

Accounting & Consulting Group, LLP

Certified Public Accountants

State of New Mexico

**Southeastern New Mexico Economic
Development District**

Annual Financial Report

June 30, 2013



STATE OF NEW MEXICO
SOUTHEASTERN NEW MEXICO ECONOMIC
DEVELOPMENT DISTRICT
ANNUAL FINANCIAL REPORT
JUNE 30, 2013

INTRODUCTORY SECTION

STATE OF NEW MEXICO
Southeastern New Mexico Economic Development District
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June 30, 2013

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STATE OF NEW MEXICO
Southeastern New Mexico Economic Development District
Official Roster
June 30, 2013

<u>Name</u>		<u>Title</u>
<u>Board of Directors</u>		
<u>Chaves County</u>		
Connie Andrews		Member, Town of Hagerman
Steve Henderson		Member, City of Roswell
Ysidro Salazar		Member, Town of Lake Arthur
Dave White		Member, Town of Dexter
Phelps Anderson		Private Sector, Chaves County
<u>Eddy County</u>		
Phil Burch		Member, City of Artesia
Pete Estrada		Member, Village of Loving
Nick Salcido		Member, City of Carlsbad
Rudy Sales		Member, Village of Hope
Jim Grantner		Private Sector, Eddy County
<u>Lea County</u>		
Mike Gallagher		Member, Lea County
Kevin Robinson		Member, City of Hobbs
Curtis Schrader		Member, City of Jal
Matt White		Member, City of Eunice
James Williams		Member, City of Lovington
Lisa Hardison		Private Sector, Lea County
<u>Lincoln County</u>		
Dallas Draper		Member, Lincoln County
Dennis Haskell		Member, Village of Capitan
Debi Lee		Member, Village of Ruidoso
Yovanne Lucero		Member, Town of Carrizozo
Sam Seeley		Member, Village of Corona
Rebecca Brooks		Private Sector, Lincoln County
<u>Otero County</u>		
Pamela Heltner		Member, Otero County
Al Hernandez		Member, City of Alamogordo
David Venable		Member, Village of Cloudcroft
Bill Mershon		Private Sector, Otero County
<u>Executive Board of Directors</u>		
Ray Cordova		President
Marilyn Burns		Vice President
Robert Corn		Treasurer
Hubert Quintana		Secretary/Executive Director SENMEDD
Royce Pearson		Board Member
Gary Williams		Board Member

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FINANCIAL SECTION

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Accounting & Consulting Group, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Hector H. Balderas
New Mexico State Auditor
Board of Directors
Southeastern New Mexico Economic Development District
Roswell, New Mexico

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the general fund, and the budgetary comparison for the general fund of the Southeastern New Mexico Economic Development District (the "District") as of and for the year ended June 30, 2013, and the related notes to the financial statements which collectively comprise the District'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 misstatements, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the Southeastern New Mexico Economic Development District, as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the budgetary comparisons of the general fund for the year ended June 30, 2013 in conformity with the budgetary basis more fully described in Note 2, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the *Management's Discussion and Analysis* that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board 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. Our opinion on the basic financial statements is not affected by that missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The additional schedule listed as schedule I in the table of contents is required by 2.2.2 NMAC and is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The additional schedule is the responsibility of management and was derived from and relates 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 additional schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2013 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* in considering the District's internal control over financial reporting and compliance.

Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP
Roswell, New Mexico
December 11, 2013

BASIC FINANCIAL STATEMENTS

STATE OF NEW MEXICO
Southeastern New Mexico Economic Development District
Statement of Net Position
June 30, 2013

Exhibit A-1

	<u>Governmental Activities</u>
Assets	
Current assets	
Cash and cash equivalents	\$ 25,220
Accounts receivable	<u>22,106</u>
Total current assets	<u>47,326</u>
Noncurrent assets	
Capital assets	100,699
Less: accumulated depreciation	<u>(54,381)</u>
Total noncurrent assets	<u>46,318</u>
Total assets	<u><u>\$ 93,644</u></u>
Liabilities	
Current liabilities	
Accounts payable	\$ 9,807
Accrued payroll	3,725
Current portion of accrued compensated absences	21,239
Current portion of notes and leases payable	<u>9,726</u>
Total current liabilities	<u>44,497</u>
Noncurrent liabilities	
Compensated absences	11,575
Notes and loans payable	<u>18,242</u>
Total noncurrent liabilities	<u>29,817</u>
Total liabilities	<u>74,314</u>
Net position	
Net investment in capital assets	28,076
Unrestricted	<u>(8,746)</u>
Total net position	<u>19,330</u>
Total liabilities and net position	<u><u>\$ 93,644</u></u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
Southeastern New Mexico Economic Development District
Statement of Activities
For the Year Ended June 30, 2013

Exhibit A-2

Functions/Programs	Program Revenues			Net (Expense) Revenues and Change in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
Primary government				
Governmental activities				
General government	\$ 697,505	\$ 78,967	\$ 411,941	\$ (206,597)
Total governmental activities	\$ 697,505	\$ 78,967	\$ 411,941	(206,597)
General revenues				
Licenses and fees				161,336
Investment income				53
Miscellaneous				610
Gain (loss) on sale of capital assets				3,142
Total general revenues				165,141
Change in net position				(41,456)
Net position, beginning				63,452
Restatement (Note 15)				(2,666)
Net position, beginning as restated				60,786
Net position, ending				\$ 19,330

