157	(3)
EXPENDITURES				
Debt Service				
Principal	-	54,064	39,721	14,343
Interest	-	4,675	4,835	(160)
Total Expenditures	-	58,739	44,556	14,183
Excess (Deficit) of Revenues over Expenditures	-	(58,579)	(44,399)	14,180
OTHER FINANCING SOURCES				
Transfers In	-	58,747	44,564	(14,183)
Total Other Financing Sources	-	58,747	44,564	(14,183)
Net Change in Fund Balance	-	168	<u>\$ 165</u>	<u>\$ (3)</u>
Cash Balance, Beginning of Year	-	-		
Cash Balance, End of Year	<u>\$ -</u>	<u>\$ 168</u>		
 Reconciliation to GAAP Basis				
Deficiency of Revenues over Expenditures - Budget Basis			<u>\$ 165</u>	
Deficiency of Revenues over Expenditures - GAAP Basis			<u>\$ 165</u>	

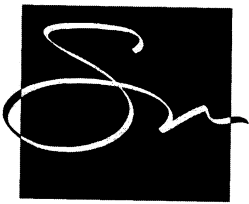
The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND NET POSITION - BUDGET AND ACTUAL (NON-GAAP BASIS)
UTILITY FUND
YEAR ENDED JUNE 30, 2017**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Charges for Services				
Water	\$ 240,328	\$ 240,328	\$ 229,587	\$ (10,741)
Sewer	72,816	72,816	100,860	28,044
Sanitation	177,586	177,586	190,689	13,103
Late Fees	-	-	10,194	10,194
Other Revenue	10,550	10,550	25,367	14,817
Total Operating Revenues	501,280	501,280	556,697	55,417
OPERATING EXPENSES				
Current				
Water	227,000	287,000	270,653	16,347
Sewer	61,580	96,580	95,143	1,437
Sanitation	112,690	132,690	130,236	2,454
Capital Outlay	-	-	8,945	(8,945)
Debt Service				
Principal	-	12,110	12,110	-
Interest	-	9,793	9,793	-
Total Operating Expenses	401,270	538,173	526,880	11,293
Operating Income	100,010	(36,893)	29,817	66,710
NONOPERATING REVENUE				
Environmental Gross Receipts Tax	7,699	7,699	5,686	(2,013)
Total Nonoperating Revenue	7,699	7,699	5,686	(2,013)
Change in Net Position	107,709	(29,194)	\$ 35,503	\$ 64,697
Cash - Beginning of Year	350,859	350,859		
Cash - End of Year	\$ 458,568	\$ 321,665		
Reconciliation to GAAP Basis				
Change in Net Position - Budget Basis			\$ 35,503	
Depreciation			(65,507)	
Capital Outlay			8,945	
Principal Payments			12,110	
Change in:				
Environmental Gross Receipt Taxes Receivable			(166)	
Accounts Receivable			14,168	
Accounts Payable			(3,035)	
Accrued Payroll			(1,235)	
Accrued Compensated Absences			1,897	
Customer Meter Deposits			(1,800)	
Change in Net Position - GAAP Basis			\$ 880	

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

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
Honorable Mayor and Councilors of
Town of Hagerman
Hagerman, New Mexico

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, 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, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents and have issued our report thereon dated October 27, 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 responses, we identified certain deficiencies in internal control that we consider to be either material weaknesses or a significant deficiencies.

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 accompanying schedule of findings and responses as item 2017-003 (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 accompanying schedule of findings and responses as items 2017-001 and 2017-002 to be significant deficiencies.

Compliance and Other Matters

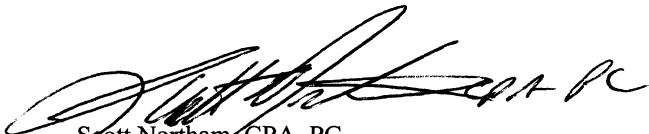
As part of obtaining reasonable assurance about whether the Town's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 no instances 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
October 27, 2017

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2017**

2017-003 (2016-003) - Contract Violations - Material Weakness (Revised and Repeated)

CONDITION - The Town leases a building to a local manufacturing company (Lessee) under an agreement executed in May 2013. The Town has an account receivable with the Lessee as of June 30, 2017 of \$74,235, of which \$60,000 is in arrears for nonpayment of the monthly lease rent, with the remaining \$10,235 consisting of repairs and maintenance expense to be reimbursed to the Town.

PROGRESS ON RESOLVING PRIOR YEAR FINDING - The item has been brought up in open council meeting twice during the fiscal year for discussion, but no action was taken on the issue either time. The Lessee paid \$4,000 of the \$24,000 in current fiscal year rent due, which put the Lessee further in arrears during the fiscal year. The Lessee was current on the lease payments for the first three months of the 2018 Fiscal Year.

CRITERIA - The agreement with the Lessee was ratified by the Town Council, which makes it an enforceable legal document with the Lessee.

CAUSE - The Lessee's cash flow has slowed over the years to the point of not being able to consistently maintain its obligation to the Town. The Town's management has been lenient to the Lessee on collection efforts because of the consequences to the local economy if the Lessee defaults and ceases production.

