

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

**ANNUAL FINANCIAL  
REPORT**  
June 30, 2014



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EASTERN NEW MEXICO NATURAL GAS ASSOCIATION  
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For the Year Ended June 30, 2014

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STATE OF NEW MEXICO  
EASTERN NEW MEXICO NATURAL GAS ASSOCIATION

Roster  
June 30, 2014

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**BOARD OF DIRECTORS**

James Whitecotton	President
Ernest Riley	Vice President
Alan West	Secretary
Marshall Scot Stinnett	Director
Aldolfo Lucero	Director
Tuck N. Monk	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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## **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 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, 2014, and the related notes to the financial statements, which collectively comprise ENMNGA's basic financial statements as listed in the table of contents. I have also audited the budgetary comparison presented as supplementary information, as defined by the Government Accounting Standard Board, in the accompanying financial statements as of and for the year ended June 30, 2014, 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.

## **Opinion**

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Eastern New Mexico Natural Gas Association as of June 30, 2014, and the respective changes in financial position and its cash flows, for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in my opinion, the respective budgetary comparison presents fairly, in all material respects, as of June 30, 2014 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, 2014, 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.



### *Other 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 Budget Comparison and Statement of Revenues, Expenditures, and Changes in Cash Balance - Budget (Budgetary Basis) and Actual and the Schedule of Pledged Securities required by Section 2.2.2 NMAC is the responsibility of management and were derived and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In my opinion, the budget comparison and the Schedule of Pledged Securities required by Section 2.2.2 NMAC are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, I have also issued my report dated October 31, 2014, 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.



October 30, 2014



STATE OF NEW MEXICO  
EASTERN NEW MEXICO NATURAL GAS ASSOCIATION  
Statement of Net Position - Proprietary Funds  
June 30, 2014

<b>ASSETS</b>	
Current Assets	
Cash on Hand	\$ 470
Cash in Banks	435,204
Accounts Receivable (Net of Allowance for Uncollectible Accounts of \$1,450)	49,864
Inventory	<u>27,348</u>
Total Current Assets	512,886
Non-current Assets	
Restricted Cash in Bank - Customer Deposits	46,770
Capital Assets	\$ 2,552,303
Less: Accumulated Depreciation	<u>(1,778,265)</u>
Net Capital Assets	<u>774,038</u>
Total Non-current Assets	<u>820,808</u>
Total Assets	<u>1,333,694</u>
<b>LIABILITIES</b>	
Current Liabilities	
Accounts Payable	19,078
Accrued Payroll Liabilities	<u>11,722</u>
Total Current Liabilities	<u>30,800</u>
Non-current Liabilities	
Accrued Compensated Absences	11,858
Customer Deposits	<u>46,814</u>
Total Non-current Liabilities	<u>58,672</u>
Total Liabilities	<u>89,472</u>
<b>NET POSITION</b>	
Investment in Capital Assets	774,038
Unrestricted	<u>470,184</u>
Total Net Position	<u><u>\$ 1,244,222</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, 2014

Operating Revenues

Sales and Services (Including Applicable NM Gross Receipts Taxes)	
Gas Sales	\$ 973,157
Services	49,694
Appliance Sales and Parts	63,627
Other	414
Total Sales and Services	<u>1,086,892</u>
Less: Cost of Goods Sold	<u>421,508</u>
Gross Profit	<u>665,384</u>

Operating Expenses

Personnel Services and Related Expenses	
Personnel Services	\$ 278,663
Health Insurance	62,540
Payroll Taxes	22,356
Retirement Benefits	23,606
Board Expense Reimbursements	11,150
Total Personnel Services and Related Expenses	<u>398,315</u>
Gross Receipts Taxes	57,807
Depreciation	49,721
Insurance	24,788
Fuel	24,406
Supplies and Maintenance	25,979
Office	13,099
Utilities	11,765
Fees	11,703
Other	10,312
Professional Fees	10,127
Uniforms	6,299
Advertising	1,289
Bad Debt Expense	1,097
License Renewal	700
Total Operating Expenses	<u>647,407</u>
Net Operating Income	17,977
Nonoperating Revenue	
Interest Income	<u>1,842</u>
Change in Net Position	19,819
Net Position, Beginning of Year	<u>1,224,403</u>
Net Position, End of Year	<u>\$ 1,244,222</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, 2014

