

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

**ANNUAL FINANCIAL  
REPORT**  
June 30, 2015



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

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For the Year Ended June 30, 2015

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STATE OF NEW MEXICO  
EASTERN NEW MEXICO NATURAL GAS ASSOCIATION

Roster  
June 30, 2015

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**BOARD OF DIRECTORS**

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

**ADMINISTRATION**

George Sena	Association Manager
Pae Vinson	Bookkeeper



**R. Kelly McFarland**

**Certified Public Accountant  
A Professional Corporation**



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## **Independent Auditor's Report**

Mr. Timothy Keller  
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, 2015, 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 Governmental Accounting Standards Board, in the accompanying financial statements as of and for the year ended June 30, 2015, 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, 2015, 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, 2015 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, 2015, required by accounting principles generally accepted in the United States of America 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 required by Section 2.2.2, NMAC, 1978, 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, 1978, are 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.

### **Vendor Schedule**

The accompanying Schedule of Vendor Information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance on it.

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

In accordance with *Government Auditing Standards*, I have also issued my report dated December 3, 2015, 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.



December 3, 2015

STATE OF NEW MEXICO  
EASTERN NEW MEXICO NATURAL GAS ASSOCIATION  
Statement of Net Position - Proprietary Funds  
June 30, 2015

ASSETS	
Current Assets	
Cash on Hand	\$ 470
Cash in Banks	514,861
Accounts Receivable (Net of Allowance for Uncollectible Accounts of \$1,450)	48,918
Inventory	<u>27,145</u>
Total Current Assets	591,394
Non-current Assets	
Restricted Cash in Bank - Customer Deposits	50,159
Capital Assets	\$ 2,563,797
Less: Accumulated Depreciation	<u>(1,806,193)</u>
Net Capital Assets	<u>757,604</u>
Total Non-current Assets	<u>807,763</u>
Total Assets	<u>1,399,157</u>
LIABILITIES	
Current Liabilities	
Accounts Payable	30,686
Accrued Payroll Liabilities	<u>13,032</u>
Total Current Liabilities	<u>43,718</u>
Non-current Liabilities	
Accrued Compensated Absences	11,596
Customer Deposits	<u>50,262</u>
Total Non-current Liabilities	<u>61,858</u>
Total Liabilities	<u>105,576</u>
NET POSITION	
Investment in Capital Assets	757,604
Unrestricted	<u>535,977</u>
Total Net Position	<u><u>\$ 1,293,581</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 Revenues, Expenses, and Changes in Net Position - Proprietary Funds  
For the Year Ended June 30, 2015

Operating Revenues

Sales and Services (Including Applicable NM Gross Receipts Taxes)		
Gas Sales	\$	882,975
Appliance Sales and Parts		114,511
Services		60,916
Other		507
Total Sales and Services		<u>1,058,909</u>
Less: Cost of Goods Sold		<u>380,019</u>
Gross Profit		<u>678,890</u>

Operating Expenses

Personnel Services and Related Expenses		
Personnel Services	\$	297,834
Health Insurance		63,320
Payroll Taxes		23,854
Retirement Benefits		19,363
Board Expense Reimbursements		6,900
Total Personnel Services and Related Expenses		<u>411,271</u>

Depreciation		55,310
Gross Receipts Taxes		53,519
Supplies and Maintenance		38,442
Insurance		22,056
Fuel		18,471
Office		12,742
Fees		11,511
Utilities		10,762
Uniforms		8,542
Professional Fees		7,785
Other		4,555
Advertising		1,547
Bad Debt Expense		742
License Renewal		631
Total Operating Expenses		<u>657,886</u>

Net Operating Income 21,004

Non-operating Income and Expense

Gain on Involuntary Conversion	23,517
Gain on Sale of Assets	3,301
Interest Income	1,537
Total Non-operating Income and Expense	<u>28,355</u>

