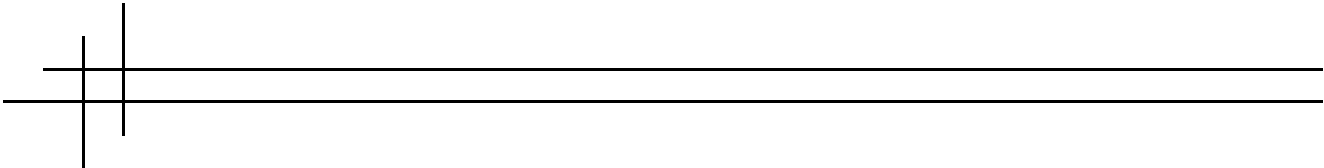


STATE OF NEW MEXICO
EASTERN NEW MEXICO NATURAL GAS ASSOCIATION
FORT SUMNER, NEW MEXICO

ANNUAL FINANCIAL REPORT
June 30, 2009

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



STATE OF NEW MEXICO
EASTERN NEW MEXICO NATURAL GAS ASSOCIATION
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For the Year Ended June 30, 2009

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STATE OF NEW MEXICO
EASTERN NEW MEXICO NATURAL GAS ASSOCIATION
Official Roster
June 30, 2009

BOARD OF DIRECTORS

Darrel Bostwick	President
James Whitecotton	Vice President
Alan C. West	Secretary
Marshall Scot Stinnett	Director
Aldolfo Lucero	Director
Ernest Riley	Director
Tuck N. Monk	Director
Colin Chandler	Director
Kendell Buzard	Director

ADMINISTRATION

George Sena	Association Manager
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De'Aun Willoughby CPA, PC

Certified Public Accountant

P.O. Box 223 Melrose, NM 88124

(575) 253-4313

Independent Auditor's Report

Mr. Hector Balderas
State Auditor of the State of New Mexico
Board Members of the EASTERN NEW MEXICO NATURAL GAS ASSOCIATION

Mr. Balderas and Members of the Board

We have audited the accompanying financial statements of the business-type activities of Eastern New Mexico Natural Gas Association, Inc. (ENMNG), as of and for the year ended June 30, 2009, which collectively comprise the ENMNG's basic financial statements as listed in the table of contents. We also have audited the budget comparison presented as supplementary information in the accompanying financial statements as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the Association's management. 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 with 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Association as of June 30, 2009, and the respective changes in financial position and cash flows thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2010, on our consideration of the ENMNG's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The ENMNG has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements and budgetary comparisons presented as supplemental information.

De'Aun Willoughby CPA PC

September 17, 2010

STATE OF NEW MEXICO
EASTERN NEW MEXICO NATURAL GAS ASSOCIATION
Statement of Net Assets Proprietary Funds
June 30, 2009

Assets	
Current Assets	
Cash on Hand	\$ 470
Cash in Banks	381,842
Accounts Receivable (Net of Allowance for Uncollectible Accounts)	14,473
Inventory	<u>66,125</u>
Total Current Assets	<u>462,910</u>
Non-current Assets	
Restricted Cash in Banks	36,377
Capital Assets	2,321,142
Less Accumulated Depreciation	<u>(1,643,611)</u>
Total Non-current Assets	<u>713,908</u>
Total Assets	<u>1,176,818</u>
Liabilities and Net Assets	
Current Liabilities	
Accounts Payable	6,944
Payroll Taxes Payables	6,430
Accrued Salaries & Related Expenses	4,228
Accrued Compensated Absences	<u>4,268</u>
Total Current Liabilities	<u>21,870</u>
Non-current Liabilities	
Customer Deposits	<u>35,370</u>
Total Non-current Liabilities	<u>35,370</u>
Total Liabilities	<u>57,240</u>
Net Assets	
Invested in Capital Assets	713,908
Unrestricted	<u>405,670</u>
Total Net Assets	<u>\$ 1,119,578</u>