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
Southeastern New Mexico Economic Development District
Balance Sheet
General Fund
June 30, 2013

Exhibit B-1
Page 1 of 2

Assets

Cash and cash equivalents	\$ 25,220
Accounts receivable	<u>22,106</u>
Total assets	<u><u>\$ 47,326</u></u>

Liabilities

Accounts payable	\$ 9,807
Payroll liabilities	<u>3,725</u>
Total liabilities	<u>13,532</u>

Fund balance

Spendable	
Unassigned	<u>33,794</u>
Total fund balance	<u>33,794</u>
Total liabilities and fund balance	<u><u>\$ 47,326</u></u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
Southeastern New Mexico Economic Development District
Reconciliation of the Balance Sheet to the Statement of Net Position
June 30, 2013

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

Fund balances- governmental funds	\$ 33,794
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	46,318
Certain liabilities, including notes payable, and current and long-term portions of accrued compensated absences, are not due and payable in the current period, and therefore, are not reported in the funds:	
Accrued compensated absences not due and payable at year end	(32,814)
Notes and capital leases payable	<u>(27,968)</u>
Total net position of governmental activities	<u><u>\$ 19,330</u></u>

STATE OF NEW MEXICO
Southeastern New Mexico Economic Development District
Statement of Revenues, Expenditures, and Change in Fund Balance
General Fund
For the Year Ended June 30, 2013

Revenues

Intergovernmental income	
Federal operating grants	\$ 251,103
State operating grants	160,838
Charges for services	78,967
Licenses and fees	161,336
Investment income	53
Miscellaneous	610
	<u>652,907</u>
Total revenues	<u>652,907</u>

Expenditures

Current	
General government	678,492
Capital outlay	24,735
Debt service	
Principal	16,998
Interest	1,883
	<u>722,108</u>
Total expenditures	<u>722,108</u>
Excess (deficiency) of revenues over expenditures	<u>(69,201)</u>

Other financing sources (uses)

Proceeds from sale of assets	9,000
Loan proceeds	15,735
	<u>24,735</u>
Total other financing sources (uses)	<u>24,735</u>
Net change in fund balance	<u>(44,466)</u>
Fund balance, beginning	80,926
Restatement (Note 15)	(2,666)
Fund balance, beginning as restated	<u>78,260</u>
Fund balance, ending	<u>\$ 33,794</u>

STATE OF NEW MEXICO
Southeastern New Mexico Economic Development District
Reconciliation of the Statement of Revenues, Expenditures, and Change
in Fund Balance of the General Fund to the Statement of Activities
For the Year Ended June 30, 2013

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

Net change in fund balance- total governmental funds	\$	(44,466)
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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:

Capital expenditures		24,735
Depreciation expense		(14,829)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenue in the governmental funds:

Gain on the sale of capital assets		(5,858)
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The issuance of long-term debt (e.g. bonds, notes, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities:

Increase in accrued compensated absences		(2,301)
Proceeds from the issuance of debt		(15,735)
Principal payments on notes and capital leases payable		16,998
		16,998

Change in net position of governmental activities	\$	(41,456)
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STATE OF NEW MEXICO
Southeastern New Mexico Economic Development District
Statement of Revenues, Expenditures, and Change in Fund Balance
Budget (Non-GAAP Budgetary Basis) and Actual
General Fund
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual Amounts	Variance Favorable (Unfavorable) Final to Actual
	Original	Final		
Revenues				
Intergovernmental income				
Federal operating grants	\$ 254,589	\$ 254,589	\$ 251,103	\$ (3,486)
State operating grants	155,743	155,743	160,838	5,095
Charges for services	156,216	156,216	92,955	(63,261)
Licenses and fees	155,673	155,673	161,336	5,663
Investment income	250	250	53	(197)
Miscellaneous	-	-	610	610
Total revenues	722,471	722,471	666,895	(55,576)
Expenditures				
Current				
General government	772,354	772,354	666,469	105,885
Capital outlay	14,000	14,000	24,735	(10,735)
Debt service				
Principal	-	-	16,998	(16,998)
Interest	-	-	1,883	(1,883)
Total expenditures	786,354	786,354	710,085	76,269
Excess (deficiency) of revenues over expenditures	(63,883)	(63,883)	(43,190)	(20,693)
Other financing sources (uses)				
Designated cash (budgeted increase in cash)	63,883	63,883	-	63,883
Proceeds from sale of assets	-	-	9,000	(9,000)
Loan proceeds	-	-	15,735	15,735
Total other financing sources (uses)	63,883	63,883	24,735	70,618
Net change in fund balance	-	-	(18,455)	(18,455)
Fund balance, beginning	-	-	46,341	46,341
Restatement (Note 15)	-	-	(2,666)	(2,666)
Fund balance, beginning as restated	-	-	43,675	43,675
Fund balance, ending	\$ -	\$ -	\$ 25,220	\$ 25,220
Net change in fund balance (non-GAAP budgetary basis)				\$ (18,455)
Adjustments to revenue for accounts receivable				(13,988)
Adjustments to expenses for accounts payable and accrued payroll				(12,023)
Net change in fund balance (GAAP)				\$ (44,466)

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
Southeastern New Mexico Economic Development District
Notes to Financial Statements
June 30, 2013

NOTE 1. Summary of Significant Accounting Policies

The Southeastern New Mexico Economic Development District (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.

