

STATE OF NEW MEXICO
**EASTERN NEW MEXICO NATURAL
GAS ASSOCIATION**
(A Non-profit Corporation)
FORT SUMNER, NEW MEXICO

**ANNUAL FINANCIAL
REPORT**
June 30, 2013

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EASTERN NEW MEXICO NATURAL GAS ASSOCIATION
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STATE OF NEW MEXICO
EASTERN NEW MEXICO NATURAL GAS ASSOCIATION

Roster
June 30, 2013

BOARD OF DIRECTORS

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

ADMINISTRATION

George Sena	Association Manager
Pae Vison	Bookkeeper



R. Kelly McFarland

**Certified Public Accountant
A Professional Corporation**



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Voice (575) 461-1195 • Fax (575) 461-1198 • Web: www.mcfarlandcpa.com

Independent Auditor's Report

Mr. Hector Balderas
State Auditor of the State of New Mexico
Board Members of the Eastern New Mexico Natural Gas Association
Fort Sumner, New Mexico

Report on Financial Statements

I have audited the accompanying financial statements and the related notes to the financial statements of the business-type activities of the Eastern New Mexico Natural Gas Association, a non-profit corporation (ENMNGA), as of and for the year ended June 30, 2013, as listed in the table of contents. I have also audited the budget comparison presented as supplementary information, as defined by the Government Accounting Standard Board, in the financial statements as of and for the year ended June 30, 2013, 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my 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 I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis for Qualified Opinion

Because statutes governing the organizational structure of Eastern New Mexico Natural Gas Association are unclear, as more fully discussed in Note M to the financial statements, management is unable to determine the amount of possible liabilities, if any, for the state-wide PERA retirement program, federal and state income taxes and penalties for failure to file income tax returns, in the accompanying financial statements. As the ultimate resolution of this matter is uncertain at this time, management is unable to estimate a range of possible loss. Because of this uncertainty, I am unable to form an opinion regarding possible liabilities, if any, in the accompanying financial statements.

Qualified Opinion

In my opinion, except for the possible effects of the matter discussed in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the financial statements of Eastern New Mexico Natural Gas Association as of June 30, 2013, and the respective changes in financial position and cash flows, thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in my opinion, except for the effects of the matter discussed in the "Basis for Qualified Opinion" paragraph, the respective budgetary comparison presents fairly, in all material respects, as of June 30, 2013 and for the year then ended such budgetary comparison in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has not presented the Management's Discussion and Analysis for the year ended June 30, 2013, that the Governmental Accounting Standards Board requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financials statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financials statements in an appropriate operational, economic or historical context. My opinion on the basic financial statements is not affected by the missing report.

Supplemental Information

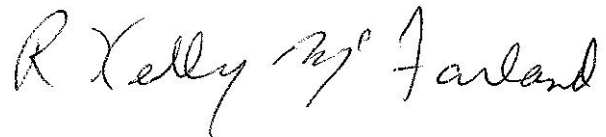
My audit was conducted for the purpose of forming an opinion on *ENMNGA* basic financial statements and budgetary comparison. The accompanying budget comparison and Schedule of Pledged Securities are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules listed as "supplemental information", in the table of contents is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In my opinion, the budget comparison and other schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole, except for the effect, if any, on the supplementary information of the matter discussed in the "Basis for Qualified Opinion" above.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated November 25, 2013, on my consideration of *ENMNGA's* internal control over financial reporting and on my 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 my 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 *ENMNGA's* internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "R Kelly M. Farland". The signature is written in a cursive style with a large initial "R" and a distinct "M".

November 25, 2013

STATE OF NEW MEXICO
EASTERN NEW MEXICO NATURAL GAS ASSOCIATION
Statement of Net Position - Proprietary Funds
June 30, 2013

ASSETS	
Current Assets	
Cash on Hand	\$ 470
Cash in Banks	416,503
Accounts Receivable (Net of Allowance for Uncollectible Accounts of \$1,450)	45,830
Inventory	<u>26,948</u>
Total Current Assets	489,751
Non-current Assets	
Restricted Cash in Bank	45,290
Capital Assets	\$ 2,525,584
Less: Accumulated Depreciation	<u>(1,733,773)</u>
Net Capital Assets	<u>791,811</u>
Total Non-current Assets	<u>837,101</u>
Total Assets	<u>1,326,852</u>
LIABILITIES	
Current Liabilities	
Accounts Payable	31,443
Accrued Payroll Liabilities	<u>15,486</u>
Total Current Liabilities	<u>46,929</u>
Non-current Liabilities	
Accrued Compensated Absences	10,230
Customer Deposits	<u>45,290</u>
Total Non-current Liabilities	<u>55,520</u>
Total Liabilities	<u>102,449</u>
NET POSITION	
Investment in Capital Assets	791,811
Unrestricted	<u>432,592</u>
Total Net Position	<u><u>\$ 1,224,403</u></u>

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

STATE OF NEW MEXICO
EASTERN NEW MEXICO NATURAL GAS ASSOCIATION
Statement of Revenue, Expenses, and Changes in Net Position - Proprietary Funds
For the Year Ended June 30, 2013

Operating Revenues

Sales and Services (Including Applicable NM Gross Receipts Taxes)		
Gas Sales	\$	850,009
Services		54,423
Appliance Sales and Parts		57,199
Other		618
Total Sales and Services		<u>962,249</u>
Less: Cost of Goods Sold		<u>358,250</u>
Gross Profit		<u>603,999</u>