Cash Flows from Operating Activities	
Cash receipts from Customers and Users	\$ 1,065,694
Cash receipts of Customer Deposits	16,067
Cash payments to Employees for Services and Employee Benefits	(400,615)
Return of Customer Deposits	(14,543)
Cash payments for Operations and Suppliers	<u>(616,316)</u>
Net Cash Provided by Operating Activities	50,287
Cash Flows from Capital Activities	
Acquisitions of Capital Assets	<u>(31,948)</u>
Net Cash Provided (Used) by Capital Activities	(31,948)
Cash Flows from Investing Activities	
Interest Income	<u>1,842</u>
Net Cash Provided by Investing Activities	1,842
Net Increase (Decrease) in Cash	<u>20,181</u>
Cash, Beginning of year	<u>462,263</u>
Cash, End of year	<u><u>\$ 482,444</u></u>
Reconciliation of Cash	
Cash on Hand	\$ 470
Cash in Banks	435,204
Restricted Cash in Bank	<u>46,770</u>
Total Cash	<u><u>\$ 482,444</u></u>
Reconciliation of Net Operating Income to Net Cash provided by Operating Activities	
Operating Income	\$ 17,977
Adjustments to Reconcile Net Operating Income to Net Cash provided by Operating Activities	
Depreciation	49,721
Bad Debt	1,097
Change in Assets and Liabilities	
(Increase) Decrease in Accounts Receivable	(5,131)
(Increase) Decrease in Inventory	(400)
Increase (Decrease) in Accounts Payable	(12,365)
Increase (Decrease) in Accrued Salaries and related expense	(3,764)
Increase (Decrease) in Compensated Absences	1,628
Increase (Decrease) in Customer Deposits	<u>1,524</u>
Net Cash provided by Operating Activities	<u><u>\$ 50,287</u></u>
Schedule of Non-cash Investing, Capital and Financing Activities:	
Non-cash Purchases of Capital Assets on Account	<u><u>\$ 0</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, 2014

**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, 2014

**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 resource 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, 2014

**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, 2014

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

ENMNGA 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). Prior to the current year, capital assets were defined by ENMNGA as assets, generally, with a cost in excess of \$200 and an estimated useful life in excess of one year. For the current year, acquisitions of capital assets has been defined as assets having cost of \$5,000 or more. 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

ENMNGA 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, 2014

**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, 2014

**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, 2014

**NOTE B: DEPOSITS AND INVESTMENTS**

Total deposits with financial institutions and collateral requirements at June 30, 2014, are summarized as follows:

	Citizens Bank of Clovis, NM Balance per Bank 6/30/14	Citizens Bank of Clovis, NM Reconciled Balance	American Heritage Bank Clovis, NM Balance per Bank 6/30/14	American Heritage Bank Clovis, NM Reconciled Balance
Revenue Deposits, Noninterest-bearing	\$ 187,170	\$ 170,030		
Saving Deposits, Interest-bearing	105,003	105,003		
Meter Deposits, Noninterest-bearing	48,802	46,770		
Contractors License Deposits, Interest-bearing	1,033	1,033		
Certificate of Deposits, Interest-bearing			\$ 60,914	\$ 60,914
Money Market Deposits, Interest-bearing			98,226	98,226
	<u>342,008</u>	<u>\$ 322,836</u>	<u>159,140</u>	<u>\$ 159,140</u>
Less: FDIC Coverage	<u>(250,000)</u>		<u>(159,140)</u>	
Total uninsured public funds	92,008		<u>\$ 0</u>	
Pledged Collateral held by pledging bank's agent in the pledging bank's name, but not in ENMGA's name	<u>105,198</u>			
Uninsured and uncollateralized (Excess Collateral)	<u>\$ (13,190)</u>			
50% Collateral Requirement (as per Section 6-10-17, NMSA, 1978)	\$ 46,004			
Total pledged collateral	<u>(105,198)</u>			
Pledged collateral (over) under the requirement	<u>\$ (59,194)</u>			

Custodial Credit Risk

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. The Association only uses depository institutions that it believes are financially sound. As of June 30, 2014, the Association's bank balance was \$501,148 (\$481,976 reconciled balance) and of that amount \$92,008 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's agent, but not in the name of Eastern New Mexico Natural Gas Association. The deposits are collateralized in accordance with Section 6-10-17, NMSA, 1978, which requires financial institutions to pledge aggregate securities with a fair value of ½ of uninsured deposits.