This summary of significant accounting policies of the District is presented to assist in the understanding of District’s financial statements. The financial statements and notes are the representation of District’s management who is responsible for their integrity and objectivity. The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units.

During the year ended June 30, 2013, the District adopted Governmental Accounting Standards Board (GASB) Statements No. 60 through 64. GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, addresses issues related to service concession arrangements. GASB Statement No. 61, *The Financial Reporting Entity: Omnibus- an amendment of GASB Statements No. 14 and No. 34*, modifies certain requirements for inclusion of component units in the financial reporting entity. The District does not have any Service Concession Arrangements or component units. GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, incorporates into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in FASB and AICPA Pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions- an Amendment of GASB Statement No. 53*, clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty’s credit support provider. The District does not utilize hedge accounting.

A. Financial Reporting Entity

The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable and (c) other organizations 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.

In evaluating how to define the District for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in GASB Statement No. 14, as amended by GASB Statement No. 39 and GASB Statement No. 61. Blended component units, although legally separate entities, are in substance part of the government’s operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body’s ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters.

STATE OF NEW MEXICO
Southeastern New Mexico Economic Development District
Notes to Financial Statements
June 30, 2013

NOTE 1. Summary of Significant Accounting Policies (continued)

A. Financial Reporting Entity(continued)

A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens.

A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Finally, the nature and significance of a potential component unit to the primary government could warrant its inclusion within the reporting entity.

Based upon the application of these criteria, the District does not have any component units required to be reported under GASB Statements No. 14, No. 39, or No. 61.

B. Government-wide 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 nonfiduciary activities of the primary government. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The Statement of 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*.

In the government-wide Statement of Net Position, the governmental column (a) is presented on a consolidated basis by column, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net position is reported in three parts- net investment in capital assets; restricted net assets; and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *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 segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, and major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

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 revenue as soon as all eligibility requirements imposed by the provider have been met.

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 are both 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

STATE OF NEW MEXICO
Southeastern New Mexico Economic Development District
Notes to Financial Statements
June 30, 2013

NOTE 1. Summary of Significant Accounting Policies (continued)

C. Measurement focus, basis of accounting, and financial statement presentation (continued)

be available if they are collected within 60 days of the end 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.

Licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period, subject to the availability criterion. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met, subject to the availability criterion. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Program revenues included in the Statement of Activities are derived directly from the program itself or from parties outside the District's taxpayer or citizenry, as a whole; program revenues reduce the cost of the function to be financed from the District's general revenues. Program revenues are categorized as (a) charges for services, which include revenues collected for fees and use of District's facilities, etc., (b) program-specific operating grants, which includes revenues received from state and federal sources to be used as specified within each program grant agreement, and (c) program-specific capital grants and contributions, which include revenues from state sources to be used for capital projects. Internally dedicated resources are reported as *general revenues* rather than as program revenues.

The District reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. The District does not currently employ indirect cost allocation systems. Depreciation expense is specifically identified by function and is included in the direct expense of each function. Interest on general long-term debt is considered an indirect expense and is reported separately on the Statement of Activities.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Under the requirements of GASB Statement No. 34, the District is required to present certain of its governmental funds as major based upon certain criteria. The major fund presented in the fund financial statements includes the following:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government.

D. Assets, Liabilities, and Net Position or Equity

Deposits and Investments: The District'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.

State statutes authorize the District to invest in Certificates of Deposit, obligations of the U.S. Government, and the State Treasurer's Investment Pool.

Receivables and Payables: Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses.

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

STATE OF NEW MEXICO
Southeastern New Mexico Economic Development District
Notes to Financial Statements
June 30, 2013

NOTE 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, and Net Position or Equity (continued)

Prepaid Expenses: Prepaid expenses include insurance and contract payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Restricted Assets: Restricted assets consist of those funds expendable for operating purposes but restricted by donors or other outside agencies as to the specific purpose for which they may be used.

Capital Assets: Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Pursuant to the implementation of GASB Statement No. 34, the historical cost of infrastructure assets, (retroactive to 1979) are included as part of the governmental capital assets reported in the government wide statements. Information Technology Equipment including software is being capitalized and included in furniture, fixtures, and equipment in accordance with NMAC 2.20.1.9 C (5). 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. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense capitalized by the District during the current fiscal year was \$0. No interest was included as part of the cost of capital assets under construction.

Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Furniture and Equipment	5-7
Vehicles	5

Accrued Expenses: Accrued expenses are comprised of the payroll expenditures based on amounts earned by the employees through June 30, 2013, along with applicable PERA, FICA, and Medicare payable.

Deferred Revenues: There are two types of deferred revenue. Under both the accrual and modified accrual basis of accounting, revenue may be recognized only when it is earned. If assets are recognized in connection with a transaction before the earnings process is complete, those assets must be offset by a corresponding liability for deferred revenue (commonly referred to as unearned revenue). The other type of deferred revenue is “unavailable revenue.” Under the modified accrual basis of accounting, it is not enough that revenue has been earned if it is to be recognized as revenue of the current period. It must also be susceptible to accrual (measurable and available to finance expenditures of the current fiscal period). If assets are recognized in connection with a transaction, but those assets are not yet available to finance expenditures of the current fiscal period, then the assets must be offset by a corresponding liability for deferred revenue.

Compensated Absences: The District’s policies regarding vacation time permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. The current portion on this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources.