Operating Expenses

Personnel Services and Related Expenses		
Personnel Services	\$	276,815
Health Insurance		59,736
Payroll Taxes		25,455
Retirement Benefits		17,066
Board Expense Reimbursements		7,751
Total Personnel Services and Related Expenses		<u>386,823</u>
Gross Receipts Taxes		52,890
Depreciation		48,132
Fuel		24,688
Insurance		21,106
Supplies and Maintenance		14,917
Fees		12,865
Office		12,749
Utilities		9,298
Professional Fees		6,478
Uniforms		6,446
Other		2,200
Advertising		1,423
License Renewal		470
Bad Debt		1,658
Total Operating Expenses		<u>602,143</u>

Net Operating Income	1,856
Nonoperating Revenue	
Change in Bad Debt Allowance	6,671
Interest Income	2,269
Change in Net Position	10,796
Net Position, Beginning of Year	1,218,364
Restatement	(4,757)
Net Position as Restated, Beginning of Year	<u>1,213,607</u>
Net Position, End of Year	<u>\$ 1,224,403</u>

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

STATE OF NEW MEXICO
EASTERN NEW MEXICO NATURAL GAS ASSOCIATION
Statement of Cash Flows - Proprietary Funds
For the Year Ended June 30, 2013

Cash Flows from Operating Activities	
Cash receipts from Customers and Users	\$ 936,085
Cash payments to Employees for Services and Employee Benefits	(383,751)
Cash payments for Operations and Suppliers	<u>(518,507)</u>
Net Cash Provided by Operating Activities	33,827
Cash Flows from Capital Activities	
Acquisitions of Capital Assets	<u>(31,642)</u>
Net Cash Provided (Used) by Capital Activities	(31,642)
Cash Flows from Investing Activities	
Interest Income	<u>2,269</u>
Net Cash Provided by Investing Activities	2,269
Net Increase (Decrease) in Cash	<u>4,454</u>
Cash, Beginning of year	<u>457,809</u>
Cash, End of year	<u><u>\$ 462,263</u></u>
Reconciliation of Cash	
Cash on Hand	\$ 470
Cash in Banks	416,503
Restricted Cash in Bank	<u>45,290</u>
Total Cash	<u><u>\$ 462,263</u></u>
Reconciliation of Net Operating Income to Net Cash provided by Operating Activities	
Operating Income	\$ 1,856
Adjustments to Reconcile Net Operating Income to Net Cash provided by Operating Activities	
Depreciation	48,132
Change in Assets and Liabilities	
(Increase) Decrease in Accounts Receivable	(26,654)
(Increase) Decrease in Inventory	1,851
Increase (Decrease) in Accounts Payable	4,037
Increase (Decrease) in Accrued Salaries and related expense	13,212
Increase (Decrease) in Compensated Absences	(10,547)
Increase (Decrease) in Customer Deposits	<u>1,940</u>
Net Cash provided by Operating Activities	<u><u>\$ 33,827</u></u>
Non-cash Investing, Capital and Financing Activities:	
Non-cash Purchases of Capital Assets on Account	<u><u>\$ 3,090</u></u>

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

STATE OF NEW MEXICO
EASTERN NEW MEXICO NATURAL GAS ASSOCIATION
Notes to the Financial Statements
June 30, 2013

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Eastern New Mexico Natural Gas Association (ENMNGA) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the ENMNGA's accounting policies are described below.

Financial Reporting Entity

Eastern New Mexico Natural Gas Association (ENMNGA) was organized pursuant to Chapter 3, Article 23, NMSA, 1978, which provides that two or more municipalities, by joint or concurring resolution, may form an association for the purpose of acquiring a natural gas supply system. ENMNGA was organized by the municipalities of Fort Sumner, Melrose and Floyd, New Mexico. The Association was incorporated as a non-profit corporation pursuant to the laws of the State of New Mexico on February 19, 1965.

Each of the originating municipalities appoints 3 members to the governing Board of Directors to serve a term of 3 years. The municipalities do not have an equity interest in the Association as no capital stock was issued upon incorporation.

The accompanying financial statements present the Association as a business-type activity, stand-alone, special purpose government. None of the individual members of the municipalities who organized the Association appoint a majority of its Board and none of the individual municipalities are able to impose their will on the organization. The Board of Directors has the power to make and alter by-laws or rules and regulations for the management and operation of the work of the Association and the control and conduct of its business and affairs, including the ability to approve its own budget and issue debt, without the approval of the organizing municipalities. The Board of Directors, may at its discretion, allocate any net profit after all obligations, to the organizing municipalities. The Board has not elected to distribute any profits in recent years. Although the Association does not receive direct financial assistance from the organizing municipalities and they have no obligation to provide direct financial assistance, the organizers may provide such assistance at their discretion; however, ENMNGA does not impose a financial

STATE OF NEW MEXICO
EASTERN NEW MEXICO NATURAL GAS ASSOCIATION

Notes to the Financial Statements

June 30, 2013

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

burden on these governments. Finally, the nature and significance of the relationship of ENMNGA is such that it would not cause the organizing governments financial statements to be misleading or incomplete by not including the financial statements of the Association.