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

STATE OF NEW MEXICO

EASTERN NEW MEXICO NATURAL GAS ASSOCIATION

Statement of Revenues, Expenses, and Changes in Net Assets Proprietary Funds

For the Year Ended June 30, 2009

Operating Revenues	
Sales and Services	\$ 959,942
Cost of Goods Sold	<u>(361,057)</u>
	<u>598,885</u>
Operating Expenses	
Personnel Services	234,049
Automotive	16,878
Professional Fees	8,650
Insurance	29,519
Office	23,393
Depreciation	32,730
Supplies and Maintenance	42,311
Utilities	8,997
Other	<u>16,624</u>
	<u>413,151</u>
Operating Income	<u>185,734</u>
Nonoperating Revenues	
Legislative Grant	94,076
Interest Income	<u>3,740</u>
Total Nonoperating Revenues	<u>97,816</u>
Change in Net Assets	<u>283,550</u>
Net Assets at Beginning of Year	1,027,882
Restatement	<u>(191,854)</u>
Restated Net Assets at Beginning of Year	<u>836,028</u>
Net Assets at End of Year	<u>\$ 1,119,578</u>

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

STATE OF NEW MEXICO
EASTERN NEW MEXICO NATURAL GAS ASSOCIATION
Statement of Cash Flows Proprietary Funds
For the Year Ended June 30, 2009

Cash Flows from Operating Activities	
Receipts from Customers and Users	\$ 821,396
Payments to Employees and Suppliers	<u>(537,237)</u>
Net Cash Provided by Operating Activities	<u>284,159</u>
Cash Flows from Capital & Related Financing Activities	
Legislative Grant	94,076
Acquisitions and Construction of Capital Assets	<u>(172,531)</u>
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(78,455)</u>
Cash Flows from Investing Activities	
Interest Income	<u>3,740</u>
Net Cash Provided by Investing Activities	<u>3,740</u>
Net Increase (Decrease) in Cash	209,444
Cash, July 1, 2008	<u>209,245</u>
Cash, June 30, 2009	<u>\$ 418,689</u>
Reconciliation of Net Income to Net Cash Provided by Operating Activities	
Operating Income	185,734
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities	
Depreciation	32,730
Change in Assets & Liabilities	
(Increase) Decrease in Accounts Receivable	50,674
(Increase) Decrease in Inventory	(1,297)
(Increase) Decrease in Prepaid Expenses	2,429
Increase (Decrease) in Payroll Taxes Payable	6,429
Increase (Decrease) in Accounts Payable	6,944
Increase (Decrease) in Accrued Salaries	4,228
Increase (Decrease) in Compensated Absences	(7,637)
Increase (Decrease) in Customer Deposits	<u>3,925</u>
Net Cash Provided by Operating Activities	<u>\$ 284,159</u>

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

STATE OF NEW MEXICO
EASTERN NEW MEXICO NATURAL GAS ASSOCIATION
Notes to the Financial Statements
June 30, 2009

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the EASTERN NEW MEXICO NATURAL GAS ASSOCIATION, INC. (ENMNG) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 that do not conflict with or contradict GASB pronouncements. The more significant of the ENMNG's accounting policies are described below.

Financial Reporting Entity

Eastern New Mexico Natural Gas Association, Inc.(ENMNG), was formed as a result of Chapter 309 of the New Mexico Session Law of 1963, which allows two or more communities to join together for the purpose of forming an association to furnish natural gas to the community members. Eastern New Mexico Natural Gas Association, Inc. was formed and is composed of the Fort Sumner, Melrose, and Floyd communities. The Association was incorporated under the Corporation Act of the State of New Mexico on March 25, 1965, with a nonprofit incorporated certificate being issued on the 17th of August 1967, by the New Mexico State Corporation Commission.

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

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

ENMNG is engaged in business-type activity only.

Basis of Presentation

ENMNG is engaged in business-type activity only. The financial statements (the statement of net assets, statement of revenues, expenses and changes in net assets and the statement of cash flows) report information on all of the activities of the ENMNG.

Proprietary Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Assets. The City has presented the following major proprietary funds.

Measurement Focus and Basis of Accounting

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

STATE OF NEW MEXICO
EASTERN NEW MEXICO NATURAL GAS ASSOCIATION
Notes to the Financial Statements
June 30, 2009

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

The revenues susceptible to accrual are charges for service and interest income.