STATE OF NEW MEXICO
Southeastern New Mexico Economic Development District
Notes to Financial Statements
June 30, 2013

NOTE 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, and Net Position or Equity (continued)

Qualified employees are entitled to accumulate annual leave according to a graduated leave schedule depending on length of service. No more than thirty (30) working days, or two hundred forty (240) hours of annual leave, may be carried forward from one calendar year to the next. All excess annual leave shall be forfeited, if not used, unless extenuating circumstances warrant approval of an extension by the District Board.

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. In prior years, substantially all of the related expenditures have been liquidated by the general fund. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the government-wide statement of net assets.

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. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. For fund financial reporting, bond premiums and discounts are recognized in the period the bonds are issued. Bond proceeds are reported as another financing source net of the applicable premium or discount. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. With the adoption of GASB Statement No. 65, debt issuance costs are no longer amortized over the life of the related. Debt issuance costs not related to prepaid insurance are recognized as an expense in the period incurred.

Net Position or Fund Equity:

Fund Balance Classification Policies and Procedures: For restricted fund balances, the District includes amounts that can be spent only for the specific purposes stipulated by Statute, Ordinance, Resolutions, or enabling Legislation. Fund balances in this category represent the remaining amount that is restricted for future use in the specific fund.

For committed fund balances, the District includes amounts for specific purposes by formal action of the District Board.

For assigned fund balances, the District includes amounts that are intended to be spent for specific purposes, but are not restricted or committed.

Regarding the District's spending policies, in all cases, restricted, then committed, and then assigned fund balances are to be expended in that order, prior to infusion and expenditures of any general (unassigned) funds designated for supplementing any given department. In this manner, only after restricted, committed, or assigned funds are expended will the District Board permit general unassigned funds be spent to meet a specific fund's objectives.

Restricted Fund Balance: At June 30, 2013, the restricted fund balance on the governmental funds balance sheet is made up of \$0.

Equity is classified as net position and displayed in three components:

- a. *Net investment in capital assets:*
This component consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any related debt attributable to the acquisition, construction, or improvement of those assets.

STATE OF NEW MEXICO
Southeastern New Mexico Economic Development District
Notes to the Financial Statements
June 30, 2013

NOTE 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, and Net Position or Equity (continued)

- b. *Restricted net position:*
Consist of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulation of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. *Unrestricted net position:*
All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

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. Significant estimates in the District’s financial statements include depreciation on capital assets and the current portion of compensated absences.

NOTE 2. Stewardship, Compliance, and Accountability

Budgetary Information

Budgets are prepared annually by District personnel and include a proposed operating budget of estimated revenues and expenditures 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. Line items within each budget may be over-expended; however, it is not legally permissible to over-expend any budget in total by fund.

These budgets are prepared on a non-GAAP basis, excluding encumbrances, and secure appropriation of funds for only one year. Carryover funds must be re-appropriated in the budget of the subsequent fiscal year.

The budgetary information presented in these financial statements has been properly amended by District Board in accordance with the above procedures. These amendments resulted in the following changes:

	Excess (deficiency) of revenues over expenditures	
	Original Budget	Final Budget
Budgeted Funds		
Governmental Funds		
General Fund	\$ 235,311	\$ 235,311

The accompanying Statement of Revenues, Expenditures, and Change in Fund Balance- Budget (Non-GAAP Budgetary Basis) and Actual presents 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 accounting principles generally accepted in the United States of America (GAAP), a reconciliation of resultant basis, perspective,

STATE OF NEW MEXICO
Southeastern New Mexico Economic Development District
Notes to the Financial Statements
June 30, 2013

NOTE 2. Stewardship, Compliance, and Accountability (continued)

equity, and timing differences in the excess (deficiency) of revenues and other sources of financial resources for the year ended June 30, 2013 is presented. Reconciliations between the non-GAAP budgetary basis amounts and the financial statements on the GAAP basis by fund can be found on the budgetary statement.

NOTE 3. Deposits and Investments

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, 2013.

Deposits of funds may be made in interest or noninterest 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 financial institution must provide pledged collateral of 50% of the deposit amount in excess of the deposit insurance.

The rate of interest in nondemand 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.

By operation of federal law, beginning January 1, 2013, funds deposited in a noninterest-bearing transaction account (including an interest on lawyer trust accounts) no longer will receive unlimited deposit insurance coverage by the FDIC. Beginning January 1, 2013, all of the District's accounts at an insured depository institution, including all noninterest-bearing transaction accounts, will be insured by the FDIC up to the standard maximum deposit insurance amount of \$250,000.

Custodial Credit Risk- Deposits 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 deposit policy for custodial credit risk, other than following state statutes as set forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978). At June 30, 2013, \$0 of the District's deposits of \$45,969 was exposed to custodial credit risk. \$0 was uninsured and collateralized by collateral held by the pledging bank's trust department, not in the District's name and \$0 was uninsured and uncollateralized.

STATE OF NEW MEXICO
Southeastern New Mexico Economic Development District
Notes to the Financial Statements
June 30, 2013

NOTE 3. Deposits and Investments (continued)

	<u>Pioneer Bank</u>	<u>Bank of the Southwest</u>	<u>Total</u>
Amount of deposits	\$ 26,126	\$ 19,843	\$ 45,969
FDIC Coverage	<u>(26,126)</u>	<u>(19,843)</u>	<u>(45,969)</u>
Total uninsured public funds	<u>-</u>	<u>-</u>	<u>-</u>
Collateralized by securities held by pledging institutions or by its trust department or agent in other than the District's name	<u>-</u>	<u>-</u>	<u>-</u>
Uninsured and uncollateralized	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Collateral requirement (50% of uninsured funds)	\$ -	\$ -	\$ -
Pledged Collateral	<u>-</u>	<u>-</u>	<u>-</u>
Over (Under) collateralized	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by any agency, district, or political subdivision of the State of New Mexico. The District was not required to have collateral pledged for the year ended June 30, 2013.

