

**STATE OF NEW MEXICO
SOUTHEASTERN NEW MEXICO ECONOMIC
DEVELOPMENT DISTRICT, INC.**

**FINANCIAL STATEMENTS AND REQUIRED
SUPPLEMENTARY INFORMATION
WITH ACCOMPANYING AUDITORS' REPORTS**

YEAR ENDED JUNE 30, 2010

INTRODUCTORY SECTION

STATE OF NEW MEXICO
Southeastern New Mexico Economic Development District, Inc.
Table of Contents
June 30, 2010

	<u>Exhibit / Schedule</u>	<u>Page</u>
INTRODUCTORY SECTION:		
Table of Contents		3
Directory of Officials		4
FINANCIAL SECTION:		
Independent Auditors' Report		6
Management's Discussion and Analysis		7
BASIC FINANCIAL STATEMENTS:		
GOVERNMENT-WIDE FINANCIAL STATEMENTS:		
Statement of Net Assets	A-1	11
Statement of Activities	A-2	12
FUND FINANCIAL STATEMENTS:		
Balance Sheet - General Fund	B-1	13
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets	B-2	14
Statement of Revenues, Expenditures and Changes in Fund Balance - General Fund	B-3	15
Reconciliation of the Changes in Fund Balance of Governmental Fund Balance to the Statement of Activities	B-4	16
Statement of Revenue, Expenditures and Changes in Fund Balance Budget (Non-GAAP) Basis) and Actual - General Fund	C-1	17
NOTES TO THE FINANCIAL STATEMENTS		18
COMPLIANCE SECTION:		
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		26
Schedule of Findings and Responses		28
OTHER DISCLOSURES:		30

STATE OF NEW MEXICO
Southeastern New Mexico Economic Development District, Inc.
Directory of Officials
June 30, 2010

<u>Name</u>	<u>Board</u>	<u>Title</u>
	<u>Chaves County</u>	
Michael Trujillo		Member, Chaves County
David White		Member, Town of Dexter
Connie Andrews		Member, Town of Hagerman
Ysidro Salazar		Member, Town of Lake Arthur
Steve Henderson		Member, City of Roswell
Phelps Anderson		Member, Private Sector
	<u>Eddy County</u>	
Lewis Derrick		Member, Eddy County
Phil Burch		Member, City of Artesia
Richard Lloyd Graves, Jr.		Member, City of Carlsbad
Lora Crumrine		Member, Village of Hope
Pete Estrada		Member, Village of Loving
	<u>Lea County</u>	
Cecelia Nelson		Member, Lea County
Matt White		Member, City of Eunice
Joe Dearing		Member, City of Hobbs
Eva Sanchez		Member, City of Jal
Scott Gandy		Member, City of Lovington
Marilyn Burns		Member, Town of Tatum
Gregg Fulfer		Member, Private Sector
	<u>Lincoln County</u>	
Eileen Sedilla		Member, Lincoln County
Sam Hammons		Member, Village of Capitan
Mike Petty		Member, Town of Carrizozo
Sam Seely		Member, Village of Corona
Michele Rebstock		Member, Village of Ruidoso
Gary Williams		Member, City of Ruidoso Downs
Brad Treptow		Member, Private Sector
	<u>Otero County</u>	
Ray Backstrom		Member, Otero County
Joe Ferguson		Member, City of Alamogordo
David Venable		Member, Village of Cloudcroft
Ray Cordova		Member, Village of Tularosa
Bill Hershon		Member, Private Sector
	<u>Officers</u>	
Phil Burch		President
Ray Cordova		Vice President
Steve Henderson		Treasurer
Hubert Quintana		Secretary/Executive Director

FINANCIAL SECTION



Accounting & Consulting Group, LLP

Certified Public Accountants

Independent Auditors' Report

Hector Balderas
New Mexico State Auditor
The Board of Directors
Southeast New Mexico Economic Development District, Inc.
Roswell, New Mexico

We have audited the accompanying financial statements of the governmental activities, the major fund, the budgetary comparison for the general fund of Southeast New Mexico Economic Development District, Inc. (District) as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Southeast New Mexico Economic Development District, Inc.'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 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. 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 governmental activities, the general fund of Southeast New Mexico Economic Development District, Inc., as of June 30, 2010, and the respective changes in financial position, thereof and the budgetary comparison for the general fund 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 December 13, 2010 on our consideration of the District'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* and should be considered in assessing the results of our audit.