Restricted Cash

Deposits of customer meter deposits are held to secure payment of gas services.

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

Notes to the Financial Statements

June 30, 2014

**NOTE C: CAPITAL ASSETS**

Capital Assets Balances and Activity for the year ended June 30, 2014, is as follows:

	Balance 6/30/13	Additions	Deletions	Balance 6/30/14
<b>Business-Type Activities</b>				
Capital Assets not being Depreciated				
Land	\$ 27,223	\$ 0	\$ 0	\$ 27,223
Total Capital Assets not being Depreciated	27,223	0	0	27,223
<b>Other Capital Assets</b>				
Utility System:				
Gas Plant Acquisition	95,817			95,817
Improvements	249,454			249,454
Mains, Meters, and Regulators	1,608,138	18,165	5,000	1,621,303
Equipment & Vehicles:				
Equipment	307,835	13,783		321,618
Transportation	151,463			151,463
Office	85,654		229	85,425
Total Capital Assets at Historical Cost	2,525,584	31,948	5,229	2,552,303
<b>Accumulated Depreciation:</b>				
Utility System:				
Gas Plant Acquisition	95,817	0	0	95,817
Improvements	117,287	5,839	5,000	118,126
Mains, Meters, and Regulators	1,175,616	13,265		1,188,881
Prior Period AD Adjustment	(364)			(364)
Equipment & Vehicles:				
Equipment	190,293	14,409		204,702
Transportation	105,601	9,125		114,726
Office	49,522	7,084	229	56,377
Total Accumulated Depreciation	1,733,772	49,722	5,229	1,778,265
Capital Assets, Net	\$ 791,812	\$ (17,774)	\$ 0	\$ 774,038

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

Notes to the Financial Statements

June 30, 2014

**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 2014, \$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's contributions in the plan for fiscal years ending June 30, 2014, and 2013, were \$23,606 and \$17,066, respectively. Employee salary deferrals were \$28,686 and \$23,558 in fiscal year 2014 and 2013, respectively. There were no additional discretionary contributions for either fiscal years of 2014 or 2013. Contributions for 2014 includes \$6,322 for prior year's service of employees.

**NOTE E: PREPAID EXPENSE**

Prepaid expense consists of unexpired insurance premiums. The Association does not have any material prepaid insurance premium at June 30, 2014.

**NOTE F: 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.

During the current year, the Association did not file any insurance claims or receive any insurance benefits and at June 30, 2014, 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 or insurance coverage during the past year.

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

Notes to the Financial Statements

June 30, 2014

**NOTE G: 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 \$2,386, for the current fiscal year. Board members purchase natural gas service at the same price as other customers. For the year ended June 30, 2014, the Association had purchases of supplies and other services from board members in the amount of \$2,824. 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 H: 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 Services Low Income Home Energy Assistance Program. The total advance payment credits included in accounts receivables are \$6,790. 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.

Allowance for uncollectible accounts is provided based on historical charge-offs of uncollectible accounts.

**NOTE I: 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, 2014, was \$11,858.

STATE OF NEW MEXICO  
EASTERN NEW MEXICO NATURAL GAS ASSOCIATION  
Budgetary Comparison and Statement of Revenue, Expenses, and Changes in Cash Balance Budget and Actual (Budgetary Basis) - Proprietary Funds  
For the Year Ended June 30, 2014

