

**NEW MEXICO MUNICIPAL
ENERGY ACQUISITION AUTHORITY
Years Ended
June 30, 2014 and 2013**

INTRODUCTORY SECTION

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**NEW MEXICO MUNICIPAL
ENERGY ACQUISITION AUTHORITY
List of Principal Officials
June 30, 2014**

<u>Name</u>	<u>Title</u>
Jay Burnham	Chairperson
Jorge Garcia	Vice Chairman
Robert Westervelt	Secretary
Susan Nipper	Treasurer
Richard Matzke.....	Member
Victoria Fredrick.....	Member
Patty Hollard	Member

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Hector H. Balderas, New Mexico State Auditor and
Board Members
New Mexico Municipal Energy Acquisition Authority
Farmington, New Mexico

Report on Financial Statements

We have audited the accompanying basic financial statements of the business-type activities, which are comprised of the statements of net position as of June 30, 2014 and 2013, and statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements, of the New Mexico Municipal Energy Acquisition Authority (NMMEAA).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the

entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of New Mexico Municipal Energy Acquisition Authority as of June 30, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2014 New Mexico Municipal Energy Acquisition Authority implemented the provisions of GASB Statement No. 65, which changed the accounting for bond issuance costs. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages ix-xii be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with the auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2014 on our consideration of the entity's' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "David Berry, CPA, R". The signature is written in a cursive style with a large, looping initial "D".

**Farmington, New Mexico
November 25, 2014**

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Management's Discussion and Analysis

Management's Discussion and Analysis of the New Mexico Municipal Energy Acquisition Authority (NMMEAA) financial performance provides an overview of NMMEAA's financial activities for the year ended June 30, 2014. Please read this information in conjunction with the accompanying financial highlights, the basic financial statements and the accompanying notes to the financial statements.

NMMEAA was created June 19, 2008 through a Joint Powers Agreement organized pursuant to the laws of the State of New Mexico between the City of Las Cruces and the City of Gallup for the purpose of obtaining a reliable long-term supply of natural gas under favorable terms, conditions and prices to benefit government-owned utilities and their retail customers. The City of Farmington, the City of Las Cruces and the Incorporated County of Los Alamos have 30 year gas supply agreements with NMMEAA, with the gas furnished through a prepaid gas purchase and sale contract with Royal Bank of Canada (RBC).

On November 19, 2009 \$780,965,000 of New Mexico Municipal Energy Acquisition Authority Gas Supply Variable Rate Revenue Bonds, Series 2009 were issued to provide a lump sum payment to RBC for the prepaid gas contract. A total quantity of 171,322,165 MMBtu of natural gas will be delivered at designated delivery points and specified daily quantities over a period of 30 years to NMMEAA under the terms of the prepaid agreement.

Financial Analysis

The following condensed financial statements summarize NMMEAA's financial position and operating results for the years ended June 30, 2014 and 2013.

New Mexico Municipal Energy Acquisition Authority Net Position

	FY 2014	Restated FY 2013
Current assets	\$ 51,681,671	\$ 50,572,533
Noncurrent assets	<u>1,031,090,659</u>	<u>906,811,366</u>
Total assets	<u>1,082,772,330</u>	<u>957,383,899</u>
Total deferred outflows of resources	104,788,742	94,576,923
Current liabilities	9,791,965	8,321,156
Noncurrent liabilities	<u>865,888,742</u>	<u>862,586,923</u>
Total liabilities	<u>875,680,707</u>	<u>870,908,079</u>
Total deferred inflows of resources	310,995,846	181,020,205
Unrestricted net position	<u>884,519</u>	<u>32,538</u>
Total net position	<u>\$ 884,519</u>	<u>\$ 32,538</u>

Condensed Statement of Revenues, Expenses and Changes in Net Position
Years ended June 30, 2014 and 2013