Change in Net Position 49,359

Net Position, Beginning of Year 1,244,222

Net Position, End of Year \$ 1,293,581

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, 2015

Cash Flows from Operating Activities	
Cash receipts from Customers and Users	\$ 1,059,906
Cash receipts of Customer Deposits (Net)	3,448
Cash payments to Employees for Services and Employee Benefits	(410,248)
Cash payments for Operations and Suppliers	<u>(559,539)</u>
Net Cash Provided by Operating Activities	93,567
Cash Flows from Capital Activities	
Proceeds from sale of assets	216
Acquisitions of Capital Assets	<u>(47,510)</u>
Net Cash Provided (Used) by Capital Activities	(47,294)
Cash Flows from Investing Activities	
Interest Income	1,537
Insurance Proceeds	<u>35,236</u>
Net Cash Provided by Investing Activities	36,773
Net Increase (Decrease) in Cash	<u>83,046</u>
Cash, Beginning of year	<u>482,444</u>
Cash, End of year	<u><u>\$ 565,490</u></u>
Reconciliation of Cash	
Cash on Hand	\$ 470
Cash in Banks	514,861
Restricted Cash in Bank	<u>50,159</u>
Total Cash	<u><u>\$ 565,490</u></u>
Reconciliation of Net Operating Income to Net Cash provided by Operating Activities	
Operating Income	\$ 21,004
Adjustments to Reconcile Net Operating Income to Net Cash provided by Operating Activities	
Depreciation	55,310
Bad Debt	742
Change in Assets and Liabilities	
(Increase) Decrease in Accounts Receivable	204
(Increase) Decrease in Inventory	203
Increase (Decrease) in Accounts Payable	11,608
Increase (Decrease) in Accrued Salaries and Related Expense	1,310
Increase (Decrease) in Compensated Absences	(262)
Increase (Decrease) in Customer Deposits	<u>3,448</u>
Net Cash provided by Operating Activities	<u><u>\$ 93,567</u></u>
Schedule of Non-cash Investing, Capital and Financing Activities:	
Non-cash Purchases of Capital Assets on Account	<u><u>\$ 9,000</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, 2015

**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 three members to the governing Board of Directors to serve a term of three 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, 2015

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

**Financial Reporting Entity, 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.

STATE OF NEW MEXICO  
EASTERN NEW MEXICO NATURAL GAS ASSOCIATION

Notes to the Financial Statements

June 30, 2015

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

**Measurement Focus and Basis of Accounting, continued**

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.

**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 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) 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

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

Notes to the Financial Statements

June 30, 2015

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

*Investments, continued*

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.

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). 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. 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.

STATE OF NEW MEXICO  
EASTERN NEW MEXICO NATURAL GAS ASSOCIATION

Notes to the Financial Statements

June 30, 2015

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

Capital Assets, continued

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	15-40 years
Buildings	15-40 years
Building Improvements	5 years
Vehicles, Equipment	3-20 years
Information Technology Equipment and Software	3-10 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. ENMNGA employees accrue one sick day per calendar month. Employees may be paid half of accumulated sick leave over one hundred and twenty days.

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.

STATE OF NEW MEXICO  
EASTERN NEW MEXICO NATURAL GAS ASSOCIATION

Notes to the Financial Statements

June 30, 2015

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

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.

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.



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

Notes to the Financial Statements

June 30, 2015

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

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.

**NOTE B: DEPOSITS AND INVESTMENTS**

Total deposits with financial institutions and collateral requirements at June 30, 2015, are summarized as follows:

	Citizens Bank of Clovis, NM Balance per Bank	Citizens Bank of Clovis, NM Reconciled Balance	American Heritage Bank Clovis, NM Balance per Bank	American Heritage Bank Clovis, NM Reconciled Balance
Operating Deposits, Noninterest-bearing	\$ 259,923	\$ 248,147		
Saving Deposits, Interest-bearing	105,867	105,867		
Meter Deposits, Noninterest-bearing	52,117	50,159		
Contractors License Deposits, Interest-bearing	1,038	1,038		
Certificate of Deposits, Interest-bearing			\$ 61,249	\$ 61,249
Money Market Deposits, Interest-bearing			98,560	98,560
	<u>418,945</u>	<u>\$ 405,211</u>	<u>159,809</u>	<u>\$ 159,809</u>
Less: FDIC Coverage	<u>(250,000)</u>		<u>(159,809)</u>	
Total uninsured public funds	168,945		<u>\$ 0</u>	
Pledged Collateral held by pledging bank's agent in the pledging bank's name, but not in ENMGA's name		<u>90,745</u>		
Uninsured and uncollateralized (Excess Collateral)		<u>\$ 78,200</u>		
50% Collateral Requirement (as per Section 6-10-17, NMSA, 1978)		\$ 84,473		
Total pledged collateral		<u>(90,745)</u>		
Pledged collateral (over) under the requirement		<u>\$ (6,273)</u>		

STATE OF NEW MEXICO  
EASTERN NEW MEXICO NATURAL GAS ASSOCIATION

Notes to the Financial Statements

June 30, 2015

**NOTE B: DEPOSITS AND INVESTMENTS, continued**

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, 2015, the Association's bank balance was \$578,754 (\$565,020 reconciled balance) and of that amount \$168,945 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, 2015

**NOTE C: CAPITAL ASSETS**

Capital Assets Balances and Activity for the year ended June 30, 2015, is as follows:

	Balance 6/30/14	Additions	Deletions	Balance 6/30/15
Business-Type Activities				
Capital Assets not being Depreciated				
Land	\$ 27,223	\$ 0	\$ 0	\$ 27,223
Total Capital Assets not being Depreciated	27,223	0	0	27,223
Other Capital Assets				
Utility System:				
Gas Plant Acquisition	95,817	0	0	95,817
Improvements	249,454	0	21,211	228,243
Mains, Meters, and Regulators	1,621,303	23,925	9,018	1,636,210
Equipment & Vehicles:				
Equipment	321,618	32,585	14,787	339,416
Transportation	151,463	0	0	151,463
Office	85,425	0	0	85,425
Total Capital Assets at Historical Cost	2,552,303	56,510	45,016	2,563,797
Accumulated Depreciation:				
Utility System:				
Gas Plant Acquisition	95,817	0	0	95,817
Improvements	118,126	5,839	9,492	114,473
Mains, Meters, and Regulators	1,188,517	16,269	9,018	1,195,768
Equipment & Vehicles:				
Equipment	204,702	17,293	8,872	213,123
Transportation	114,726.00	9,125	0	123,851
Office	56,377	6,784	0	63,161
Total Accumulated Depreciation	1,778,265	55,310	27,382	1,806,193
Capital Assets, Net	\$ 774,038	\$ 1,200	\$ 17,634	\$ 757,604

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

Notes to the Financial Statements

June 30, 2015

**NOTE C: CAPITAL ASSETS, continued**

Capital asset additions		
Cash	\$	47,510
Non-monetary		<u>9,000</u>
Total additions	\$	<u>56,510</u>

During the year, the Association sold old meters from the capital assets and received \$216.

**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 2015, \$24,000 for employees 50 years of age and over and \$18,000 for employees under 50 years of age). Employee deferrals are matched by the employer up to a maximum of 6% 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, 2015, and 2014, were \$19,363 and \$23,606, respectively. Employee salary deferrals were \$32,204 and \$28,686 in fiscal year 2015 and 2014, respectively. There were no additional discretionary contributions for either fiscal years of 2015 or 2014. Contributions for 2014 includes \$6,322 for a prior year's service of employees.

Vesting of employer non-elective profit sharing and matching contributions is over a six year graded plan. Participants become fully vested upon death or total disability. Forfeitures of non-vested benefits of terminated employees are used to reduce employer matching contributions.

**NOTE E: PREPAID EXPENSE**

Prepaid expense consists of unexpired insurance premiums. The Association does not have any material prepaid insurance premium at June 30, 2015.