The Association has no component units as it has no financial interdependency for or with other governments; nor the ability to exercise oversight or governing responsibility, to impose its will over other entities, or the ability to designate management, significantly influence operations or accountability for fiscal matters over any other entity. ENMNGA does not receive a financial benefit or impose a financial burden on other governments.

Basis of Presentation

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

Business-type activities are financed only by fees charged to customers that defines operating revenue. Operating expenses are defined as costs of providing services and products to customers. Capital, and related financing activities, non capital financing activities, or investment activities are normally not reported as operating income or expenses. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Position.

Measurement Focus and Basis of Accounting

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

The financial statements are reported using a flow of economic resources measurement focus and the accrual basis of accounting. The economic resource measurement focus means all assets and liabilities (whether current or noncurrent) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net total position. The statement of cash flows provides information about how the Association finances and meets the cash flow needs of proprietary activities. Revenues, expenses, gains, losses, assets, deferred outflows of resources resulting from exchange and non-exchange like transactions are recognized when the exchange takes place. The Association had no deferred inflows or outflows of resources for the current year.

STATE OF NEW MEXICO
EASTERN NEW MEXICO NATURAL GAS ASSOCIATION

Notes to the Financial Statements

June 30, 2013

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Cash and Cash Equivalents

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

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

Investments

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

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

STATE OF NEW MEXICO
EASTERN NEW MEXICO NATURAL GAS ASSOCIATION

Notes to the Financial Statements

June 30, 2013

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

The Association presently only invests in savings accounts and certificates of deposit.

Inventory

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

Receivables and Payables

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

Capital Assets

Capital assets, which includes property, plant, equipment, and infrastructure assets, are reported in the financial statements. Capital assets are recorded at historical costs and depreciated over their estimated useful lives (with no salvage value). Capital assets are defined by the ENMNGA as assets, generally, with a cost in excess of \$200 and an estimated useful life in excess of one year. Donated capital assets are recorded at their estimated fair market value on the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The construction period interest is not capitalized in the proprietary funds.

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

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

Compensated Absences

The Association permits employees to accumulate a maximum of twenty days unused vacation time which must be taken or forfeited within the employees' anniversary year following the employment anniversary year in which the annual leave was earned. Employees may be paid half of accumulated sick leave over one hundred and twenty days.

STATE OF NEW MEXICO
EASTERN NEW MEXICO NATURAL GAS ASSOCIATION
Notes to the Financial Statements
June 30, 2013

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Revenue

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

Operating revenues in the proprietary funds are those revenues that generally result from providing natural gas services, appliance sales and other sales and service to customers. All other revenues are reported as non-operating revenues. Operating expenses include cost of services and cost of sales, administrative costs and depreciation on capital assets. All other expenses are reported as non-operating expenses.

Net Position

Net Position represents the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds.

Restricted Assets

Restricted assets include customer deposits held for security of sales of natural gas. Assets are reported as restricted when:

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

Imposed by law through constitutional provisions or enabling legislation.

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

Unrestricted Assets

All other net assets or net position, that do not meet the definition of "restricted" or "invested in capital assets", net of related debt are unrestricted.

STATE OF NEW MEXICO
EASTERN NEW MEXICO NATURAL GAS ASSOCIATION
Notes to the Financial Statements
June 30, 2013

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Stewardship

Budget

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

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 Association's financial statements include the allowance for uncollectible accounts, the current portion of accrued compensated absences, and the useful lives of capital assets.

STATE OF NEW MEXICO
EASTERN NEW MEXICO NATURAL GAS ASSOCIATION

Notes to the Financial Statements

June 30, 2013

NOTE B: DEPOSITS AND INVESTMENTS

	Citizens Bank of Clovis, NM Balance per Bank 6/30/13	Citizens Bank of Clovis, NM Reconciled Balance	American Heritage Bank Clovis, NM Balance per Bank 6/30/13	American Heritage Bank Clovis, NM Reconciled Balance
Revenue Deposits, Noninterest-bearing	\$ 153,617	\$ 153,171		
Saving Deposits, Interest-bearing	104,063	104,063		
Meter Deposits, Noninterest-bearing	46,627	45,290		
Contractors License Deposits, Interest-bearing	1,027	1,027		
Certificate of Deposits, Interest-bearing			\$ 60,461	\$ 60,461
Money Market Deposits, Interest-bearing			97,781	97,781
	<u>305,334</u>	<u>\$ 303,551</u>	<u>158,242</u>	<u>\$ 158,242</u>
Less: FDIC Coverage	(250,000)		(158,242)	
Total uninsured public funds	55,334		<u>\$ -</u>	
Pledged Collateral held by pledging bank's agent but not in ENMGA's name		129,784		
Uninsured and uncollateralized (Excess Collateral)		<u>\$ (74,450)</u>		
50% Collateral Requirement (as per Section 6-10-17, NMSA, 1978)		\$ 27,667		
Total pledged collateral		(129,784)		
Pledged collateral (over) under the requirement		<u>\$ (102,117)</u>		

The Association is required by Section 6-10-17, NMSA, 1978, to be 50% collateralized.

Restricted Cash

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

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Association does not have a deposit policy for custodial credit risk. Section 6-10-17, NMSA, 1978, requires depository institutions to pledge aggregate securities with a fair market value equal to 1/2 of uninsured deposits. The Association only uses depository institutions that it believes are financially sound. As of June 30, 2013, all of the Association's bank deposits of \$463,576 (reconciled deposits of \$461,793) were insured or secured by pledged collateral.