Budgetary Control

An operating budget is adopted each fiscal year and is approved by the Board of Directors and the New Mexico Department of Finance and Administration. The budget is prepared on the cash basis, which is not consistent with generally accepted accounting principles. The Board of Directors is authorized to transfer budgetary amounts between the items within the fund; however, any revision that alters the total expenditures must be approved by the New Mexico Department of Finance and Administration. In conjunction with this, they can overspend line items, but it is a violation of state statute to over-expend a fund total.

Cash and Cash Equivalents

The ENMNG's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

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

Investments

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

- (a) bonds or negotiable securities of the United States, the state or any county, municipality or ENMNG which has a taxable valuation of real property for the last preceding year of at least one million dollars (1,000,000) and has not defaulted in the payment of any interest or sinking fund obligation or failed to meet any bonds at maturity at any time within five years last preceding; or
- (b) securities that are issued by the United States government or by its agencies or instrumentalities and that are either direct obligations of the United States or are backed by the full faith and credit of the United States government or agencies guaranteed by the United States government.
- (c) in contracts with banks, savings and loan associations or credit unions for the present purchase and resale at a specified time in the future of specific securities at specified prices at a price differential representing the interest income to be earned by the investor. The contract shall be shown on the books of the financial institution as being the property of the investor and the designation shall be contemporaneous with the investment. The contract shall be fully secured by obligations of the United States having a market value of at least one hundred two percent of the contract. The collateral required for investment in the contracts provided for in this subsection shall be shown on the books of the financial institution as being the property of the investor and the designation shall be contemporaneous with investment.

STATE OF NEW MEXICO
EASTERN NEW MEXICO NATURAL GAS ASSOCIATION
Notes to the Financial Statements
June 30, 2009

Inventory

The inventories held by the ENMNG are recorded at cost, with cost being determined on the first-in, first out basis.

Prepaid Items

Prepaid balances are for payments made by the ENMNG in the current year to provide services occurring in the subsequent fiscal year, and the reserve for prepaid items has been recorded to signify that a portion of fund balance is not available for other subsequent expenditures.

Receivables and Payables

Receivables include amounts due from customers for sales and service. Payables represent routine monthly bills for services rendered and products purchased and accrued salaries and benefits.

Capital Assets

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

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

Infrastructure	30 Years
Buildings	50 Years
Building Improvements	20 Years
Vehicles, Equipment	3-15 Years
Information Technology Equipment and Software	3-15 Years

Inclusion of infrastructure assets may be delayed until 2006. However, they have been included in capital assets this year.

Compensated Absences

The Association permits employees to accumulate a limited amount of unused vacation time which must be taken or forfeited within the employees anniversary year following the employment anniversary year in which the annual leave was earned.

Revenue

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

STATE OF NEW MEXICO
EASTERN NEW MEXICO NATURAL GAS ASSOCIATION
Notes to the Financial Statements
June 30, 2009

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

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed by creditors, grantors or laws or regulations of other governments.

Restricted Net Assets

For the government-wide statement of net assets, net assets are reported as restricted when constraints placed on net assets use are either:

Externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments;

Imposed by law through constitutional provisions or enabling legislation.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available it will first be applied to restricted resources.

NOTE B: DEPOSIT AND INVESTMENTS

The Association is required by New Mexico State Statute (Section 6-10-17) to be 50% collateralized.

Citizens Bank

Name of Account	Balance Per Bank 6/30/09	Reconciled Balance	Type
Revenue Account	\$ 136,648	\$ 95,126	Checking
Meter Deposit Account	37,800	35,369	Checking
Contractors License	50,242	50,242	Checking
Contractors License	1,007	1,007	Savings
Repair & Replacement-CD	50,000	50,000	Savings
TOTAL Deposited	275,697	\$ 231,744	
Less: FDIC Coverage	(275,697)		
Uninsured Amount	0		
50% collateral requirement	0		
Pledged securities	0		
Over (Under) requirement	\$ 0		

New Mexico Bank & Trust

Name of Account	Balance Per Bank 6/30/09	Reconciled Balance	Type
Repair & Replacement	\$ 35,308	35,308	Checking
TOTAL Deposited	35,308	\$ 35,308	
Less: FDIC Coverage	(35,308)		
Uninsured Amount	\$ 0		