The *Management's Discussion and Analysis* on pages 7 through 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements, the individual fund financial statements, and the budgetary comparison. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP
Roswell, New Mexico
December 13, 2010

STATE OF NEW MEXICO
Southeastern New Mexico Economic Development District, Inc.
Management's Discussion and Analysis
(Required Supplementary Information)
June 30, 2010

The Management's Discussion and Analysis (MD&A) for the Southeastern New Mexico Economic Development District, Inc. will provide an overview of the District's activities and programs by (1) evaluating the operating results for the year, (2) assessing its financial position and condition, (3) helping to understand its sources and uses of financial resources, (4) helping to determine if budgets were met, and (5) identifying budget issues or concerns. Finally, the MD&A will provide comparative data from fiscal 2009 and 2010.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private sector businesses. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The financial statements report the District's net assets and how they have changed.

FUND FINANCIAL STATEMENTS

The Fund Financial Statements provide a more detailed look at the District's significant funds. Funds are accounting methods that the District uses to keep track of specific sources of funding and spending for a particular purpose. The District operates on its General Fund Appropriations received from the State Legislature each year. Federal grants are also a revenue source for operation. The Fund Financial Statements also present sources and uses of liquid resources. This is the manner in which the financial plan (the budget) is typically developed. Funds are established for various purposes and the financial statement allows the demonstration of sources and uses/or budgeting compliance associated therewith.

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets: Below is a summary of the District's net assets. The District reports balances in the following two categories of net assets: (1) invested in capital assets and (2) unrestricted.

Statement of Net Assets

	Governmental Activities	
	2010	2009
Current Assets	\$ 123,899	\$ 97,411
Capital Assets, net	42,045	32,797
Total Assets	\$ 165,944	\$ 130,208
Current Liabilities	\$ 25,967	\$ 37,909
Long-term Liabilities	23,269	585
Total Liabilities	49,236	38,494
Net Assets:		
Invested in Capital Assets, net debt	21,415	28,633
Unrestricted	95,293	63,081
Total Net Assets	\$ 116,708	\$ 91,714

STATE OF NEW MEXICO
Southeastern New Mexico Economic Development District, Inc.
Management's Discussion and Analysis
(Required Supplementary Information)
June 30, 2010

Statement of Activities: The following represents the revenues and expenses for fiscal year 2010.

Changes in Net Assets

	Governmental Activities	
	2010	2009
Revenues:		
Program Revenues:		
Charges for Services	\$ 123,934	\$ 90,513
Operating Grants and Contributions	607,458	582,732
General Revenues:		
Unrestricted Investment Earnings	350	589
Miscellaneous	57	3,700
Total Revenues	<u>731,799</u>	<u>677,534</u>
Expenses:		
General Government	693,428	674,657
Depreciation	13,377	10,046
Total Expenses	<u>706,805</u>	<u>684,703</u>
Change in Net Assets	24,994	(7,169)
Beginning Net Assets	<u>91,714</u>	<u>98,883</u>
Ending Net Assets	<u>116,708</u>	<u>91,714</u>

The \$54,265 increase in FY10 revenues was due primarily to an increase in Federal EDA funds, grant administration funds and an increase in reimbursement of ENMU-R/Small Business Development Center expenses.

The net assets increase of \$24,994 is due to the increase over expenditures.

FUND FINANCIAL ANALYSIS

Governmental Funds. The focus of the District's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. For the current year the District had one governmental fund, the General Operating Fund. As of year-end, the General Operating Fund reported a fund balance of \$122,782, a increase of \$59,701 from the previous year.

Comparisons Budgetary

GASB 34 requires budgetary comparison schedules for the general fund and for each major special revenue fund that has a legally adopted annual budget. The budgetary comparison schedules should present both the original and the appropriated budgets for the reporting period as well as the actual inflows, outflows, and balances stated on the government's budgetary basis. As required by the Office of the State Auditor in 2 NMAC 2.2, the budgetary comparison statement is presented as a basic statement. This information is provided at the approved budget level to demonstrate compliance with legal requirements.

Original Budget compared to final budget - no significant changes.

Final budget compared to actual results - The Transportation program incurred less reimbursable expenses than budgeted. Any unexpended budgeted revenues will be carried over into next fiscal year. Grant Administration revenues were less than budgeted because of time delays in closing out the grants. Any budgeted revenues not received will be carried over into next fiscal year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. The District's investment in capital assets for its government activities as of June 30, 2010 amount to \$42,045 (net of accumulated depreciation). This investment in capital assets consists of furniture, equipment, and automobiles. There was one new vehicle purchased during the year ended June 30, 2010.

STATE OF NEW MEXICO
Southeastern New Mexico Economic Development District, Inc.
Management's Discussion and Analysis
(Required Supplementary Information)
June 30, 2010

Capital Assets

	Governmental Activities	
	2010	2009
Capital Assets, net of accumulated depreciation	\$ 42,045	\$ 32,797

Long-Term Debt

Long-Term Debt: At the end of the current fiscal year, the District had a total long-term debt outstanding of \$23,269. This amount consists of one note due to Bank of the Southwest. Payments totaling \$3,579 were made to service debt on this note. In addition, in the current fiscal year SNMEDD purchased a vehicle that was financed through Bank of the Southwest. Payment totaling \$2,580 were made to service debt on this note.