The Association has no exposure to credit risk, concentration risk, or foreign currency risk as all deposits are short-term, deposited in more than one bank and only in United States dollars.

STATE OF NEW MEXICO
EASTERN NEW MEXICO NATURAL GAS ASSOCIATION

Notes to the Financial Statements

June 30, 2013

NOTE C: CAPITAL ASSETS

Capital Assets Balances and Activity for the year ended June 30, 2013, is as follows:

	Balance 6/30/12	Additions	Deletions	Balance 6/30/13
Business-Type Activities				
Capital Assets not being Depreciated				
Land	\$ 27,223	\$ -	\$ -	\$ 27,223
Total Capital Assets not being Depreciated	27,223	-	-	-
Other Capital Assets				
Utility System:				
Gas Plant Acquisition	95,817	-	-	95,817
Improvements	249,454	-	-	249,454
Mains, Meters, and Regulators	1,609,024	16,831	12,254	1,613,601
Prior Period Capital Asset Adjustment			5,464	(5,464)
Equipment & Vehicles:				
Equipment	302,772	6,505	1,443	307,835
Transportation	151,463	-	-	151,463
Office	80,423	11,396	6,165	85,654
Total Capital Assets at Historical Cost	<u>2,516,176</u>	<u>34,732</u>	<u>25,326</u>	<u>2,525,583</u>
Accumulated Depreciation:				
Utility System:				
Gas Plant Acquisition	95,817	-	-	95,817
Improvements	111,448	5,839	-	117,287
Mains, Meters, and Regulators	1,176,045	11,826	12,254	1,175,616
Prior Period AD Adjustment			364	(364)
Equipment & Vehicles:				
Equipment	180,201	11,535	1,443	190,293
Transportation	92,624.00	12,977	-	105,601
Office	49,731	5,956	6,165	49,522
Total Accumulated Depreciation	<u>1,705,866</u>	<u>48,132</u>	<u>20,226</u>	<u>1,733,772</u>
Capital Assets, Net	<u>\$ 810,310</u>	<u>\$ (13,399)</u>	<u>\$ 5,100</u>	<u>\$ 791,811</u>

**

** Deletions related to prior period adjustment. See Note J.

STATE OF NEW MEXICO
EASTERN NEW MEXICO NATURAL GAS ASSOCIATION

Notes to the Financial Statements

June 30, 2013

NOTE D: PROFIT SHARING PLAN

Substantially all full time employees participate in the Eastern New Mexico Natural Gas Association Pension Trust, a defined contribution plan, complying with Section 401(k) of the Internal Revenue Code. The Association does not participate in the statewide PERA plan.

The plan adopted by the Board of Directors was last amended on January 1, 2013. The plan provides for elective salary deferrals of employees, up to the maximum as provided by law (for 2013, \$23,000 for employees 50 years of age and over and \$17,500 for employees under 50 years of age). Employee deferrals are matched by the employer at 150%, up to a maximum of 4% of compensation. The employer may also make additional discretionary contributions to the plan.

The Association contributions in the plan for fiscal years ending June 30, 2013, and 2012, were \$17,066 and \$13,648, respectively. Employee salary deferrals were \$23,558 and \$17,334 in fiscal year 2013 and 2012, respectively. There were no additional discretionary contributions for either fiscal years of 2013 or 2012.

NOTE E: PREPAID EXPENSE

Prepaid expense consists of unexpired insurance premiums. The Association does not have any material prepaid insurance premium at June 30, 2013.

NOTE F: RECONCILIATION OF BUDGETARY BASIS TO GAAP BASIS STATEMENTS

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

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

NOTE G: RISK MANAGEMENT

The Association is exposed to various risk of loss related to torts, theft, damage to assets, errors and omissions, and employee injury among others. ENMNGA insures these losses through insurance with the New Mexico Self-Insurer's Fund. Contributions to the fund for the current year amounted to \$21,106.

STATE OF NEW MEXICO
EASTERN NEW MEXICO NATURAL GAS ASSOCIATION

Notes to the Financial Statements

June 30, 2013

NOTE G: RISK MANAGEMENT, continued

During the current year, the Association did not file any insurance claims or receive any insurance benefits and at June 30, 2013, had no claims outstanding. For the last three years, the Association has not filed any claims for which the settlement amount exceeded the insurance coverage. There have been no significant reductions in major risk categories during the past year; however, the Association was not covered by a surety bond as required by Section 12-6-7, NMSA, 1978, for the past year.

NOTE H: RELATED PARTY TRANSACTIONS

The Board of Directors and employees of ENMNGA are recipients of natural gas service. Employees, but not the board members, receive discounts for natural gas services as an employee fringe benefit, which amounted to \$2,057, for the current fiscal year. Board members purchase natural gas service at the same price as other customers. For the year ended June 30, 2013, the Association had purchases of supplies and other services from board members in the amount of \$3,550. The Association also provides natural gas service to its founding organizers, the municipalities of Melrose, Floyd and Fort Sumner, at the same prices as for other customers.