NOTE 4. Receivables

Receivables as of June 30, 2013, are as follows:

	<u>General</u>	<u>Total</u>
Intergovernmental State	<u>\$ 22,106</u>	<u>\$ 22,106</u>
Totals by category	<u>\$ 22,106</u>	<u>\$ 22,106</u>

Receivables for governmental activities are considered to be 100% collectible.

STATE OF NEW MEXICO
Southeastern New Mexico Economic Development District
Notes to the Financial Statements
June 30, 2013

NOTE 5. Capital Assets

A summary of capital assets and changes occurring during the year ended June 30, 2013, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land is not subject to depreciation.

	Balance June 30, 2012	Adjustment	Beginning Balance Adjusted June 30, 2012	Additions	Deletions	Balance June 30, 2013
Capital assets being depreciated						
Furniture and equipment	\$ 34,286	\$ 3,258	\$ 31,028	\$ -	\$ -	\$ 31,028
Vehicles	113,617	46,712	66,905	24,735	21,969	69,671
Total capital assets being depreciated	147,903	49,970	97,933	24,735	21,969	100,699
Less accumulated depreciation						
Furniture and equipment	29,610	3,258	26,352	1,079	-	27,431
Vehicles	76,023	46,712	29,311	13,750	16,111	26,950
Total accumulated depreciation	105,633	49,970	55,663	14,829	16,111	54,381
Total capital assets, net of depreciation	\$ 42,270	\$ -	\$ 42,270	\$ 9,906	\$ 5,858	\$ 46,318

Depreciation expense in its entirety of \$14,829 was charged to the General Government function.

NOTE 6. Long-term Debt

Governmental Activities: During the year ended June 30, 2013, the following changes occurred in the liabilities reported in the government-wide statement of net assets:

	Balance, June 30, 2012	Additions	Retirements	Balance, June 30, 2013	Due Within One Year
Notes Payable	\$ 24,562	\$ 15,735	\$ 15,806	\$ 24,491	\$ 8,366
Leases Payable	4,669	-	1,192	3,477	1,360
Compensated Absences	30,513	23,540	21,239	32,814	21,239
Total Long-Term Debt	\$ 59,744	\$ 39,275	\$ 38,237	\$ 60,782	\$ 30,965

Typically, the general fund has been used to liquidate the compensated absences.

Loans:

On December 21, 2009, the District received a loan from the Bank of the Southwest in the amount of \$22,625 for the purchase of a 2010 Ford Escape. The loan is financed over a period of four years at a 5.25% interest rate.

STATE OF NEW MEXICO
Southeastern New Mexico Economic Development District
Notes to the Financial Statements
June 30, 2013

NOTE 6. Long-term Debt (continued)

On October 19, 2011, the District received a loan from the Bank of the Southwest in the amount of \$18,311 for the purchase of a 2011 Dodge Nitro. The loan is financed over a period of four years at a 5.50% interest rate.

On October 26, 2012, the District received a loan from the Bank of the Southwest in the amount of \$15,735 for the purchase of a 2013 Chevy Equinox. The loan is financed over a period of four years at a 5.25% interest rate.

Debt service requirements on long-term debt for governmental activities at June 30, 2013 are as follows:

Notes Payable

Fiscal Year Ending June 30,	Principal	Interest	Total Debt Service
2014	\$ 8,366	\$ 1,102	\$ 9,468
2015	8,823	645	9,468
2016	5,860	217	6,077
2017	1,442	16	1,458
	<u>\$ 24,491</u>	<u>\$ 1,980</u>	<u>\$ 26,471</u>

Leases Payable

Fiscal Year Ending June 30,	Principal	Interest	Total Debt Service
2014	\$ 1,360	\$ 380	\$ 1,740
2015	1,552	188	1,740
2016	565	16	581
	<u>\$ 3,477</u>	<u>\$ 584</u>	<u>\$ 4,061</u>

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.

NOTE 8. Other Required Individual Fund Disclosures

Generally accepted accounting principles require disclosures of certain information concerning individual funds including:

- A. Deficit fund balance of individual funds. The District had no deficit fund balances as of June 30, 2013.
- B. Actual expenditures in excess of amount budgeted at the budgetary authority level. Budgetary level is fund level. The District had no actual expenditures in excess of approved budgetary authority for the year ended June 30, 2013.

STATE OF NEW MEXICO
Southeastern New Mexico Economic Development District
Notes to the Financial Statements
June 30, 2013

NOTE 8. Other Required Individual Fund Disclosures (continued)

C. Designated cash appropriations in excess of available balances. The District had no cash appropriations in excess of available balances for the year ended June 30, 2013.

NOTE 9. Public Employees Retirement Association (PERA) Pension Plan

Plan Description. 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.) PERA is the administrator of the plan, which is a cost-sharing, multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits, and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, New Mexico 87504-2123. The report is also available on PERA's website at <http://www.pera.state.nm.us>.