	Governmental Activities	
	2010	2009
Notes Payable	\$ 23,269	\$ 585

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The budget for the year ended June 30, 2011 reflects a special EDA supplementary grant for \$10,189 and an increase of \$5,000 in the EDA grant. The SNMEDD also received and additional \$13,623 in grant administration funds and saw an increase in reimbursement of ENMU-R/Small Business Development Center expenses. As a result of major cuts in the State of New Mexico's budget, the SNMEDD's 2011 State Appropriation was reduced from the 2010 appropriation of \$121,641 to \$114,628. The 2011 budget will show a further reduction of \$17,213 in State funding. Our EDA grant FYE 2011 will show an increase of \$5,000 over FYE 2010 bringing it to \$60,000/year.

REQUESTS FOR INFORMATION

The purpose of this financial report is to provide the general public and other interested parties with a general overview of the District's finances and accountability of funds. Questions concerning this report or requests for additional information should be addressed to Southeastern New Mexico Economic Development District, 1600 SE Main Street, Suite D-1, Roswell, New Mexico 88203.

BASIC FINANCIAL STATEMENTS

STATE OF NEW MEXICO
Southeastern New Mexico Economic Development District, Inc.
Statement of Net Assets
Government -Wide
June 30, 2010

A-1

	<u>Governmental Activities</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 102,642
Accounts receivable	17,261
Prepaid expenses	<u>3,996</u>
Total current assets	123,899
Noncurrent assets:	
Capital assets, net of depreciation	<u>42,045</u>
 Total assets	 <u><u>\$ 165,944</u></u>
LIABILITIES	
Current liabilities:	
Payroll liabilities	\$ 1,117
Compensated absences	18,891
Notes payable	<u>5,959</u>
Total current liabilities	25,967
Noncurrent liabilities:	
Compensated absences	8,598
Notes payable	<u>14,671</u>
Total liabilities	<u>49,236</u>
NET ASSETS	
Invested in capital assets, net of related debt	21,415
Unrestricted	<u>95,293</u>
Total net assets	<u>116,708</u>
 Total liabilities and net assets	 <u><u>\$ 165,944</u></u>

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

STATE OF NEW MEXICO
Southeastern New Mexico Economic Development District, Inc.
Statement of Activities
Government -Wide
For the Year Ended June 30, 2010

A-2

		Program Revenues		Net Program (Expense) Revenues and Changes in Net Assets
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government Government Activities
Governmental activities:				
General government	693,428	\$ 123,934	\$ 607,458	\$ 37,964
Depreciation expense	13,377	-	-	(13,377)
Total primary government	\$ 706,805	\$ 123,934	\$ 607,458	24,587
General revenues:				
Unrestricted investment earnings				350
Miscellaneous				57
Total general revenues				407
Change in net assets				24,994
Net assets - beginning				91,714
Net assets - ending				\$ 116,708

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

STATE OF NEW MEXICO

B-1

Southeastern New Mexico Economic Development District, Inc.

Balance Sheet

General Fund

June 30, 2010

ASSETS

Cash and cash equivalents	\$	102,642
Accounts receivable		17,261
Prepaid expenditures		<u>3,996</u>
Total assets	\$	<u><u>123,899</u></u>

LIABILITIES AND FUND BALANCES

Liabilities:

Payroll liabilities	\$	1,117
Total liabilities		<u>1,117</u>

Fund balance:

Unreserved		<u>122,782</u>
Total fund balance		<u>122,782</u>

Total liabilities and fund balance	\$	<u><u>123,899</u></u>
------------------------------------	----	-----------------------

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

STATE OF NEW MEXICO

B-2

Southeastern New Mexico Economic Development District, Inc.
Reconciliation of Governmental Funds Balance Sheet
to the Statement of Net Assets
June 30, 2010

Total fund balances - governmental funds		\$	122,782
Amounts reported for <i>governmental activities</i> in the Statement of Net Assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:			
Furniture and equipment	27,262		
Automobiles	67,950		
Accumulated depreciation	<u>(53,167)</u>		
Total capital assets			42,045
Long-term liabilities including loans payable are not due and payable in the current period and therefore are not reported in the funds.			
			<u>(48,119)</u>
Net assets of governmental activities		\$	<u><u>116,708</u></u>

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

STATE OF NEW MEXICO

B-3

Southeastern New Mexico Economic Development District, Inc.
Statement of Revenues, Expenditures, and Changes in Fund Balance
General Fund
For the Year Ended June 30, 2010

REVENUES

Federal operating grants	\$	77,690
State operating grants and contracts		114,630
Local and private grants and contributions		415,138
Membership assessment		123,934
Bank interest		350
Other		57
Total revenues		<u>731,799</u>