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

Notes to the Financial Statements

June 30, 2015

**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 for workers compensation, general liability and property coverage. Contributions to the fund for the current year amounted to \$19,769. Premiums to members are based on claim experience and status of the pool. The Association also has insurance for other risks from other carriers for employee dishonesty bond, director liability, and employment practices.

During the current year, the Association received insurance proceeds on hail damage claims in the amount of \$35,236, and had no claims outstanding at June 30, 2015. The Association received insurance proceeds on roof and vehicle damage.

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.

**NOTE G: RELATED PARTY TRANSACTIONS**

Employees of ENMNGA are recipients of discounted natural gas service as an employee fringe benefit, which amounted to \$2,415, for the current fiscal year. Board members purchase natural gas service at the same price as other customers. For the year ended June 30, 2015, the Association had purchases of supplies and other services from board members in the amount of \$5,822. 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 RECEIVABLE**

Accounts receivables are reported net of advance payments received from customers. Advance payments include amounts 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 \$11,463. 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

STATE OF NEW MEXICO  
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Notes to the Financial Statements

June 30, 2015

**NOTE H: ACCOUNTS RECEIVABLE, continued**

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 limited by policy to 20 days. Total amount due for compensated absences at June 30, 2015, was \$11,596.

**NOTE J: INVOLUNTARY CONVERSION**

During the current year a hail storm damaged Association vehicles and buildings. As a result of insurance recoveries, the Association experienced a gain on the involuntary conversion as follows:

Insurance recovery	\$ 35,236
Basis of involuntarily converted property (net of accumulated depreciation)	<u>11,719</u>
Gain on involuntary conversion	<u>\$ 23,517</u>

The Board of Directors has approved a contract for repair of roof and building damage in the amount of \$31,567.

**NOTE K: SUBSEQUENT EVENTS REVIEW**

Subsequent events were evaluated through December 3, 2015, the issue date of these financial statements.

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, 2015

	Budgeted	Budgeted	Actual	Budgetary	Budget to	Actual
	Amounts	Amounts	(Budgetary	Basis with	GAAP	(GAAP
Revenues	Original	Final	Basis)	Final Budget -	Differences	Basis)
				Over (Under)		
Gas Sales and Services	\$ 829,365	\$ 829,365	\$ 664,548	\$ (164,817)	\$ (204)	\$ 664,344
Sale of Merchandise	115,000	115,000	114,511	(489)	0	114,511
Other Services	69,000	69,000	52,076	(16,924)	0	52,076
Fees	225,555	225,555	228,264	2,709	(793)	227,471
Change in allowance for doubtful accounts	0	0	0	0	0	0
Interest Income	2,300	2,300	1,537	(763)	0	1,537
Insurance Proceeds	0	35,236	35,236	0	(11,719)	23,517
Gain on Sale of Assets	0	0	0	0	3,301	3,301
Miscellaneous	800	800	507	(293)	0	507
<b>Total Revenues</b>	<b>1,242,020</b>	<b>1,277,256</b>	<b>1,096,679</b>	<b>(180,577)</b>	<b>(9,415)</b>	<b>1,087,264</b>
<b>Expenditures</b>						
Advertising	2,000	2,000	1,550	(450)	(3)	1,547
Bad Debt	0	0	0	0	742	742
Board Expense Reimbursements	12,000	42,034	6,900	(35,134)	0	6,900
Capital Expenditures	65,000	44,700	47,510	2,810	(47,510)	0
Cost of Gas Sold	470,000	470,000	321,257	(148,743)	707	321,964
Cost of Sales	60,000	60,000	50,265	(9,735)	7,790	58,055
Depreciation	0	0	0	0	55,310	55,310
Fees	12,000	12,000	11,511	(489)	0	11,511
Fuel	30,000	30,000	17,040	(12,960)	1,431	18,471
Gross Receipts Taxes	56,000	56,000	54,003	(1,997)	(484)	53,519
Health Insurance	69,000	69,000	63,320	(5,680)	0	63,320
Insurance	25,000	25,000	22,633	(2,367)	(577)	22,056
License Renewal	700	700	631	(69)	0	631
Office	15,700	15,850	12,873	(2,977)	(131)	12,742
Other	3,500	4,000	3,055	(945)	1,500	4,555
Payroll Taxes	25,910	25,910	23,992	(1,918)	(138)	23,854
Personnel Services	312,552	312,552	296,753	(15,799)	1,081	297,834
Professional Fees	17,500	8,500	8,272	(228)	(487)	7,785
Retirement Benefits	17,758	19,608	19,283	(325)	80	19,363
Supplies and Maintenance	16,700	46,152	37,015	(9,137)	1,427	38,442
Uniforms	6,000	8,550	8,422	(128)	120	8,542
Utilities	12,500	12,500	10,762	(1,738)	0	10,762
<b>Total Expenditures</b>	<b>1,229,820</b>	<b>1,265,056</b>	<b>1,017,047</b>	<b>(248,009)</b>	<b>20,858</b>	<b>1,037,905</b>
<b>Excess (Deficiency) of Revenues over Expenditures</b>	<b>12,200</b>	<b>12,200</b>	<b>79,632</b>	<b>\$ 67,432</b>	<b>\$ (30,273)</b>	<b>\$ 49,359</b>
<b>Cash Balance, Beginning of Year</b>	<b>205,029</b>	<b>205,029</b>	<b>248,147</b>			
<b>Cash Balance, End of Year</b>	<b>\$ 217,229</b>	<b>\$ 217,229</b>	<b>\$ 327,779</b>			