Funding Policy. Plan members are required to contribute 13.15% of their gross salary. The District is required to contribute 9.15% of the gross covered salary. The contribution requirements of plan members and the District are established in State Statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The District's contributions to PERA for the fiscal years ended June 30, 2013, 2012, and 2011 were \$37,334, \$39,189, and \$37,515, respectively, which equal the amount of the required contributions for each fiscal year.

NOTE 10. Post-Employment Benefits– State Retiree Health Care Plan

The District did not participate in the Retiree Health Care Plan provided under the Retiree Health Care Act (10-7c-1 to 10-7c-17, NMSA 1978) during the year ended June 30, 2013.

NOTE 11. Contingent Liabilities

There is no pending litigation that would warrant disclosure in the notes to the financial statements.

NOTE 12. Federal and State Grants

In the normal course of operations, the District receives grant funds from various federal and state agencies. Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as a result of these audits is not believed to be material.

NOTE 13. Concentrations

The District depends on financial resources flowing from, or associated with, both the Federal Government and the State of New Mexico. Because of this dependency, the District is subject to changes in specific flows of intergovernmental revenues based on amendments to Federal and State laws and Federal and State appropriations.

STATE OF NEW MEXICO
Southeastern New Mexico Economic Development District
Notes to the Financial Statements
June 30, 2013

NOTE 14. Joint Powers Agreement

The District entered into a joint powers agreement with Eastern New Mexico University (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
Responsible Party	Both
Description	To initiate, manage, and staff the Small Business Development Center to be located on the ENMU-Roswell campus.
Beginning and Ending Dates	7/1/12-6/30/13 with annual renewals permitted
Estimated Amount of Project	\$208,000
Amount Contributed in Fiscal Year	None
Audit Responsibility	Southeastern New Mexico Economic Development District
Fiscal agent	N/A
Agency where the entity reports	Southeastern New Mexico Economic Development District

NOTE 15. Restatements

The District has restated budgetary, and as a result, modified accrual fund balances, and government wide net assets. The restatements were a due to incorrectly recorded accrued expenses at the budgetary level in the prior year as follows:

<u>Fund Name</u>	<u>Budgetary Fund Balance June 30, 2012</u>	<u>Prior Year Accrued Expenses</u>	<u>Restated Budgetary Fund Balance June 30, 2013</u>
Governmental Funds			
General	\$ 46,341	\$ (2,666)	\$ 43,675

NOTE 16. Subsequent Pronouncements

In March 2012 the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities*, effective for periods beginning after December 15, 2012. The objective of this Statement is to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The District is analyzing the effects that this pronouncement will have on their financial statements.

STATE OF NEW MEXICO
Southeastern New Mexico Economic Development District
Notes to the Financial Statements
June 30, 2013

NOTE 16. Subsequent Pronouncements (continued)

In March 2012 the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 66 *Technical Corrections-2012- an amendment of GASB Statements No. 10 and No. 62*, effective for periods beginning after December 15, 2012. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Report and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The District is analyzing the effects that this pronouncement will have on their financial statements.

In June 2012 the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 67 *Financial Reporting for Pension Plans- an amendment of GASB Statement No. 25*, effective for periods beginning after June 15, 2013. The objective of this Statement is to improve financial reporting by state and local government pension plans. The District is analyzing the effects that this pronouncement will have on their financial statements.

In June 2012 the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 68 *Accounting and Financial Reporting for Pensions- an amendment of GASB Statement No. 27*, effective for periods beginning after June 15, 2014. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The District is analyzing the effects that this pronouncement will have on their financial statements.

In January 2013 the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 69 *Government Combinations and Disposals of Government Operations*, effective for periods beginning after December 15, 2013. The objective of this Statement is to establish accounting and financial reporting standards related to government combinations and disposals of government operations. The District is analyzing the effects that this pronouncement will have on their financial statements.

In April 2013 the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 70 *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, effective for periods beginning after June 15, 2013. The objective of this Statement is to improve accounting and financial reporting by state and local governmentals that extend and receive nonexchange financial guarantees. The District is analyzing the effects that this pronouncement will have on their financial statements.

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SUPPORTING SCHEDULE

STATE OF NEW MEXICO
Southeastern New Mexico Economic Development District
Schedule of Deposit and Investment Accounts
June 30, 2013

Schedule I

Account Name	Account Type	Pioneer Bank	Bank of the Southwest	Total
Deposits				
Federal and state account	Checking	\$ 24,963	\$ -	\$ 24,963
Local account	Checking	1,163	-	1,163
Money market	Money market	-	14,525	14,525
Auto Fund	Savings	-	5,318	5,318
Total amount of deposit in bank		<u>26,126</u>	<u>19,843</u>	<u>45,969</u>
Less: FDIC coverage		<u>(26,126)</u>	<u>(19,843)</u>	<u>(45,969)</u>
Total uninsured public funds		<u>-</u>	<u>-</u>	<u>-</u>
50% collateral requirements		-	-	-
Pledged securities		<u>-</u>	<u>-</u>	<u>-</u>
Over/(Under) Collateralized		<u>-</u>	<u>-</u>	<u>-</u>
Bank balance		26,126	19,843	45,969
Outstanding items		(20,855)	-	(20,855)
Deposits in transit		<u>-</u>	<u>6</u>	<u>6</u>
Book balance		<u><u>\$ 5,271</u></u>	<u><u>\$ 19,849</u></u>	25,120
Petty cash				<u>100</u>
Total deposits and investments				<u><u>\$ 25,220</u></u>
Total unrestricted cash and cash equivalents per Exhibit A-1				<u><u>\$ 25,220</u></u>

See independent auditors' report

COMPLIANCE SECTION

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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 H. Balderas
New Mexico State Auditor
Board of Directors
Southeastern New Mexico Economic Development District
Roswell, New Mexico

We have audited, 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, the financial statements of the governmental activities, the general fund, and the budgetary comparison for the general fund of the Southeastern New Mexico Economic Development District (the “District”) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements, and have issued our report thereon dated December 11, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District’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 District’s internal control. Accordingly, we do not express an opinion on the effectiveness of the District’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 over financial reporting that we consider to be material weaknesses and 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items FS 2013-03 and FS 2013-04 to be material weaknesses.