EXPENDITURES

Current:		
Administration		665,233
Capital outlay		22,625
Debt service:		
Principal retirement		6,159
Interest		706
Total expenditures		<u>694,723</u>

OTHER FINANCING SOURCES (USES)

Loan proceeds		<u>22,625</u>
Total other financing sources		<u>22,625</u>
Excess (deficiency) of revenues over expenditures		59,701
Fund balance--beginning of the year		<u>63,081</u>
Fund balance--end of the year	\$	<u><u>122,782</u></u>

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

STATE OF NEW MEXICO

B-4

Southeastern New Mexico Economic Development District, Inc.
 Reconciliation of Changes in Fund Balance of
 Governmental Funds to the Statement of Activities
 For the Year Ended June 30, 2010

Net change in fund balance -- total governmental funds	\$	59,701
<p>Amounts reported for <i>governmental activities</i> in the Statement of Activities are different because:</p> <p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:</p>		
Capital outlay		22,625
Depreciation expense		<u>(13,377)</u>
Excess of capital outlay over depreciation expense		9,248
Compensated absences reported as an expenditures in governmental funds, but increases the long-term liabilities in the Statement of Net Assets		(27,489)
Repayment of principal and issuance of principal on notes payable reported as an expenditure in governmental funds, but changes the long-term liabilities in the Statement of Net Assets		<u>(16,466)</u>
Change in net assets of governmental activities	\$	<u><u>24,994</u></u>

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

STATE OF NEW MEXICO

C-1

Southeastern New Mexico Economic Development District, Inc.
Statement of Revenues, Expenditures and Changes in Fund Balances
Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended June 30, 2010

	General Fund			
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Federal operating grants	\$ 50,000	\$ 55,000	\$ 77,690	\$ 22,690
State operating grants and contracts	121,300	114,629	145,391	30,762
Local and private grants and contributions	403,061	413,250	397,877	(15,373)
Membership assessment	178,875	178,875	123,934	(54,941)
Bank interest	500	500	350	(150)
Other	-	-	57	57
Total revenues	<u>753,736</u>	<u>762,254</u>	<u>745,299</u>	<u>(16,955)</u>
EXPENDITURES				
Current:				
Administration	723,764	733,954	668,112	65,842
Capital outlay	-	-	22,625	(22,625)
Debt service:				
Principal retirement	9,000	9,000	6,159	2,841
Interest	-	-	706	(706)
Total expenditures	<u>732,764</u>	<u>742,954</u>	<u>697,602</u>	<u>45,352</u>
OTHER FINANCING SOURCES (USES)				
Loan proceeds	-	-	22,625	22,625
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>22,625</u>	<u>22,625</u>
Excess (deficiency) of revenues over expenditures	20,972	19,300	70,322	<u>\$ (28,397)</u>
Beginning of year cash balance	<u>93,415</u>	<u>93,415</u>		
End of year cash balance	<u>\$ 114,387</u>	<u>\$ 112,715</u>		
RECONCILIATION TO GAAP				
Change in receivables			17,261	
Change in prepaid expenses			3,996	
Change in payroll liabilities			(1,117)	
Change in deferred revenue			(30,761)	
Excess (deficiency) of revenues over expenditures			<u>\$ 59,701</u>	

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

STATE OF NEW MEXICO
Southeastern New Mexico Economic Development District, Inc.
Notes to the Financial Statements
June 30, 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

The Southeastern New Mexico Economic Development District, Inc. (the “District”) was established in 1971 and is comprised of local government units within the following New Mexico counties – Chaves, Eddy, Lea, Lincoln and Otero. The objectives of the District are to encourage and permit member government units to join and cooperate with one another and representatives of federal and state agencies, major economic interests and citizen groups for the purpose of improving health, safety, and the general welfare of citizens and to plan for the future economic development of the participating government units. The District services a variety of functions including information dissemination, area wide and local planning, direct technical assistance, intergovernmental coordination and training. Priority considerations are given to economic development, resource planning, and programs that improve community infrastructure (water, sewer, solid waste) and transportation. The District is dependent upon annual dues from participating government units and grants received from federal and state government agencies.

The financial statements have incorporated all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on accounting procedures issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The more significant of the government’s accounting policies are described below. The accounting and reporting framework and the more significant accounting principles and practices of the District are discussed in subsequent sections of Note 1. The remainder of the Notes are organized to provide explanations, including required disclosures, of the District’s financial activities for the fiscal year ended June 30, 2010.

Financial Reporting Entity

The District’s financial statements include the accounts of all District operations. The criteria for including organizations as component units within the District’s reporting entity, as set forth in Section 2100 of GASB’s Codification of Governmental Accounting and Financial Reporting Standards, includes whether: (a) the organization is legally separate (can sue and be sued in their own name), (b) the District holds the corporate powers of the organization, (c) the District appoints a voting majority of the organization’s board, (d) the District is able to impose its will on the organization, (e) the organization has the potential to impose a financial benefit/burden on the District, and (f) there is a fiscal dependency by the organization on the District. Based on the aforementioned criteria, the District has no component units.