EFFECT - The Town has effectively indirectly subsidized the Lessee's operations by incurring an economic loss of approximately \$74,235.

RECOMMENDATION - The Town needs to coordinate with the lessee to develop a payment plan for the outstanding receivable.

MANAGEMENT RESPONSE AND PLANNED CORRECTIVE ACTION - The transactions with the Lessee fall under the Local Economic Development Act adopted by the Town through ordinance. If the Town presses the Lessee on payment and the Lessee defaults and closes operations, then the Town would suffer economically with loss of jobs and gross receipts tax, plus inherit a vacant building to maintain. A plan is in place by the Lessee to pay down the arrears with the remaining proceeds when the Lessee sells a building in Roswell, NM. However, the time frame for the sale and payment is unknown, and therefore, the no time frame for resolving the finding can be readily or reasonably determined.

2017-001 - Misclassification of Employee as Contract Labor - Significant Deficiency

CONDITION - An employee was paid both as contract labor and through payroll during the current and succeeding fiscal year. The employee received approximately \$9,299 for her services from April 2017 to October 2017, with \$591 reported as wages and the remaining \$8,708 paid as contract labor.

CRITERIA - Publication 1779 from the Internal Revenue Service provides the following major factors on classifying whether a worker is an employee or an independent contractor:

Behavioral Control (Employee)	Financial Control (Contractor)	Relationship of the Parties
<ul style="list-style-type: none"> • Told How, When or Where to Do the Work • Told What Tools or Equipment to Use • Provided Assistants to Help with Work • Instructed Where to Purchase Supplies and Services • Provided Training 	<ul style="list-style-type: none"> • Significant Investment by Worker • Not Reimbursed for Expenses • Opportunity for Profit or Loss 	<ul style="list-style-type: none"> • Receives Employee Benefits • Written Contracts

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2017**

2017-001 – Misclassification of Employee as Contract Labor - Significant Deficiency (Cont.)

CAUSE – An informal agreement between the Town and the employee did not specify how to compensate the employee, resulting in inconsistent pay methods and an incomplete employee or vendor file, with no W-4, W-9 or SS-8 on file.

EFFECT – The Town would be liable for approximately an additional \$1,332 in employment taxes due to the federal government, plus any applicable interest and penalties, should the Internal Revenue Service elect to examine the Town’s payroll and determine the proper treatment of the employee.

RECOMMENDATION – Any employees hired on a temporary or permanent basis should complete the necessary personnel file information forms and be added to the payroll module to have the proper taxes withheld from the employees.

MANAGEMENT RESPONSE AND PLANNED CORRECTIVE ACTION – With the high turnover in the clerk position during the fiscal year, administrative hiring procedures were not properly followed when hiring the interim employee. Additional training is being provided for the permanent clerk/treasurer which focuses on federal and state hiring requirements. This finding should be resolved by November 2017.

2017-002 - Segregation of Duties - Significant Deficiency

CONDITION - The Town had limited segregation of duties due to personnel constraints of having one full-time employee in administration at various times during the fiscal year.

CRITERIA - Segregation of certain specific accounting and administrative functions is needed to minimize concentration of internal controls and reduce the possibility of errors and omissions, overriding of controls or misappropriation of funds.

CAUSE - Personnel turnover relegated the Town to consolidate some incompatible accounting and administrative functions during the year when the clerk/treasurer position was vacant.

EFFECT - The lack of proper segregation of duties and cross-training in the Town’s administrative office forced the consolidation of duties at the expense of improved internal control, which may have caused undetected errors in administration records due to inexperience with the duties.

RECOMMENDATION - Although the Town has some compensating controls in place to reduce the effect of the lack of segregation of duties, we recommend the Council periodically evaluate whether its level of control is appropriate for the current situation. The Council should increase their visibility and involvement in the daily operations of the Town so that the council members are more aware of the complexities of the municipality operations.

MANAGEMENT RESPONSE AND PLANNED CORRECTIVE ACTION - The hiring of a new permanent clerk/treasurer in September 2017 brought the administration office back to full staff and redistributed the incompatible duties back to the positions originally responsible for the duties. The Town will also provide additional state-mandated training and cross-training to all the administration staff so there will not be a significant drop-off in experience should an employee be absent or unavailable. This finding should be resolved by the end of the next fiscal year.

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
STATUS OF PRIOR YEAR FINDINGS
JUNE 30, 2017**

Finding	Status
2015-001 Expenditures over Budget	Resolved
2015-005 PERA Miscalculation and Underreporting	Resolved
2016-001 Late Submission of Audit Report	Resolved
2016-002 Gross Receipts Tax Miscalculations	Resolved
2016-003 Contract Violations	Revised, Repeated

**STATE OF NEW MEXICO
TOWN OF HAGERMAN
EXIT CONFERENCE
JUNE 30, 2017**

The contents of this report were discussed with the Town of Hagerman representatives on October 27, 2017. The following individuals were available for the conference:

Town of Hagerman

Scott Northam, CPA, PC

Cliff Waide, Mayor
Kami Mason, 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 Town management.

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.