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 FS 2011-01, FS 2013-01, and FS 2013-02 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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*.

The District's Response to Findings

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The District'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 result of that testing, and not to provide an opinion on the effectiveness of the entity'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP
Roswell, New Mexico
December 11, 2013

STATE OF NEW MEXICO
Southeast New Mexico Economic Development District
Schedule of Findings and Responses
June 30, 2013

Section I- Summary of Audit Results

Financial Statements:

- | | |
|--|------------|
| 1. Type of auditors' report issued | Unmodified |
| 2. Internal control over financial reporting: | |
| a. Material weaknesses identified? | Yes |
| b. Significant deficiencies identified not considered to be material weaknesses? | Yes |
| c. Noncompliance material to the financial statements noted? | No |

Section II- Prior Year Audit Findings

- FS 2010-02 Preparation of Financial Statements- Resolved
- FS 2011-01 Segregation of Duties Over Bank Reconciliations- Revised and Repeated
- FS 2011-04 Manual Journal Entries- Resolved

Section III- Financial Statement Findings and Responses

FS 2011-01 Segregation of Duties Over Bank Reconciliations (Significant Deficiency)

Condition: There is a lack of segregation of duties concerning an independent individual preparing and reviewing the bank reconciliations from the individual who receives and reviews the bank statements.

Criteria: Systems of internal control with the most favorable designs allow for an adequate segregation of duties to reduce the risk of error or fraud because they are structured using a combination of controls designed to either detect instances of error or fraud that occur, or optimally, to prevent instances of error or fraud before they occur. (AU 325) Section 6-5-2, NMSA 1978, requires that state agencies shall implement internal control accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters.

Effect: Absent an adequate segregation of duties, an entity's financial statements are exposed to additional risks of misstatement due to error or fraud.

Cause: The District does not have enough employees at all times to ensure that the individual who opens the mail is separate from the one who prepares the bank reconciliation.

Auditor's Recommendations: Proper segregation is not always possible in a small organization. However, we recommend that the one who receives the bank statements to open them and review them before handing them to the individual who prepares the bank reconciliation. We further recommend that bank statements are held from being opened if only the bank reconciliation preparer is in the office until such a time as another employee can open and review the bank statements.

Views of Responsible Officials and Planned Corrective Actions: The District is and have been segregating duties. On two separate occasions due to illness or vacation, the District lost that segregation of duties. The District has now begun to take bank statements to other employees not primarily responsible for the mail or opening and reviewing bank statements. The District has them open and initial to identify that the same person is not opening and reviewing banking materials.

Section III- Financial Statement Findings and Responses (continued)

FS 2013-01 Computer Controls (Significant Deficiency)

Condition: During information technology inquiries, we noted that:

- Passwords are not required to be changed.
- There are inefficient controls over backups. Deficiencies were noted in the following areas:
 - Backups are not kept offsite. They are maintained on an external hard drive at the District.
 - QuickBooks backups are not tested periodically to ensure working order.

Criteria: State of New Mexico Statewide Guideline S-GUIDE-002.003 (per NMSA 1978 Section 15-1C-1 et. Seq. and NMAC 1.12.6 and NMAC 1.12.2) establishes an Enterprise Security Policy for the protection of information technology (IT) assets and resources including data and information. The policy establishes that protection must be provided for IT assets, resources, and data/information from unauthorized access, use, disclosure, disruption, modification, or destruction in order to provide integrity, confidentiality, availability, accountability, and assurance, and establishes that controls must be maintained over information systems, resources, and data/information sufficient to contain risk of loss or misuse of information.

Effect: Lack of policies, access restriction, monitoring, physical security, proper backup procedures, and contingency plans leave the District at risk for loss or misuse of computer hardware, data and information.

Cause: The District does not have a documented policy regarding password changes, and it is not following its IT policy to maintain backups offsite. IT assets and resources are not being properly safeguarded.

Auditors' Recommendations: The District should maintain all backups offsite as well as test them periodically to ensure that they work. In addition, a policy should be implemented that documents the requirement to change passwords on a periodic basis. Every 90 days is the industry standard.

Views of Responsible Officials and Planned Corrective Actions: The District will test backups quarterly to coincide with the time frame associated with the filing of quarterly payroll taxes. The District will begin to back up financial files daily, and the financial manager will remove them from the office nightly for safe keeping. The District will develop a policy to require passwords to be changed quarterly.

Section III- Financial Statement Findings and Responses (continued)

FS 2013-02 Lack of Internal Controls Over Voided Checks (Significant Deficiency)

Condition: During our testwork over cash, we noted several internal control issues including:

- In four checks out of 11 tested, the check number was not accounted for in the accounting system.
- One of the four checks cleared the bank in the amount of \$60.
- One check had a duplicate check number in the system that was not voided. The check number did clear the bank in the amount of \$123.