NOTE I: ACCOUNTS RECIEVABLE

Accounts receivables are reported net of advance payments received from customers. Advance payments include amount received in excess of billings on a monthly budget payment plan and New Mexico Department of Human Service Low Income Home Energy Assistance Program. The total advance payment credits included in accounts receivables are \$6,392. Management has determined that unbilled receivables, service provided after the last billing date and the end of the reporting year, are not material. As the Association's year end occurs in the summer during low gas usage, and as the unbilled service is typically approximately the same as the beginning and end of the year, management's practice is not to record the unbilled service.

STATE OF NEW MEXICO
EASTERN NEW MEXICO NATURAL GAS ASSOCIATION
Notes to the Financial Statements
June 30, 2013

NOTE J: PRIOR PERIOD ADJUSTMENTS

The beginning net position was restated for correction of errors as follows:

Prior period adjustments were made as follow:

Accounts receivable, as June 30, 2012, was overstated resulting in a overstatement of revenues for the prior year.	\$ 4,701
Accounts payable was overstated resulting in an overstatement of payroll tax expense in the prior year.	(5,044)
Costs billed to customers were capitalized in the prior year resulting in an overstatement of capital assets.	<u>5,100</u>
Total Prior Period Adjustments	<u>\$ 4,757</u>

NOTE K: CHANGE IN ACCOUNTING ESTIMATE

During the current year, the Association reevaluated its methodology for determining the allowance for uncollectible accounts. In prior years, the Association considered all accounts with outstanding balances of more than 30 days as uncollectible. As a result of enhanced collection polices, including increasing the security deposit, assessment of late fees and termination of service for late payment, management changed the methodology in the current year to adjust the allowance for uncollectible accounts to reflect the annual historical losses. FAC 250-10-50 "Change in Accounting Estimates", provided for the recognition of the change in income of the continuing operation in the current period. The adjustment required the recognition of \$6,671, net of charge-offs of \$1,467 and additions to the allowance of \$1,450, in income of the current period. Accounts are generally charged-off after one year for the balance of the account after applying the security deposit.

NOTE L: COMPENSATED ABSENCES

The Association pays employees at time of termination of employment for accrued vacation time not taken in the past 12 months. Total amount due for compensated absences at June 30, 2013, was \$10,230.

STATE OF NEW MEXICO
EASTERN NEW MEXICO NATURAL GAS ASSOCIATION

Notes to the Financial Statements

June 30, 2013

NOTE M: UNCERTAINTY

As discussed in Note A to the financial statements, Eastern New Mexico Natural Gas Association was formed pursuant to state law by three municipalities as a non-profit corporation, to provide natural gas services to the three municipalities. The organizational documents are unclear as to the nature of the Association with respect to whether laws regulating governments are applicable or if the Association is an independent non-profit corporation. The Association does not participate in and has made no contributions to the state-wide PERA retirement plan; but, has also not paid income taxes or received a determination from the Internal Revenue Service that it is a non-profit corporation. Depending on the ultimate resolution of the governing authority, the Association may have liabilities for unpaid PERA contributions, income taxes, or penalties for failure to file. An estimate of the range of loss cannot be made at this time.

STATE OF NEW MEXICO
EASTERN NEW MEXICO NATURAL GAS ASSOCIATION
Statement of Revenue, Expenses, and Changes in Cash Balance Budget and Actual (Budgetary Basis)
- Proprietary Funds
For the Year Ended June 30, 2013

Revenues	Budgeted	Budgeted	Actual	Budgetary	Budget to	Actual
	Amounts	Amounts	(Budgetary	Basis with	GAAP	(GAAP
	Original	Final	Basis)	Final Budget -	Differences	Basis)
				Over (Under)		
Gas Sales and Services	\$ 780,000	\$ 780,000	\$ 664,340	\$ (115,660)	\$ 28,105	\$ 692,445
Sale of Merchandise	115,000	115,000	57,199	(57,801)	0	57,199
Other Services	69,000	69,000	43,053	(25,947)	0	43,053
Fees	166,300	166,300	168,934	2,634	0	168,934
Change in allowance for doubtful accounts	0	0	0	0	6,671	6,671
Interest Income	3,500	3,500	2,269	(1,231)	0	2,269
Miscellaneous	800	800	618	(182)	0	618
Total Revenues	1,134,600	1,134,600	936,413	(198,187)	34,776	971,189
Expenditures						
Advertising	2,000	2,000	1,425	(575)	(2)	1,423
Bad Debt	0	0	208	208	1,450	1,658
Board Expense Reimbursements	9,000	9,000	7,751	(1,249)	0	7,751
Capital Expenditures	30,600	31,642	31,642	0	(31,642)	0
Cost of Gas Sold	448,824	446,978	316,950	(130,028)	(3,923)	313,027
Cost of Sales	73,000	73,000	37,938	(35,062)	7,285	45,223
Depreciation	0	0	0	0	48,132	48,132
Fees	13,000	13,000	12,845	(155)	20	12,865
Fuel	30,000	30,000	24,428	(5,572)	260	24,688
Gross Receipts Taxes	55,100	55,100	51,549	(3,551)	1,341	52,890
Health Insurance	60,100	60,100	59,736	(364)	0	59,736
Insurance	20,910	21,106	21,106	0	0	21,106
License Renewal	700	700	470	(230)	0	470
Office	14,750	14,750	10,464	(4,286)	2,285	12,749
Other	2,750	2,803	1,862	(941)	338	2,200
Payroll Taxes	23,473	23,473	23,146	(327)	2,309	25,455
Personnel Services	283,237	283,237	276,692	(6,545)	123	276,815
Professional Fees	7,500	7,500	6,478	(1,022)	0	6,478
Retirement Benefits	16,995	16,995	16,426	(569)	640	17,066
Supplies and Maintenance	23,961	24,235	15,573	(8,662)	(656)	14,917
Uniforms	7,400	7,400	7,162	(238)	(716)	6,446
Utilities	10,000	10,281	10,049	(232)	(751)	9,298
Total Expenditures	1,133,300	1,133,300	933,900	(199,400)	26,493	960,393
Excess (Deficiency) of Revenues over Expenditures	1,300	1,300	2,513	1,213	\$ 8,283	\$ 10,796
Cash Balance Beginning of Year	*	*	457,809	0		
Cash Balance End of Year	\$ 1,300	\$ 1,300	\$ 460,322	\$ 1,213		