STATE OF NEW MEXICO
EASTERN NEW MEXICO NATURAL GAS ASSOCIATION
Notes to the Financial Statements
June 30, 2009

American Heritage Bank

Name of Account	Balance Per Bank 6/30/09	Reconciled Balance	Type
Repair & Replacement	\$ 93,722	93,722	Checking
Repair & Replacement-CD	57,445	57,445	Savings
TOTAL Deposited	151,167	\$ 151,167	
Less: FDIC Coverage	(151,167)		
Uninsured Amount	\$ 0		

Custodial Credit Risk-Deposits

Depository Account	Bank Balance
Insured	\$ 462,172
Collateralized:	
Collateral held by the pledging bank in Association's name	0
Uninsured and uncollateralized	0
Total Deposits	\$ 462,172

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of June 30, 2009, none of the District's bank balance of \$462,172 was exposed to custodial credit risk.

NOTE C: CAPITAL ASSETS

Capital Assets Balances and Activity for the Year Ended June 30, 2009, is as follows:

	Balance 6/30/08	Increases	Deletions	Balance 6/30/09
Business-Type Activities				
Capital Assets not being Depreciated				
Land	\$ 27,223	\$ 0	\$ 0	\$ 27,223
Total Capital Assets not being Depreciated	27,223	0	0	27,223
Other Capital Assets				
Utility System:				
Gas Plant Acquisition	95,817	0	0	95,817
Improvements	249,454	0	0	249,454
Mains, Meters, Regulators	1,224,583	304,253	0	1,528,836
Equipment & Vehicles:				
Equipment	149,252	44,166	0	193,418
Transportation	150,834	5,036	0	155,870
Office	104,424	0	33,901	70,523
Total Capital Assets at Historical Cost	\$ 2,001,587	\$ 353,455	\$ 33,901	\$ 2,321,141

STATE OF NEW MEXICO
EASTERN NEW MEXICO NATURAL GAS ASSOCIATION
Notes to the Financial Statements
June 30, 2009

Accumulated Depreciation:

Utility System:

Gas Plant Acquisition	\$ 95,817	\$ 0	\$ 0	\$ 95,817
Improvements	88,697	5,755	0	94,452
Mains Meter Regulators	1,138,218	6,875	0	1,145,093

Equipment & Vehicles:

Equipment	143,677	4,706	0	148,383
Transportation	113,223	11,467	0	124,690
Office	65,150	3,927	33,901	35,176
	<u>1,644,782</u>	<u>32,730</u>	<u>33,901</u>	<u>1,643,611</u>

Capital Assets, net	<u>\$ 356,805</u>	<u>\$ 320,725</u>	<u>\$ 0</u>	<u>\$ 677,530</u>
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NOTE D: RESTRICTED CASH

Restricted cash is money set aside equal to the balance of customer deposits.

NOTE E: PENSION PLAN

The Eastern New Mexico Natural Gas Association, Inc. maintains a 401K for its employees with Aetna Life and Annuity Co. The plan covers all non-probationary employees after one-half year service with the Association. All employees that participate in the plan must contribute 4% of their compensation, but may contribute up to 9% and the association must contribute 6% of all participating employees' compensation. The contributions to the 401K for the fiscal year ending June 30, 2009 and 2008 were \$10,161 and \$11,441.

NOTE F: PREPAID EXPENSE

Prepaid expense consists of unexpired insurance premiums.

NOTE G: RECONCILIATION OF BUDGETARY BASIS TO GAAP BASIS STATEMENTS

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

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

NOTE H: RISK MANAGEMENT

Commercial insurance covers all losses. There have been no significant reductions in insurance coverage. Settlement amount have not exceeded insurance coverage for the current year of the three prior years. There are no claim liabilities at year end.

NOTE I: SURETY BONDS

The Directors and certain employees of ENMNG are covered by a surety bond as required by Section 12 6-7, NMSA, 1978 Compliance and State Auditor's Rule 89-1.