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	\$ 829,365	\$ 829,365	\$ 753,418	\$ (75,947)	\$ 5,131	\$ 758,549
Sale of Merchandise	115,000	115,000	63,627	(51,373)	0	63,627
Other Services	69,000	69,000	39,735	(29,265)	0	39,735
Fees	225,555	225,555	224,567	(988)	0	224,567
Change in allowance for doubtful accounts	0	0	0	0	0	0
Interest Income	2,300	2,300	1,842	(458)	0	1,842
Miscellaneous	800	800	414	(386)	0	414
<b>Total Revenues</b>	<b>1,242,020</b>	<b>1,242,020</b>	<b>1,083,603</b>	<b>(158,417)</b>	<b>5,131</b>	<b>1,088,734</b>
<b>Expenditures</b>						
Advertising	2,000	2,000	1,257	(743)	32	1,289
Bad Debt	0	0	0	0	1,097	1,097
Board Expense Reimbursements	9,000	11,700	11,150	(550)	0	11,150
Capital Expenditures	30,000	33,230	33,229	(1)	(33,229)	0
Cost of Gas Sold	470,000	425,000	388,909	(36,091)	3,300	392,209
Cost of Sales	60,000	57,458	34,104	(23,354)	(4,805)	29,299
Depreciation	0	0	0	0	49,721	49,721
Fees	12,000	12,000	11,723	(277)	(20)	11,703
Fuel	30,000	30,000	26,779	(3,221)	(2,373)	24,406
Gross Receipts Taxes	56,000	57,760	57,760	0	47	57,807
Health Insurance	75,000	75,000	62,540	(12,460)	0	62,540
Insurance	21,000	25,000	24,788	(212)	0	24,788
License Renewal	0	0	480	480	220	700
Office	15,700	15,700	12,903	(2,797)	196	13,099
Other	2,250	10,600	10,894	294	(582)	10,312
Payroll Taxes	26,531	26,531	23,121	(3,410)	(765)	22,356
Personnel Services	320,669	320,669	280,378	(40,291)	(1,715)	278,663
Professional Fees	7,500	10,500	9,640	(860)	487	10,127
Retirement Benefits	19,240	26,240	22,479	(3,761)	1,127	23,606
Supplies and Maintenance	19,700	35,002	33,439	(1,563)	(7,460)	25,979
Uniforms	8,456	8,456	6,418	(2,038)	(119)	6,299
Utilities	9,700	11,900	11,765	(135)	0	11,765
<b>Total Expenditures</b>	<b>1,194,746</b>	<b>1,194,746</b>	<b>1,063,756</b>	<b>(130,990)</b>	<b>5,159</b>	<b>1,068,915</b>
<b>Excess (Deficiency) of Revenues over Expenditures</b>	<b>47,274</b>	<b>47,274</b>	<b>19,847</b>	<b>(27,427)</b>	<b>\$ (28)</b>	<b>\$ 19,819</b>
Cash Balance Beginning of Year	164,362	164,362	475,345	0		
Cash Balance End of Year	\$ 211,636	\$ 211,636	\$ 495,192	\$ (27,427)		

Explanation of Differences:

Change in receivables	\$ 5,131
Change in inventory	400
Change in accounts payable	10,841
Change in accrued salaries	3,631
Change in accrued liabilities	(34)
Change in accrued compensated absences	(2,408)
Capital assets transferred	33,229
Bad debt expense	(1,097)
Depreciation expense	(49,721)
	<u>\$ (28)</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, 2014

**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 the accrual basis.
- b. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

STATE OF NEW MEXICO  
**EASTERN NEW MEXICO NATURAL GAS ASSOCIATION**  
Supplemental Schedule  
June 30, 2014

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	\$ 105,198	8/20/2033	TIB, Dallas, Texas

(Held in the name of the bank at The Independent BankersBank, Dallas, Texas,  
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, 2014, 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 October 30, 2014.

**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.

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. 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.

My consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. I did identify certain deficiencies in internal control, described in the accompanying *Schedule of Findings and Responses*, that I consider to be significant deficiencies, listed as findings, 2013-002 [2013-02], 2014-001 and 2014-002.

### **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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **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.

October 30, 2014

A handwritten signature in cursive script that reads "R Kelly McFarland".

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

Schedule of Findings and Responses

June 30, 2014

**FINDING 2013-002 [2013-02] (Repeated) (Significant Deficiency)**

Bank Reconciliation Procedures

Condition - Bank reconciliations are not reviewed and documented 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.

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 bank reconciliation at June 30, 2014, reflected a deposit in transit dated January 20, 2014, in the amount of \$2,108. Although this transaction only needs to be “cleared” in the QuickBooks system, a review of the bank reconciliation would have detected this error. The Association is at risk of misstatement of the financial statements as errors may occur and not be prevented or detected on a timely basis.

Cause - The Association has not fully 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 initial bank statements. A reconciliation sheet will be printed out each month, the manager will review and initial.

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

Schedule of Findings and Responses

June 30, 2014

**FINDING 2014-001 (Significant Deficiency)**

Cutoff of Accounting Records

Condition – The accounting records of the Association were closed on June 25, 2014. Between that date and June 30, 2014, meter deposits of \$300 and collections of utility accounts receivable of \$202 were received, but recorded on July 3, 2014, as fiscal year 2015 transactions. The daily cash recap and deposit report was not prepared until after the 25<sup>th</sup> of June, 2014. The operating bank reconciliation was completed through June 25, 2014 - not through year end.