* Eastern New Mexico Natural Gas Association does not budget cash as a budgetary resource.

Explanation of Differences:

Change in receivables	\$ 28,105
Change in inventory	(1,849)
Change in accounts payable	(4,039)
Change in accrued salaries	(12,126)
Change in accrued liabilities	(1,086)
Change in accrued compensated absences	10,547
Change in allowance for doubtful accounts	6,671
Capital assets transferred	31,642
Bad debt expense	(1,450)
Depreciation expense	(48,132)
	<u>\$ 8,283</u>

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

STATE OF NEW MEXICO
EASTERN NEW MEXICO NATURAL GAS ASSOCIATION
Supplemental Schedule
June 30, 2013

Schedule of Pledged Securities

The following securities are pledged:

Citizens Bank, Clovis, NM

Description	CUSIP #	Market Value	Maturity Date	Location
GNMA II Pool #80727	36225CYZ3	\$ 129,784	8/20/2033	TIB, Dallas, Texas

(Held in the name of the bank, Pledged to ENMNGA)



R. Kelly McFarland

**Certified Public Accountant
A Professional Corporation**

CPA

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

Mr. Hector Balderas
State Auditor of the State of New Mexico
Board Members of the Eastern New Mexico Natural Gas Association
Fort Sumner, New Mexico

I have audited, in accordance with the 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 business-type activities of Eastern New Mexico Natural Gas Association, (ENMNGA) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise *ENMNGA's* basic financial statements, and the related budgetary comparisons presented as supplemental information, and have issued my report thereon dated June 30, 2013.

Internal Control Over Financial Reporting

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

My 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*, I identified certain deficiencies in internal control that I 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 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. I consider the deficiency described in the accompanying *Schedule of Findings and Responses* to be material weaknesses, listed as finding 2013-01.

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. I consider the deficiencies described in the accompanying *Schedule of Findings and Responses* to be significant deficiencies, listed as findings, 2013-02, 2013-04 and 2013-05.

Compliance and Other Matters

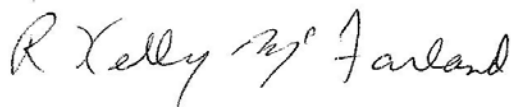
As part of obtaining reasonable assurance about whether *ENMNGA's* financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying *Schedule of Findings and Responses* or as items 2013-01, 2013-03, 2013-04, and 2013-06.

Eastern New Mexico Natural Gas Association's Response to Findings

ENMNGA's responses to the findings identified in my audit are described in the accompanying *Schedule of Findings and Responses*. *ENMNGA's* responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of my 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 *ENMNGA's* internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



November 25, 2013

STATE OF NEW MEXICO
EASTERN NEW MEXICO NATURAL GAS ASSOCIATION
Schedule of Findings and Responses
June 30, 2013

Finding 2013-01

Clarity of Organizational Structure - A Material Weakness and Compliance

Condition - The organizational structure of Eastern New Mexico Natural Gas Association, A non-Profit Corporation (ENMNGA), has not been defined to establish if it is a government or a non-profit to determine: requirements for exemption from income taxes, contributions to the state-wide PERA retirement plan, or for compliance with applicable statutes for governments.

Criteria - The Association was organized, pursuant to Chapter 3, Article 23, NMSA, 1978, and incorporated as a non-profit corporation.

If ENMNGA is a government, it does not participate in the state-wide PERA retirement plan as required by Section 10-11-3, NMSA, 1978, and does not have an exemption as required by paragraph B of that Section. (The New Mexico State Auditor requires that auditors ensure a government has 100% participation in PERA, 2.2.2.10 G. (7) NMAC, unless exempted.)

Section 115 of the Internal Revenue Code provides for exemption of any public utility or essential government functions from income taxes, if income accrues to a state or political subdivision. The courts have interpreted this provision to mean the actual payment of dividends by the entity to a government – not merely the ability to collect profits from the entity (City of Bethel, Alaska, et al Vs. US, 594 F.2d 1301). Because of possible litigation, many entities have sought a private letter ruling from the Internal Revenue Service regarding this matter. In fact, the IRS has issued 758 private letter rulings or other advice regarding Section 115. The Association has never paid income taxes on its income and has not requested a private letter ruling. If it is a government, ENMNGA has no substantial authority for not paying income taxes.