Basic Financial Statements – Government-Wide

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the nonfiduciary activities of the primary government. The District is a single-program government that engages only in governmental activities. Both the government-wide and fund financial statements categorize primary activities as governmental activities.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. As applicable, net assets are reported in three parts – invested in capital assets, restricted net assets, and unrestricted net assets.

The government-wide Statement of Activities reports the gross and net cost of the District’s function. The function is supported by general government revenues. The Statement of Activities reduces gross expenses by related program revenues, and operating and capital grants. Program revenues must be directly associated with the function. The District includes only one function. Program revenues are comprised of charges for services which are dues paid by member governments and state and local operating grants. All indirect expenses are charged directly to the District’s one function.

STATE OF NEW MEXICO
Southeastern New Mexico Economic Development District, Inc.
Notes to the Financial Statements
June 30, 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basic Financial Statements – Fund Financial Statements

The Governmental General Fund is the District's main operating fund and it accounts for all financial resources. The General Fund is accounted for by providing self-balancing accounts that comprise its assets, liabilities, fund balances, revenues and expenses.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they both are measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements, a reconciliation is presented on the governmental funds which set forth the adjustments necessary to convert the fund based financial statements into a government-wide presentation. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the District first uses restricted resources then unrestricted resources.

Budgetary Process

Budgets are prepared annually by District personnel and include a proposed operating budget of estimated revenues, expenditures, and transfers for the ensuing fiscal year. The budget and subsequent revisions are presented to the District's board of directors for approval. The budget amounts shown in the combined financial statements is the operating budget as adopted, amended and approved by the board of directors.

Budgetary Control – The District's annual budget is a management tool and control device that assists its users in analyzing financial activity for its fiscal year ending June 30, 2009. Budgetary control is at the fund level. Revenues and expenditures are budgeted by funding source. Management of the District is authorized to transfer budgeted amounts between line items and increase total expenditures. All budget revisions are subject to final review and approval by the board of directors. Revisions to the budget were made during the fiscal year which were approved by the board of directors.

Encumbrances – Encumbrances represent commitments related to unperformed contracts for goods or services. The commitments (purchase orders, contracts, and other commitments for the expenditure of funds) are not treated as expenditures until a liability for payment is incurred, but are merely used to facilitate effective budget control and cash planning and management. Encumbrance accounting where a portion of the applicable appropriation is reserved for open purchase orders is not employed by the District.

Budget Basis of Accounting – The budget for the Governmental Fund Type is prepared on the cash basis, which is a basis of accounting not in accordance with generally accepted accounting principles (GAAP). Revenues are budgeted in the year receipt is expected; and expenditures/expenses are budgeted in the year that payment is expected to be made. The reconciliation of governmental fund revenues and expenses to budget basis revenue and expense is presented on page 17.

Cash

For purposes of the Statement of Net Assets, 'cash' includes all demand and savings accounts of the District.

Prepaid Items

Payment made to vendors for services that will benefit periods beyond June 30, 2009, are recorded as prepaid items.

STATE OF NEW MEXICO
Southeastern New Mexico Economic Development District, Inc.
Notes to the Financial Statements
June 30, 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred Revenues

Deferred revenues arise when potential revenue does not meet both the 'measurable' and 'available' criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has legal claim to the resources, the liability for deferred revenue is removed and revenue is recognized. Deferred revenue is comprised of state grant money received for the year ended June 30, 2009.

Capital Assets

Capital assets include automobiles, office furniture and equipment. Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of 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. Depreciation on all assets is provided on the straight-line basis over a life of five years with no salvage value. GASB No. 37 requires the District to report and depreciate infrastructure assets. Infrastructure assets include roads, bridges, underground pipe, traffic signals, etc. The District does not own any infrastructure assets.

Compensated Absences

The District allows full-time employees to accumulate up to 60 days (480 hours) of sick leave. However, accumulated unused sick leave is not paid upon termination from employment or retirement and is only paid upon illness while in the employment of the District. Accordingly, no provision for accumulated unused sick leave has been made in the accompanying financial statements.

Full-time employees can accumulate up to 30 days (240 hours) of vacation leave. Accumulated vacation leave is payable upon separation of employment or retirement. The current portion of this liability is estimated based on historical trends. Accrued compensated absences of the District's governmental fund represents anticipated current expenditures.

Net Assets and Fund Equity

Net assets present the difference between assets and liabilities in the Statement of Net Assets. Net assets invested in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by District legislation or external restrictions by creditors, grantors, laws or regulations of other governments.