Criteria: *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management's responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

The SAS No. 115 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, "inadequate documentation of the components of internal control." SAS 115 paragraph 15 states that ineffective oversight of the agency's financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

Good internal control policy dictates that the District shall establish and maintain a cash management program to safeguard voided checks. Systems of internal control with the most favorable designs include procedures designed to prevent or detect errors due to misclassification of transactions in the accounting records. (AU 325.21 appdx.) Section 12-6-5, NMSA 1978 requires the audit report to set out in detail any violation of good accounting practices found by the audit.

Effect: This results in an increased risk of theft of voided checks and potential for misappropriation of District funds.

Cause: Management did not have a policy in place to ensure that all voided checks were accounted for in the accounting system and that no duplicate check number exists.

Auditors' Recommendations: We recommend that the District review transactions carefully to ensure that all check numbers are accounted for and each check number appears only once in the accounting system. There should be no gaps in check numbers when check registers are run.

Views of Responsible Officials and Planned Corrective Actions: Checks were originally done by hand because the QuickBooks system was down. Then, the checks were later entered into the system where some of the checks were inadvertently entered twice under the same check number. In the case of duplicate entries, one check was voided and the other was paid.

The District will be more cautious when manual checks are submitted and will follow the auditors' recommendation.

Section III- Financial Statement Findings and Responses (continued)

FS 2013-03 Inaccurate Accounts Receivables Listing (Material Weakness)

Condition: The District did not provide an accurate accounts receivable listing. During the subsequent receipt testwork, it was noted that material journal entries in the amount of \$22,106 were necessary for accounts receivable to appear to be fairly stated at year end.

Criteria: *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management's responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

The SAS No. 115 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness: "inadequate documentation of the components of internal control." SAS 115 paragraph 15 states that ineffective oversight of the agency's financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

Effect: Because the District did not provide an accurate listing, it creates the possibility that accounts receivable could be materially misstated for the current year end.

Cause: The District was unaware that the CDBG grant money that they were waiting for was a receivable. Because the money had already been earned but was yet to be received, it should have been included on a list of receivables prepared by the District.

Auditors' Recommendations: We recommend that the District maintain a clear listing of services performed for members and the monies that are still to be received from those members for each fiscal year to ensure that the receivables listing is accurate at the end of each fiscal year.

Views of Responsible Officials and Planed Corrective Actions: Several of the District's members received CDBG and Colonias (CIF) monies for community development projects. The District had to undertake work to keep the communities from having either a portion of their funding reverted or miss the opportunity to seek funding in the ensuing community eligible grant cycle. In the case of the CDBG, it took six to eight months for the state to get grant agreements out to the communities. In the case of the CIF, it took 14 and a half months to get the agreements out. The District had work to do on the projects and proceeded to do the work. The District knew the funding would eventually come and it did, but the District did not get the funding before the end of the fiscal year as anticipated.

The District will follow the auditors' recommendation in order to resolve this matter.

Section III- Financial Statement Findings and Responses (continued)

FS 2013-04 Capital Asset Certification (Material Weakness)

Condition: It was noted in the testwork over capital assets that the client did not conduct an annual capital asset inventory that was recorded in a written report, certified as to correctness and signed by the District Board.

Criteria: The New Mexico Administrative Code (NMAC) 2.20.1.16A & E states that “At the end of the fiscal year, each agency shall conduct a physical inventory of its fixed assets and the results of the physical inventory shall be recorded in a written inventory report, certified as to correctness and signed by the governing body of the agency”.

Effect: Because the District is not conducting a physical inventory annually, the District may have assets they are unaware of or may have assets that have been lost or stolen that they did not know about.

Cause: The District did not perform an annual inventory count.

Auditors’ Recommendations: The District should ensure that they perform an annual physical inventory over capital assets and have the District Board certify the inventory as to correctness.

Views of Responsible Officials and Planned Corrective Actions: The equipment/inventory the District owns with a value of over \$5,000 are the three automobiles. None of the computers, laptops, furnishings, filing cabinets, or other materials come close to that amount. The Canon Copier has a value over \$5,000, but the District only leases that machine.

Several years ago, the District had a fairly detailed inventory list and found themselves in need to dispose of many nonfunctioning computers, monitors, printers, broken cabinets, and furniture. The District asked permission from OSA to dispose of the property and were not only advised that they could get rid of the excess and useless property, but that there was no need to list minor items in the District’s inventory.

The District will follow the auditors’ recommendation to resolve this matter.

STATE OF NEW MEXICO
Southeastern New Mexico Economic Development District
Other Disclosures
June 30, 2013

Exit Conference

The contents of this report were discussed on December 11, 2013. The following individuals were in attendance:

Representing the Southeastern New Mexico Economic Development District

Steve Henderson	Board Member
Hubert Quintana	Executive Director
Pansy Moffitt	Finance Director

Representing Accounting & Consulting Group, LLP

Jessica Huff, CPA	In-charge Staff Accountant
Shelley Olson, CPA	Manager

Auditor Prepared Financial Statements

Although it would be preferred and desirable for the District to prepare its own financial statements, the District's personnel did not have the time nor the knowledge to prepare them. Accounting & Consulting Group, LLP prepared the financial statements of the Southeastern New Mexico Economic Development District from the original books and records provided to them by the management of the District. Management is responsible for the financial statements.