Section 501(a) of the Internal Revenue Code exempts qualifying organizations, generally non-profits, from taxation, on other than unrelated business income. In order to qualify for the exemption from tax as a non-profit, an organization must file IRS Form 1024, "Application for Recognition of Exemption Under Section 501(a)", generally within 15 months of formation to request a determination letter for exemption from taxation. The Association has not filed a request for a determination letter and has not filed IRS Form 990, "Return of Organization Exempt from Income Tax." If ENMNGA is a non-profit, it has not complied with the requirements to file Form 990 or requested a private letter ruling for exemption as required by Revenue Procedure 95-48.

Governments are required by statute to comply with numerous requirements from the Procurement Code to the Open Meeting Act. ENMNGA generally attempts to observe

STATE OF NEW MEXICO
EASTERN NEW MEXICO NATURAL GAS ASSOCIATION
Schedule of Findings and Responses
June 30, 2013

Finding 2013-01, Continued

compliance requirements of many of these provisions. If the Association is not a government, compliance with these requirements may not be required.

Effect - If the Association is a government, it could have liabilities and those liabilities could be material, to PERA for pension contributions and to the Internal Revenue Service for income taxes; however, the amount of the ultimate liabilities, if any, can only be determined by the applicable regulatory agencies.

If the Association is a non-profit, required to file Form 990, it could be liable for material penalties for failure to file; however, only the IRS can determine the ultimate amount of liability, if any.

Cause - The Association was not aware of any requirements for contributions to PERA, possible income tax liability, or filing of Form 990.

Recommendation - I recommend the Association seek guidance from its legal counsel to clarify the nature of its organizational structure under New Mexico law. Upon obtaining this clarification, I recommend the Association request a private letter ruling from the Internal Revenue Service as to possible obligation for federal income taxes. If the Association is determined to be non-profit and depending on the private letter ruling, it may be necessary to file Form 1024, "Application for Recognition of Exemption Under Section 501(a)." Also, upon clarification of the nature of the organization, the Association should take appropriate action to determine if the Association is required to participate in the state-wide PERA retirement plan.

Management's Response – We have instructed our legal counsel to advise us as to our possible liability in these matters.

FINDING 2013-02

Bank Reconciliation Procedures - A Significant Deficiency

Condition - Bank reconciliations are not reviewed by someone other than the preparer.

As the bookkeeper is responsible for recording transactions, both receipts and disbursements, in the cash basis system of accounting, as well as preparing the bank reconciliation, the present process is not structured to achieve proper internal control.

STATE OF NEW MEXICO
EASTERN NEW MEXICO NATURAL GAS ASSOCIATION
Schedule of Findings and Responses
June 30, 2013

Finding 2013-02, Continued

Criteria - Proper internal control procedures require a segregation of duties, such that no one person is responsible for an entire accounting process. To achieve more effective control, another knowledgeable person should review the bank reconciliation for any impropriety. Section 12-6-5, NMSA, 1978, requires agencies to implement “good accounting practices”.

Effect - The Association is at risk for possible misstatement of the financial statements, either by error or fraud.

Cause - The Association has not considered the internal control risk posed by the lack of segregation of duties in the bank reconciliation process.

Recommendation - I recommend another person, with an understanding of the bank reconciliation process, review and initial bank reconciliations prepared by the bookkeeper.

Management’s Response – The manager will review and document approval by initialing or signing the bank reconciliation.

Finding 2013-03

Credit Memos and Charge-offs of Accounts Receivable - Other Matters

Condition - Approval for credit memos for accounts receivable issued in the amount of \$9,903 and charge-offs of uncollectible receivables of \$1,467 was not documented.

Persons responsible for billing and collecting accounts receivable also work with customers to adjust accounts receivable for improper billing and identify uncollectible accounts for charge-off. A credit memo is prepared for the adjustment and presented to the manager for approval; however, the manager does not sign or initial the approval for the adjustment to the account. Charge-offs of accounts receivable are not presented to the Board of Directors as an information item or for approval for charge-off. As the Association maintains its books of account on the cash basis, these adjustments and charge-offs are not reported.

STATE OF NEW MEXICO
EASTERN NEW MEXICO NATURAL GAS ASSOCIATION
Schedule of Findings and Responses
June 30, 2013

Finding 2013-03, Continued

Criteria - Proper internal control procedure and “good accounting practices” (Section 12-6-5, NMSA, 1978) requires documentation of the performance and monitoring of accounting processes as well as fixing responsibility. While the Association has implemented a process involving segregation of duties, that process should be monitored to ensure compliance with the process and the monitoring should be documented.

Effect - The Association is at risk for non-compliance with its procedure for adjustments and charge-offs of accounts receivable and/or improper adjustments to accounts receivable. The Board of Directors is unaware of the adjustments and, therefore, unable to exercise oversight responsibility.

Cause - Management was unaware of the need to sign or initial approval for adjustments of accounts receivable or charge-offs and to document the monitoring process.

Recommendation - I recommend both the preparer of the credit memo for adjustment or charge-off and the approval authority, sign or initial the credit memo. I also recommend that a report of charge-offs be provided to the Board of Directors to assist them with their oversight responsibility.

Management’s Response – The manager will initial all credit memos and charge offs. A report of these items will be made to the Board of Directors.

FINDING 2013-04

Capital Assets - A Significant Deficiency and Noncompliance

Condition - The Association does not maintain its own depreciation schedule or a subsidiary ledger of capital assets. Presently, the auditor maintains a depreciation schedule for the Association.