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The designated fund balances for governmental funds represent the amount that has been identified for specific purposes.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

STATE OF NEW MEXICO
Southeastern New Mexico Economic Development District, Inc.
Notes to the Financial Statements
June 30, 2010

NOTE 2: DEPOSITS

State statutes authorize the investment of District funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, money market accounts, and United States Government obligations. The District is not aware of any invested funds that did not meet the State investment requirements as of June 30, 2010.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more banks or savings and loan associations within the geographical boundaries of the District. Deposits may be made to the extent that they are insured by an agency of the United States or collateralized as required by statute.

The rate of interest in non-demand interest-bearing accounts shall be set by the State Board of Finance, but in no case shall the rate of interest be less than one hundred percent of the asked price on United States treasury bills of the same maturity on the day of deposit.

Excess of funds may be temporarily invested in securities which are issued by the State or by the United States government, or by their departments or agencies, and which are either direct obligations of the State or the United States or are backed by the full faith and credit of those governments.

According to the Federal Deposit Insurance Corporation (FDIC), public unit deposits are funds owned by the public unit. Time deposits, savings deposits and interest bearing negotiable order of withdrawal (NOW) accounts of a public unit in an institution in the same state will be insured up to \$250,000 in aggregate and separate from the \$250,000 coverage for public unit demand deposits at the same institution. However, on October 14, 2008, the FDIC announced a new Transaction Account Guarantee (TAG) Program, that provides depositors' with unlimited coverage through December 31, 2010, for insured depository institutions (IDIs) currently participating in the TAG program, with the possibility of an additional extension of up to 12 months without additional rulemaking, upon a determination by the FDIC's Board of Directors that continuing economic difficulties warrant further extension. With regards to this Transaction Guarantee Program, noninterest-bearing checking accounts include Demand Deposit Accounts (DDA's) and any other transaction accounts that has unlimited withdrawals and that cannot earn interest. Also included in this program, are low-interest NOW accounts that cannot earn more than 0.5% interest.

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk, other than following state statutes as put forth in the Public Money Act (Section 6-10-1 to 6-10-63 NMSA 1978). At June 30, 2010, \$0 of the District's deposits of \$120,916 was exposed to custodial credit risk. \$0 was uninsured and uncollateralized.

	<u>Bank of the Southwest</u>	<u>Pioneer Bank</u>	<u>Totals</u>
Amount of deposits	\$ 53,758	\$ 67,158	\$ 120,916
FDIC Coverage	<u>(250,000)</u>	<u>(250,000)</u>	<u>(500,000)</u>
Total uninsured public funds	<u>(196,242)</u>	<u>(182,842)</u>	<u>(379,084)</u>
Collateralized by securities held by pledging institutions or by its trust department or agent in other than the County's name	<u>-</u>	<u>-</u>	<u>-</u>
Uninsured and uncollateralized	<u>\$ (196,242)</u>	<u>\$ (182,842)</u>	<u>\$ (379,084)</u>

STATE OF NEW MEXICO
Southeastern New Mexico Economic Development District, Inc.
Notes to the Financial Statements
June 30, 2010

NOTE 2: DEPOSITS (continued)

Interest Rate Risk – Investments. The District does not have a formal policy limiting investment maturities that would help manage its exposure to fair value losses from increasing interest rates.

Reconciliation of Cash and Cash Equivalents

Primary Government

Reconciliation to the Statement of Net Assets:

Cash and cash equivalents per Exhibit A-1	<u>\$ 102,642</u>
Total cash and cash equivalents	102,642
Add: outstanding checks	39,944
Less: deposits in transit	(21,570)
Less: petty cash	<u>(100)</u>
Bank balance of deposits	<u><u>\$ 120,916</u></u>

NOTE 3: CAPITAL ASSETS

A summary of changes in the District’s capital assets and accumulated depreciation is as follows:

	Balance <u>June 30, 2009</u>	Additions	Deletions	Balance <u>June 30, 2010</u>
Capital assets being depreciated:				
Furniture and equipment	\$ 27,262	\$ -	\$ -	\$ 27,262
Automobiles	<u>84,573</u>	<u>22,625</u>	<u>39,248</u>	<u>67,950</u>
Total capital assets being depreciated	<u>111,835</u>	<u>22,625</u>	<u>39,248</u>	<u>95,212</u>
Less accumulated depreciation:				
Furniture and equipment	24,701	1,672	-	26,373
Automobiles	<u>54,337</u>	<u>11,705</u>	<u>39,248</u>	<u>26,794</u>
Total accumulated depreciation	<u>79,038</u>	<u>13,377</u>	<u>39,248</u>	<u>53,167</u>
Total capital assets, net of depreciation	<u><u>\$ 32,797</u></u>	<u><u>\$ 9,248</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 42,045</u></u>

Current year depreciation expense is \$13,377.