Explanation of Differences:

Change in receivables	\$ (327)
Change in inventory	(203)
Change in capital assets (net)	(8,634)
Change in accounts payable	(11,608)
Change in accrued salaries	(1,525)
Change in accrued liabilities	451
Change in accrued compensated absences	262
Change in customer deposits	(3,448)
Capital assets transferred	47,510
Bad debt expense	(742)
Depreciation expense	(55,310)
Gain on sale of assets	3,301
	<u>\$ (30,273)</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, 2015

**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  
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Supplemental Schedule  
June 30, 2015

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	\$ 90,745	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. Timothy Keller  
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, 2015, 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 December 3, 2015.

**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, 2014-002, 2015-001, and 2015-005.

### **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 the following instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, 2015-002, 2015-003, 2015-004 and 2015-006.

### **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.

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

December 3, 2015

STATE OF NEW MEXICO  
**EASTERN NEW MEXICO NATURAL GAS ASSOCIATION**  
Schedule of Findings and Responses and Other Disclosures

June 30, 2015

**PRIOR YEAR FINDINGS**

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

Accounts Receivable Reconciliation

Condition – Accounts receivable transactions are not reconciled to the subsidiary accounts receivable ledger. The monthly reconciliation of accounts receivable was not developed during the fiscal year ended June 30, 2015.

Criteria – The objective of the subsidiary ledger is to accurately record detail transactions to customers' accounts (billing, payments, adjustments, etc.). Reconciliation of the subsidiary ledger is essential to ensure accuracy of the transactions recorded in the accounts receivable ledger to the control total. A monthly reconciliation of the receivables to include the beginning balance, the total billings, total payments and total adjustments is a control measure to preclude possible misstatement of the financial statements.

Effect – The Association is at risk of misstatement. Errors in accounts receivable, whether by fraud or error will not be detected until the cash basis general ledger is adjusted to accrual for financial reporting at the end of the fiscal year. Errors discovered at year end will be more difficult to identify because of the year's volume of transactions.

Cause – As the Association only posts cash transactions during the year to its cash basis general ledger, there is no control developed to determine if the accounts receivable balance is in agreement with the control account during the year.

Recommendation – I recommend the Association prepare a monthly reconciliation to agree transactions (billings, payments, adjustments) to the total balance of individual customer receivable accounts 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. Isabell will start in January 2016 reconciling after every bank deposit. Pae will use this information to reconcile monthly. George will review all reconciliations.