STATE OF NEW MEXICO
EASTERN NEW MEXICO NATURAL GAS ASSOCIATION
Notes to the Financial Statements
June 30, 2009

NOTE J: RELATED PARTY TRANSACTIONS

The Board of Directors and employees of ENMNG are recipients of natural gas service. These transactions are correctly considered arm's-length transactions since these related parties are subject to the same installation, invoicing, payment expectations, and late payment procedures as all ENMNG customers.

NOTE K: RESTATEMENTS

The miscellaneous receivable of \$372,779 could not be verified and is reduced to zero. Construction costs of an expansion of services in the Old Town Project of \$180,924 were not included in construction in progress. The next change to Net Assets is \$191,854.

STATE OF NEW MEXICO

EASTERN NEW MEXICO NATURAL GAS ASSOCIATIONStatement of Revenues, Expenditures, and Changes in Cash Balance -
Budget and Actual (Budgetary Basis)

June 30, 2009

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget- Over (Under)
	Original	Final		
Revenues				
Gas Sales & Service	\$ 1,019,000	\$ 1,019,000	\$ 799,238	\$ (219,762)
Sale of Merchandise	50,000	50,000	176,919	126,919
Other Services	31,000	31,000	38,343	7,343
Legislative Grant	0	0	94,076	94,076
Interest Income	0	0	3,740	3,740
Total Revenue	<u>1,100,000</u>	<u>1,100,000</u>	<u>1,112,316</u>	<u>12,316</u>
Expenditures				
Advertising	1,500	1,500	1,121	379
Auto & Truck	23,200	23,200	16,878	6,322
Board Expense	5,100	5,100	7,920	(2,820)
Capital Outlay	0	0	172,531	(172,531)
Cost of Gas Sold	705,300	705,300	274,730	430,570
Cost of Merchandise Sold	0	0	82,421	(82,421)
Insurance	22,500	22,500	26,329	(3,829)
Miscellaneous	200	200	2,792	(2,592)
Office	3,200	3,200	13,184	(9,984)
Payroll Expenses	234,200	234,200	220,758	13,442
Payroll Taxes & Benefits	46,080	46,080	16,664	29,416
Postage	3,800	3,800	3,780	20
Professional Fees	7,000	7,000	8,650	(1,650)
Repairs	12,600	12,600	18,657	(6,057)
Supplies	7,700	7,700	23,282	(15,582)
Travel	250	250	1,696	(1,446)
Uniforms	0	0	2,995	(2,995)
Utilities	9,200	9,200	8,485	715
Total Expenditures	<u>1,081,830</u>	<u>1,081,830</u>	<u>902,873</u>	<u>178,957</u>
Excess (Deficiency) of Revenues Over Expenditures	18,170	18,170	209,443	191,273
Cash Balance Beginning of Year	<u>209,246</u>	<u>209,246</u>	<u>209,246</u>	<u>0</u>
Cash Balance End of Year	<u>\$ 227,416</u>	<u>\$ 227,416</u>	<u>\$ 418,689</u>	<u>\$ 191,273</u>

STATE OF NEW MEXICO

EASTERN NEW MEXICO NATURAL GAS ASSOCIATION

Statement of Revenues, Expenditures, and Changes in Cash Balance -
Budget and Actual (Budgetary Basis)

June 30, 2009

Reconciliation of Budgetary Basis to GAAP Basis

Excess (Deficiency) of Revenues Over Expenditures-Cash Basis	\$	209,443
Depreciation		(32,730)
Capital Outlay		172,531
Net change in Accounts Receivable		(50,673)
Net change in Inventory		1,297
Net change in Prepaid Expenses		(2,429)
Net change in Payroll Taxes Payable		(6,429)
Net change in Accounts Payable		(6,944)
Net change in Accrued Salaries		(4,228)
Net change in Accrued Compensated Absences		7,637
Net change in Customer Deposits		(3,925)
Change in Net Assets-GAAP Basis	\$	<u>283,550</u>

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



De'Aun Willoughby CPA, PC

Certified Public Accountant

P.O. Box 223 Melrose, NM 88124

(575) 253-4313

Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
In Accordance with *Government Auditing Standards*

Mr. Hector Balderas
State Auditor of the State of New Mexico
Board Members of the EASTERN NEW MEXICO NATURAL GAS ASSOCIATION, INC.