STATE OF NEW MEXICO
Southeastern New Mexico Economic Development District, Inc.
Notes to the Financial Statements
June 30, 2010

NOTE 4: LONG-TERM DEBT

In August 2006, the District purchased a vehicle for \$23,356 and financed \$13,306 of the purchase price. Payments of \$310 a month are due through August 2010 and interest on the outstanding note payable is 5.5%. In December 2009, the District purchased a vehicle for \$22,625 and financed it in its entirety. Payments of \$524 a month are due through December 2013 and interest on the outstanding note payable is 5.25%.

A Summary of changes of the Districts notes payable and compensated absences is as follows:

	Balance June 30, 2009	Additions	Deletions	Balance June 30, 2010	Due Within One Year
Notes payable	\$ 4,164	\$ 22,625	\$ 6,159	\$ 20,630	\$ 5,959
Compensated absences	20,776	25,604	18,891	27,489	18,891

Principal maturities on note payable are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total Debt Service
2011	\$ 5,959	\$ 927	\$ 6,886
2012	5,650	636	6,286
2013	5,960	331	6,291
2014	3,061	46	3,107
	<u>\$ 20,630</u>	<u>\$ 1,940</u>	<u>\$ 22,570</u>

NOTE 5: PERA RETIREMENT PLAN

Substantially all of the District's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement, disability benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, NM 87504-2123.

Funding Policy

Plan members are required to contribute 7.42% of their gross salary. The District is required to contribute 16.59% of the gross covered salary. The contribution requirements of plan members and the District are established under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The Court's contributions to PERA for the years ending June 30, 2010, 2009, and 2008 were \$37,016, \$36,501, and \$34,593, respectively, equal to the amount of the required contributions for each year.

Plan Description

NOTE 6: LEASE COMMITMENTS

Effective March 2005, the District entered into a sixty-nine month lease for a postage machine and meter. Monthly rent expense under the lease is \$108 and is payable through December 2010.

STATE OF NEW MEXICO
Southeastern New Mexico Economic Development District, Inc.
Notes to the Financial Statements
June 30, 2010

NOTE 7: RISK MANAGEMENT

The District is exposed to various risks of losses related to torts, thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchases commercial insurance for the risks of loss to which it is exposed. The District was not involved in litigation during the year ended June 30, 2010 and through the date of the audit report.

NOTE 8: CONTINGENCIES

In the normal course of operations the District receives grant funds from federal and state government agencies. These programs are subject to audit by the grantors or their representatives, the purpose of which is to ensure compliance with laws, regulations, and provisions of the grant agreements. Any liability for reimbursement which may arise as a result of these potential audits is not believed to be material.

NOTE 9: ACCOUNTING STANDARDS

In March 2009, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, which is effective for financial statements for periods beginning after June 15, 2010 with earlier implementation encouraged. GASB Statement No. 54 distinguishes fund balance between amounts that are considered nonspendable, such as fund balance associated with inventories, and other amounts that are classified based on the relative strength of the constraints that control the purpose for which specific amounts can be spent. This statement is intended to improve the usefulness of information provided to financial report users about fund balance by providing clearer, more structured fund balance classifications, and by clarifying the definitions of existing governmental fund types. The District is analyzing the effect that this standard will have on the financial statements.

NOTE 10: JOINT POWERS AGREEMENT

The District entered into a joint powers agreement with ENMU-Roswell for the purpose of providing education and training to small business principals and employees in Chaves and Lincoln Counties

Participants	Southeastern New Mexico Economic Development District and ENMU-Roswell
Party Responsible for operations	ENMU-Roswell
Description	To initiate, manage, and staff the Small Business Development Center to be located on the ENMU-Roswell campus.
Beginning and Ending Dates	7/1/09-6/30/10
Total Estimated Cost	\$342,883
Amount Contributed in the Current Year	None
Audit Responsibility	ENMU-Roswell
Fiscal agent	N/A
Agency where the entity reports	N/A

COMPLIANCE SECTION



Accounting & Consulting Group, LLP
Certified Public Accountants

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Hector Balderas
New Mexico State Auditor
The Board of Directors
Southeast New Mexico Economic Development District, Inc.
Roswell, New Mexico

We have audited the financial statements of the governmental activities, the major fund, the budgetary comparison for the general fund of Southeast New Mexico Economic Development District, Inc., as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents and have issued our report thereon dated December 13, 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 Southeast New Mexico Economic Development District, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Southeast New Mexico Economic Development District, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Southeast New Mexico Economic Development District, Inc.'s internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting as findings 2010-1 and 2010-2. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Southeast New Mexico Economic Development District, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

We also noted certain other matters that are required to be reported pursuant to *Government Auditing Standards* paragraphs 5.14 and 5.16, and pursuant to Section 12-6-5, NMSA 1978, which are described in the accompanying schedule of findings and responses as finding 2010-3.