Criteria - Eastern New Mexico Natural Gas Association, Inc.'s budget year is through June 30 of each year. The Association must therefore account for all transactions during the entire period of its legally adopted budget year and as provided by Section 12-6-5, NMSA, 1978, to implement “good accounting practices” in order to provide a complete accounting of its activities for the fiscal year.

Effect - While most material transactions usually take place prior to the 25<sup>th</sup> of the month, the Association is at risk of a material transaction occurring between the 25<sup>th</sup> and month end, resulting in misstatement of the financial statements.

Cause - The Association's operating bank account is on a non-calendar month end cycle, ending on the 25<sup>th</sup> of the month. As most receipts are generally collected by the 25<sup>th</sup> and as it is easier to reconcile the bank to the statement date, the books are closed on the 25<sup>th</sup> of the month, rather than at month end.

Recommendation - I recommend that all transactions be recorded through the fiscal year end and that the daily cash recap be prepared through year end.

Management's Response – All transactions will be recorded through the fiscal year end. The daily cash recap will also be prepared through the budget year end date, June 30. Eastern New Mexico Natural Gas Association will ask the Banks to start ending their statement cycle at the end of each month instead of the 25<sup>th</sup>.

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

Schedule of Findings and Responses

June 30, 2014

**FINDING 2014-002** (Significant Deficiency)

Accounts Receivable Reconciliation

Condition – Accounts receivable transactions are not reconciled to the subsidiary accounts receivable ledger.

Criteria – The objective of the subsidiary ledger is to accurately record detail transactions to customers' accounts (billing, payments, adjustments, etc.) and to support the accounts receivable balance as reflected on the financial statements. In order to ensure accuracy of the transactions recorded in the accounts receivable ledger, reconciliation is necessary, because the Association's cash basis general ledger does not reflect any accounts receivable transactions for the year. Accounts receivable is only recorded at year end to prepare the financial statements.

Effect - The accounts receivable balance of \$49,864, net, as reflected in the accounts receivable ledger included unidentified transactions for the year of \$1,108. The inability to account for all transactions flowing through the accounts receivable ledger places the Association at risk of misstatement of the financial statements or possible misappropriation.

Cause – As the Association only posts cash transactions during the year to the general ledger, there is no control developed to determine the accuracy of accounts receivable.

Recommendation – I recommend the Association prepare a monthly reconciliation of accounts receivable to agree transactions (billings, payments, adjustments) to the balance of accounts receivable reflected on the accounts receivable ledger at month end. The reconciliation should be reviewed by someone other than the preparer.

Management's Response - Eastern New Mexico Natural Gas Association will prepare a monthly reconciliation of accounts receivable to agree transactions (billing, payments, adjustments) to the balance of accounts receivable reflected on the accounts receivable ledger at month end. The reconciliation will be reviewed by someone other than the preparer.



STATE OF NEW MEXICO  
**EASTERN NEW MEXICO NATURAL GAS ASSOCIATION**  
Schedule of Prior Year Findings and Other Disclosures  
June 30, 2014

**PRIOR YEAR AUDIT FINDINGS**

2013-001 [2013-01]	Clarity of organizational structure	Resolved as ENMNGA obtained a legal opinion that the Association is a governmental entity not subject to Federal Income Tax.
2013-002 [2013-02]	Bank reconciliation procedures	Repeated and modified as Finding 2013-002.
2013-003 [2013-03]	Credit memos and charge-offs of accounts receivable	Resolved as Manager and Board approve charge-offs.
2013-004 [2013-04]	Capital assets depreciation schedule maintained by ENMNGA	Resolved as ENMNGA now maintains the depreciation schedule.
2013-005 [2013-05]	Repeated compensated absences accounting	Resolved ENMNGA maintains the detail compensated absence schedule.
2013-006 [2013-06]	Surety bond	Resolved as the Association maintains a surety bond.

**OTHER DISCLOSURES**

An exit conference was held on October 30, 2014, in attendance were the following:

Representing Eastern New Mexico Natural Gas Association:

Mr. George Sena – Association Manager  
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

STATE OF NEW MEXICO  
**EASTERN NEW MEXICO NATURAL GAS ASSOCIATION**  
Schedule of Prior Year Findings and Other Disclosures  
June 30, 2014

**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.