STATE OF NEW MEXICO  
**EASTERN NEW MEXICO NATURAL GAS ASSOCIATION**  
Schedule of Findings and Responses and Other Disclosures

June 30, 2015

**CURRENT YEAR FINDINGS**

**FINDING 2015-001** (A significant deficiency)

Inventory Accounting

Condition – Documentation of inventory costing for inventory purchased in prior years is not readily available to verify inventory cost. Perpetual inventory records are not used to control inventory quantities, pricing or charges to cost of sales during the year.

Criteria – Accurate costing of inventory properly charges the cost of inventory consumed or sold to the current accounting period. Perpetual inventory records provide a continuous inventory control of quantities, charge cost of sales with inventory consumed or sold, maintains inventory costing of individual items and provides a control for safeguarding inventory quantities from loss. Section 12-6-5, NMSA, 1978, requires governments to implement *good accounting practices*.

Effect – The Association is at risk of misstatement from charging improper costs of inventory consumed or sold to the current year, from using inaccurate inventory costing prices. Additionally, inventory control is not maintained during the year, exposing the Association to possible losses that would not be timely detected.

Cause - The Association uses the cash basis of accounting for charging purchases of parts or products for sale directly to costs of sales upon purchase. The cash basis of accounting has no method for charging inventory acquired in prior years and sold or consumed in the current year to current year costs of sales. Therefore, inventory control methods have not been developed.

At year end, inventory is taken for unsold and unconsumed inventory and adjusted through cost of sales for financial reporting; however, for inventory acquired in a prior year, current prices are sometimes used because invoices to determine the actual purchase price are not readily available. A perpetual inventory system is not maintained.

Recommendation – I recommend management consider the use of perpetual inventory software to maintain inventory costing and quantities. Inventory software provides for bar coded items and scanning recognition to quickly and accurately charge items into inventory and to credit inventory for items sold or consumed.

STATE OF NEW MEXICO  
**EASTERN NEW MEXICO NATURAL GAS ASSOCIATION**  
Schedule of Findings and Responses and Other Disclosures

June 30, 2015

**CURRENT YEAR FINDINGS, continued**

**FINDING 2015-001** (A significant deficiency), continued

Recommendation, continued

I also recommend periodic inventory of the perpetual inventory quantities to ensure accuracy and to safeguard Association property. Charges to cost of sales from the software system reports would be available for adjusting the cash basis general ledger to accrual for financial reporting at year end.

Management's Response – Eastern New Mexico Natural Gas Association will set the inventory up on QuickBooks. Pae will start entering into QuickBooks all inventory items. This process will be completed by April, 2016. May 2016, Pae will have had training on how to utilize the QuickBooks program on inventory. In July 2016, Pae will start using the QuickBooks inventory for Eastern New Mexico Natural Gas.



STATE OF NEW MEXICO  
**EASTERN NEW MEXICO NATURAL GAS ASSOCIATION**  
Schedule of Findings and Responses and Other Disclosures

June 30, 2015

**CURRENT YEAR FINDINGS, continued**

**FINDING 2015-002** (not a significant deficiency)

Outstanding Check Policy

Condition - A policy for restoring old outstanding checks to cash has not been established. At June 30, 2015, the Association's general bank reconciliation reflected six outstanding checks over one year old, some of which dated back to 2011 and the security deposit account reflected over 30 outstanding checks over one year old.

Criteria - Section 55-4-404, NMSA, 1978, provides that banks are not obligated to pay checks more than six months old. Proper accounting and bank reconciliation procedures provide for the disposition of outstanding checks dated over a specified period as provided by policy, such that checks are no longer carried as outstanding to facilitate bank reconciliation and to preclude the carrying of noncleared items to cover fraudulent withdrawals. Certain property, such as wages and deposit refunds of utility companies are subject to abandoned property reporting, in accordance with Section 7-8A-7, NMSA, 1978.