Southeast New Mexico Economic Development District, Inc.'s responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Southeast New Mexico Economic Development District, Inc.'s responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within Southeast New Mexico Economic Development District, Inc., the audit committee, the State Auditor, the New Mexico Department of Finance and Administration, the New Mexico Legislature, and applicable federal grantors, and is not intended to be and should not be used by anyone other than these parties.

Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP
Roswell, New Mexico
December 13, 2010

STATE OF NEW MEXICO
Southeast New Mexico Economic Development District, Inc.
Schedule of Findings and Responses
June 30, 2010

A. CURRENT YEAR FINDINGS

2010-1 – Capital Assets

Condition: The District does not have sufficient internal controls to safeguard its capital assets. The District does not take an annual inventory of its capital assets.

Criteria: The District must have proper internal controls to safeguard assets and provide accountability for the capital assets being depreciated and capital assets not being depreciated in accordance with GASB 34 and NMSA 1978 Section 12-6-10.

Effect: Proper capital asset identification and location tracking by management are essential in the prevention of theft and loss of the District's capital assets. Without this there is the potential of misplaced or lost assets that the District is unaware of.

Cause: Management was not aware of the requirement to take an annual inventory of capital assets.

Auditor's Recommendation: We recommend that the District develop a policy and procedures to help them achieve performing an annual capital asset inventory. The inventory report should include asset identification, location, and historical cost. The District should also calculate depreciation on its depreciation capital assets, and have the depreciation schedule available for audit.

Agency Response: In the future the Southeastern New Mexico Economic Development District will take an annual inventory of its capital assets.

2010-2 – Preparation of Financial Statements

Condition: The financial statements and related disclosures are not being prepared by the District. The District does not have procedures in place to detect and correct material misstatements in the financial statements.

Criteria: According to the American Institute of Certified Public Accountants' Statement on Auditing Standards No. 115, a system of internal control over financial reporting does not stop at the general ledger. It includes controls over financial statement preparation, including footnote disclosures. The fact that the auditor prepares the financial statements may mean they are correct, but it doesn't eliminate the control deficiency.

Effect: The District has a control deficiency since there are not sufficient controls over the preparation of financial statements and related disclosures. The risk of material misstatement of the financial statements is increased by the lack of procedures over the preparation of the District's financial statements.

Cause: The District's personnel do not have the time and have not been trained in the preparation of financial statements and related disclosures.

Auditor's Recommendation: We recommend that the District's management and personnel receive training on preparation of financial statements and related disclosures under Generally Accepted Accounting Standards, or contract with a consultant to assist with the preparation and implement procedures to detect and correct misstatements.

Agency Response: In the future the Southeastern New Mexico Economic Development District will seek the necessary training and be responsible for the preparation of their financial statements and related disclosures.

STATE OF NEW MEXICO
Southeast New Mexico Economic Development District, Inc.
Schedule of Findings and Responses
June 30, 2010

A. CURRENT YEAR FINDINGS (continued)

2010-3 – Disposition of Capital Assets

Condition: During our testwork of capital assets, we noted that the District disposed of property and equipment during the year ended June 30, 2010. The District failed to notify the State Auditor of the planned disposition. The total book value amount of assets disposed was \$19,624.

Criteria: State Audit Rule, NMAC 2.2.2.10 V and Section 13-6-1, NMSA 1978, state that disposal of capital assets requires written notification to the State Auditor's Office, 30 days prior to the disposal..

Effect: Capital assets could be disposed of without proper authorization or by disallowed methods.

Cause: The District was unaware of the requirements set forth in State Audit Rule, NMAC 2.2.2.10 V and Section 13-6-1, NMSA 1978.

Auditor's Recommendation: We recommend that the District put a policy and procedure in place to ensure notification of the State Auditor when disposing of assets.

Agency Response: In the future the Southeastern New Mexico Economic Development District will give written 30 day notice to the State Auditor's prior to the disposition of any of their capital assets.

B. PRIOR YEAR FINDINGS

None.

STATE OF NEW MEXICO
Southeastern New Mexico Economic Development District, Inc.
Other Disclosures
June 30, 2010

A. AUDITOR PREPARED FINANCIAL STATEMENTS

Although it would be preferred and desirable for the District to prepare its own GAAP-basis financial statements, it is felt that the District's personnel do not have the time to prepare them. Therefore, the outside auditor prepared the GAAP-basis financial statements and footnotes for inclusion in the annual audit report.

B. EXIT CONFERENCE

The contents of this report were discussed on December 13, 2010. The following individuals were in attendance.

Southeast New Mexico Economic Development District, Inc.
Hubert Quintana, Executive Director
Beth Pappas, Office/Finance Manager
Phillip Burch, Board President

Accounting & Consulting Group, LLP
Jennifer Nunez, Senior Accountant