Mr. Balderas and Members of the Board

We have audited the basic financial statements of the business-type activities and the budget comparison of the EASTERN NEW MEXICO NATURAL GAS ASSOCIATION, INC. (ENMNG) as of and for the year ended June 30, 2009 and have issued our report thereon dated September 17, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses have been identified. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 ENMNG's financial statements will not be prevented, or detected and corrected on a timely basis.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the ENMNG's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and that, 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 which are described in the accompanying schedule of findings and responses as items 09-1, 09-2, 09-3 and 09-4.

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

This report is intended solely for the information and use of the administration, the board members, the New Mexico Department of Finance and Administration, the State Auditor, the New Mexico State Legislature and its committees, and is not intended to be and should not be used by anyone other than these specified parties.

 CPA PC

September 17, 2010

STATE OF NEW MEXICO
EASTERN NEW MEXICO NATURAL GAS ASSOCIATION
Findings and Comments
June 30, 2009

Prior Year Audit Findings

There were no prior year audit findings.

Current Year Audit Findings

09-1 Late Filing of Department of Labor Reports

Condition

The Association did not timely file the SUTA reports with New Mexico Department of Workforce Solutions for all four quarter's, 9/30/08, 12/31/08, 3/31/09 and 6/30/09.

Criteria

According to the New Mexico Department of Workforce Solutions, all governmental agencies are required to file and pay unemployment taxes. The reports and taxes are due by the 15th day following the quarter end.

Cause

The substitute clerk did not timely submit required forms.

Effect

The Association is subject to taxes and penalties and interest.

Recommendation

The Association should have a system to help determine that all reports are filed timely.

Response

The Association did file the report late to the NM Department of Workforce Solutions and has set up a system to insure that these reports are filed timely.

09-2 Failure to File Tax Form 941

Condition

The Association did not timely the tax forms 941 for all four quarter's 9/30/08, 12/31/08, 3/31/09 and 6/30/09.

Criteria

IRS Tax Code Title 29 requires the filing of Form 941 after each quarter reporting wages paid and employer payroll taxes to be paid.

Cause

The Association failed to file the Form 941 timely and prior to receiving notice from the Internal Revenue Service.

Effect

The Association is in violation of the IRS Tax Code Title 29 and subject to the penalties set within for failure to file Form 941.

Recommendation

The Association must implement controls to ensure that compliance to all IRS Tax Code requirements are adhere to completely.

Response

The Association has hired a clerk that will insure all reports are filed timely.

09-3 Preparation of Financial Statements**Condition**

The Association's employees or management do not have the qualifications and training to apply GAAP in recording their financial transactions and preparing their financial statements.

Criteria

Statement on Accounting Standards (SAS) 115, Communication of Internal Control Related Matters Identified in an Audit, requires that management clearly accept responsibility for preparing all financial information and company's financial statements.

Cause

The Association is so small, it cannot afford to hire personnel that have adequate qualifications and training to prepare the financial statements.

Effect

By preparing the financial statements, the auditors are auditing their own work product.

Recommendation

The Association should hire someone with adequate qualifications and training to prepare the financial statements.

Response

Our Association is so small and does not have sufficient funding to hire personnel to prepare the financial statements. We chose to receive a finding rather than spend additional funds hiring personnel capable of preparing our financial statements.

09-4 Late Audit**Condition**

The audit report was submitted to the State Auditor after the required deadline of December 1, 2009. The report was received on September 21, 2010.

Criteria

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

Cause

The Association was waiting for the previous auditor to submit the June 30, 2008 audit and contracted with the current auditor after the due date.

Effect

The users of the financial statements such as legislators, creditors, bondholders, state and federal grantors, etc. do not have timely audit reports and financial statements for their review. Late audit reports could have an effect on potential state funding.

Recommendation

The Association should take all appropriate steps to hire an auditor that will complete the audit by the due date.

Response

The Association has hired the current auditor to perform the audits in a timely manner and will become timely in the future.

Financial Statement Preparation

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

Exit Conference

An exit conference was held on September 17, 2010. Those present were Alan West, Board Member, Scot Stinnett, Board Member, George Sena, Manager, Pae Vinson, Clerk-Treasurer, and De'Aun Willoughby, CPA.