For the 2012 fiscal year, a project completed for customers and billed to a customer in the amount of \$5,464 was inadvertently capitalized. The error was not discovered until the current fiscal year when management was asked to review the depreciation schedule.

STATE OF NEW MEXICO
EASTERN NEW MEXICO NATURAL GAS ASSOCIATION
Schedule of Findings and Responses
June 30, 2013

Finding 2013-04, Continued

Abandon assets had not been deleted from the depreciation schedule for some time.

An inventory of capital assets was not conducted for the current fiscal year.

The Association has not adopted a capitalization policy. Assets with a cost of less than \$5,000 have been capitalized.

Criteria - Section 2.20.1.8 NMAC provides “Agencies should implement systematic and well-documented methods of accounting for fixed assets.....” The depreciation schedule or subsidiary capital asset ledger is an accounting record of the Association and should be maintained by the Association – not the auditor. The responsibility of the auditor is to audit capital assets. The Association is responsible for maintaining its own accounting records and for implementing policies and procedures to preclude misstatement of the financial statements.

Section 12-6-10(A), NMSA, 1978, requires agencies to conduct an annual physical inventory of moveable chattels and equipment at the end of each year.

Section 12-6-10, NMSA, 1978, requires agencies to only capitalize chattels and equipment costing over \$5,000.

Effect - The Association is in violation of statutory requirements for maintaining records to exercise control over its assets. The current policy is in violation of the statutory capitalization policy for state entities. The Association had a misstatement of its financial statements for the 2012 fiscal year.

Cause - Management was unaware of the statutory compliance requirements regarding inventory and for the capitalization policy. As the auditor in prior years had always maintained the depreciation schedule and as the books of account of the Association are cash basis and do not include assets other than cash, management was not aware that maintaining the depreciation schedule was an accounting record they are required to maintain.

Management and the bookkeeper did not clearly communicate with one another to identify those expenditures for assets to be capitalized or expensed to cost of sales for construction work for customers.

STATE OF NEW MEXICO
EASTERN NEW MEXICO NATURAL GAS ASSOCIATION
Schedule of Findings and Responses
June 30, 2013

Finding 2013-04, Continued

Recommendation - I recommend the Association acquire software to maintain a detail subsidiary capital asset ledger, capable of computing depreciation. I further recommend that management implement a capital asset policy, to ensure compliance with statutory requirements for capital assets. I further recommend that expenditures for capital asset items be carefully reviewed by the manager to ensure proper recording in the books of account as either additions to capital assets or charges to cost of sales.

Management's Response – The manager will request authorization from the Board for approval to acquire software to assist in capital asset recordkeeping. The bookkeeper will maintain an Excel schedule of assets until the new system is implemented.

FINDING 2013-05

Compensated Absence Accounting - A Significant Deficiency

Condition - The Association did not maintain records in dollar amounts for its compensated absence liability of \$10,230.

While the compensated absence hours are maintained, these hours were not converted to the amount of the compensated absence liability, for recording in the financial statements.

Criteria - Agencies are required by Section 12-6-5, NMSA, 1978, to maintain “good accounting practices”. Maintaining all records, including the compensated absence liability is the responsibility of management.

Effect - The Association did not have the compensated liability available for audit and recording in the financial statements.

Cause - Because the Association maintains its books and records on the cash basis of accounting, management was not aware that it was responsible for computing and maintaining the compensated absence liability. In prior years, the auditor always computed the compensated absence liability and recorded for financial statement reporting purposes.

Recommendation - I recommend that management extend the schedule of leave hours and compute the compensated absence liability.

Management's Response – The bookkeeper will implement a spreadsheet to account for compensated absence liabilities.

STATE OF NEW MEXICO
EASTERN NEW MEXICO NATURAL GAS ASSOCIATION
Schedule of Findings and Responses
June 30, 2013

FINDING 2013-06

Surety Bond - Compliance

Condition - The Association did not have a bond for the fiscal year ended June 30, 2013.

Criteria - Section 12-6-7, NMSA, 1978, requires agencies to maintain a surety bond on appropriate officers and employees.

Effect - The Association is not in compliance with the requirement for a surety bond and at risk of loss in the event of a misappropriation.

Cause - Management was unaware the bond had not been renewed.

Recommendation - I concur with management's request for a surety bond as soon as learning the bond was not in place.

Management's Response – The manager has acquired a surety bond, subsequent to the audit.

STATE OF NEW MEXICO
EASTERN NEW MEXICO NATURAL GAS ASSOCIATION
Schedule of Findings and Responses
June 30, 2013

PRIOR YEAR AUDIT FINDINGS

There were no audit findings in the prior year.

OTHER DISCLOSURES

An exit conference was held on November 25, 2013, in attendance were the following:

Representing Eastern New Mexico Natural Gas Association:

Mr. George Sena – Association Manger
Ms. Pae Vison – Bookkeeper
Mr. James Whitecotton – Board President
Mr. Marshall Scot Stinnett – Member, Board of Directors

Representing R Kelly McFarland, CPA, PC

Kelly McFarland, CPA

AUDITOR PREPARED FINANCIAL STATEMENTS

The firm of R Kelly McFarland, CPA, PC prepared the GAAP-basis financial statements and disclosures of the Eastern New Mexico Natural Gas Association from the original books of account and records provided by management. The responsibility for the financial statements remains with the Association.