Effect – The Association is exposed to possible misappropriation by covering cash shortages with uncleared items. Additionally, the bank reconciliation process is complicated by a number of old outstanding checks. In fiscal year 2015, confusion in voiding an outstanding check over one year old after year end, resulted in misstating the bank account balance by an immaterial amount of \$127.

The Association is not in compliance with requirements to report abandoned property for security deposits held for over one year.

Cause – The Association has no policy governing the length of time outstanding checks are carried.

Recommendation – I recommend the Association adopt a policy governing the length of time outstanding checks continue to be carried on the bank reconciliation before returning them to cash. I also recommend outstanding checks from security deposits be reported as abandoned property as required by statute.

Management's Response – In January 2016 at the regular board meeting, Eastern New Mexico Natural Gas Association will adopt a policy governing the length of time outstanding checks continue to be on the bank reconciliation. In February 2016, Pae will place an ad in the newspaper on old uncashed meter deposit checks.

STATE OF NEW MEXICO  
**EASTERN NEW MEXICO NATURAL GAS ASSOCIATION**  
Schedule of Findings and Responses and Other Disclosures

June 30, 2015

**CURRENT YEAR FINDINGS, continued**

**FINDING 2015-003** (Other noncompliance)

Disposition of Personal Property

Condition – The Association did not notify the State Auditor or Department of Finance and Administration of the disposition of equipment with a value in excess of \$5,000, which was exchanged for other equipment.

Criteria – Section 13-6-1, NMSA, 1978, requires local public bodies to notify the State Auditor and the Department of Finance and Administration of the disposition of personal property in excess of \$5,000.

Effect – The Association is not in compliance with the statute.

Cause – The Association was not aware that an exchange of equipment for other equipment was a disposition which required reporting by the statute.

Recommendation – I recommend personal property exchanged, sold or otherwise disposed of be reported to the appropriate state agency as required by statute.

Management's Response – In July, 2015, George (Manager) and Pae (Secretary) from Eastern New Mexico Natural Gas Association has started reporting to the appropriate State Agency as required by statute.

STATE OF NEW MEXICO  
**EASTERN NEW MEXICO NATURAL GAS ASSOCIATION**  
Schedule of Findings and Responses and Other Disclosures

June 30, 2015

**CURRENT YEAR FINDINGS, continued**

**FINDING 2015-004** (other noncompliance)

Procurement Code

Condition – The Association did not obtain three written quotes for the purchase of a ditching machine for a total cost of \$23,158.

Criteria – Section 1.4.1.51, NMAC, 1978, provides that for purchases exceeding \$20,000, but less than \$60,000, agencies are required to obtain no fewer than three written quotations that are placed in the procurement file. If three written quotes cannot be obtained, agencies shall document the reasons and include such documentation in the procurement file.

Effect – The Association is not in compliance with the procurement requirements.

Cause – The Association exchanged equipment with a value of \$8,000 for other equipment, such that the cash paid was only \$15,159. Management believed that as the cash paid was less than \$20,000, written quotes were not required.

Recommendation – I recommend management review the requirements of Title 1, Chapter 4 of the State Procurement Code Regulations. I also recommend management maintain an awareness of the effect of nonmonetary exchanges on purchases of equipment.

Management's Response – In July, 2015, George (Manager) and Pae (Secretary) from Eastern New Mexico Natural Gas Association has started following the New Mexico State Procurement Code Regulations.

STATE OF NEW MEXICO  
**EASTERN NEW MEXICO NATURAL GAS ASSOCIATION**  
Schedule of Findings and Responses and Other Disclosures

June 30, 2015

**CURRENT YEAR FINDINGS, continued**

**FINDING 2015-005** (significant deficiency)

Reconciliation of Capital Asset Changes

Condition – A reconciliation of capital asset expenditures recorded in the general ledger in the amount of \$47,510 was not reconciled to additions to the capital asset listing of \$41,991.

Criteria – Proper accounting procedures requires the reconciliation of changes in the capital asset listing to detail records to ensure accuracy and to preclude misstatement of the financial statements.

Effect – The additions to the capital asset listing was misstated and without reconciliation, may not be timely detected.

Cause – Changes to the capital asset listing were made without reference to a control of detail changes to ensure the accuracy of postings to the capital asset listing. The capital asset listing is maintained on a spreadsheet, which requires total accuracy to properly post capital asset changes, to correctly compute depreciation and assign asset lives and dates of changes. Additionally, great care must be exercised to inadvertently changing formula, which could easily change the entire spread sheet.

Recommendation – I recommend management consider the acquisition of fixed asset software to more accurately maintain the capital asset listing. Most fixed asset software will provide a report of changes to the capital asset listing of the current year, which can be easily compared to supporting data, typically in the general ledger. Moreover, the software will properly compute depreciation and facilitate the keying of acquisition and disposition dates as well as the life of the asset. Finally, the software is not subject to the level of inadvertent changes that can occur in a spreadsheet to change formulas and totals of the capital asset controls.

Management's Response – In January 2016, during a regular board meeting George (Manager) and Pae (Secretary) from Eastern New Mexico Natural Gas Association will go to the Board of Directors with the Auditor's recommendation of purchasing a Fixed Asset software.

STATE OF NEW MEXICO  
**EASTERN NEW MEXICO NATURAL GAS ASSOCIATION**  
Schedule of Findings and Responses and Other Disclosures

June 30, 2015

**CURRENT YEAR FINDINGS, continued**

**FINDING 2015-006** (not a significant deficiency)

401(k) Contributions

Condition – Employer contributions of \$303 were not contributed for vacation pay and sick leave paid to an employee nor were employee elective deferrals of \$860 withheld.

Criteria - Paragraph 26.a. of the *Adoption Agreement for the Standardized 401(k) Profit Sharing Plan and Trust* provides that compensation is defined as “wages, tips and other compensation on Form W-2”. Paragraph 26 g. provides that no adjustments may be made to compensation. The “Adoption Agreement” is dated 2008 and it is unclear if amendments have been made since that date.

Effect - The Association has a liability to the employee for employer contributions and is not in compliance with the 401(k) agreement that would not be detected until the plan administrator prepared the annual *Plan Summary Document* and Form 5500.

Cause – The Association was not familiar with the definition of compensation reflected on the 401(k) agreement.

Recommendation – I recommend the Association discuss with the plan administration the definition of “compensation” and confirm if any amendments have been made to the plan since 2008. Based on consultation with the plan administrator, Management should determine if employer’s matching contributions are required by the 401(k) plan document.

Management’s Response – In January, 2016, during a regular board meeting, George (Manager) and Pae (Secretary) from Eastern New Mexico Natural Gas Association will go to the Board of Directors with the Auditor’s recommendation of consulting with the plan administrator. In February, 2016, Eastern New Mexico Natural Gas Association will visit with the plan administration on the definition of “compensation”. In March, 2016, Eastern New Mexico Natural Gas will determine if employer’s matching contributions are required by the 401(k) plan.

STATE OF NEW MEXICO  
**EASTERN NEW MEXICO NATURAL GAS ASSOCIATION**  
Schedule of Findings and Responses and Other Disclosures

June 30, 2015

**STATUS OF PRIOR YEAR AUDIT FINDINGS**

2013-002 [2013-02]	Bank reconciliation procedures	Resolved. The Manager reviews and initials bank reconciliations.
2014-001	Cutoff of Accounting Records	Resolved. The Association cutoff for fiscal year 2015 activities was on June 30, 2015.
2014-002	Accounts Receivable Reconciliation	Repeated in current year.

**OTHER DISCLOSURES**

An exit conference was held on December 3, 2015, in attendance were the following:

Representing Eastern New Mexico Natural Gas Association:

Mr. George Sena – Association Manager  
Ms. Pae Vison – Bookkeeper  
Board Members

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 books of account and records provided by management. The Association accepts responsibility for the financial statements.