	FY 2014	Restated FY 2013
Operating revenues	\$ 21,465,593	\$ 17,074,591
Operating expenses	<u>27,777,039</u>	<u>27,873,827</u>
Operating income	(6,311,446)	(10,799,236)
Nonoperating revenues (expenses)		
Investment earnings	1,343	5,797
Net costs to be recovered in future periods	19,000,000	20,057,372
Commodity swap	13,695,203	16,679,880
Interest rate swaps	(25,068,883)	(24,962,365)
Interest expense bondholders	<u>(464,236)</u>	<u>(1,117,551)</u>
Total nonoperating revenues (expenses)	<u>7,163,427</u>	<u>10,663,133</u>
Change in net position	851,981	(136,103)
Net position-beginning	<u>32,538</u>	<u>168,641</u>
Net position-ending	<u>\$ 884,519</u>	<u>\$ 32,538</u>

2014 Financial Highlights

Statement of Net Position:

Total assets, deferred outflows of resources, liabilities and deferred inflows of resources result from the issuance of revenue bonds and the purchase of a prepaid gas contract. Derivative financial instruments necessary to make the transaction possible are shown at their fair value as of June 30, 2014.

Operating Revenues:

Operating revenues result from gas deliveries which are based on a specified index less a discount from such price, plus a premium. The discount is allowed only if the bond indenture required primary rate stabilization reserve is met each month.

Operating Expenses:

The largest operating expense of NMMEAA is amortization of the prepaid gas supply. Another large expense occurring in November 2013 was the savings distribution to the three gas purchasers of \$1,611,460. Various administrative expenses comprise the remainder of FY2014 operating expenses.

Nonoperating Revenues and Expenses:

Income from the commodity swap contract and interest on investments are nonoperating revenue. The fixed interest expense from the interest rate swap is mostly offset by net costs to be recovered in future periods. Under GASB 62, certain income and expense items are deferred and not included in the determination of net income until such costs are recoverable.

General Trends and Significant Events

Recent changes in U.S. Treasury regulations and U.S. Tax code has allowed government-owned utilities to issue tax-exempt bonds to pre-pay a natural gas supply which is lower priced and more stable for use by retail customers or for the generation of electricity which is then sold to retail customers. In 2008 negative economic events began to occur in the U.S. which hurt the financial standing of large financial institutions. This was followed by a drop in natural gas prices in 2009, which had been at record highs. Long term prepaid gas contracts reduce the volatility of the natural gas market.

In November, 2009 NMMEAA issued tax exempt bonds to purchase a 30 year prepaid supply of natural gas. In connection with the purchase of the gas supply, NMMEAA entered into a commodity swap agreement to convert the floating, market-referenced revenues received from gas supply agreements to a fixed revenue stream for the entire gas supply delivered under the prepaid gas agreement. The commodity swap counterparty during fiscal year 2014 was J.P. Morgan Chase Bank NA. The term of the commodity swap agreement is the same term as the prepaid gas agreement and covers the same period and gas delivery points. The commodity swap counterparty had to maintain a credit rating of at least A1 by Moody's or post collateral according to the trust indenture.

NMMEAA also entered into an interest rate swap agreement covering two transactions with RBC to hedge interest rate fluctuations on the bonds and to more closely match payment obligations on the bonds with revenues from the supply agreements and the commodity swap agreement.

The 2009 Prepaid Agreement between NMMEAA and RBC provides that RBC may terminate the agreement (which in turn would trigger termination of all related agreements and mandatory early redemption of the Bonds) following the occurrence of a change in applicable banking or other regulatory authority or GAAP, or an interpretation of either thereof, the application of which effects a change to the regulatory and/or accounting treatment by RBC of the transactions of the Agreement, and RBC determines that the change materially adversely affects the transactions contemplated with respect to the Agreement, which determination shall be made by RBC in its commercially reasonable judgment.

In October, 2013 RBC notified NMMEAA that the Canadian Office of the Superintendent of Financial Institutions ("OSFI") had adopted guidelines requiring RBC to apply an additional capital charge to the 2009 transaction with NMMEAA and

that RBC had determined that this additional credit valuation adjustment (“CVA” capital) materially affected the 2009 transaction. RBC notified NMMEAA that absent a restructuring of the 2009 transaction that reduced or eliminated the CVA capital charges, RBC would terminate the 2009 transaction. In addition, in May 2014, OSFI released its final Liquidity Adequacy Requirements (“LAR”) which would require RBC to hold high quality liquid assets against 100% of the outstanding 2009 Bonds and this requirement would materially adversely affect the 2009 transaction.

After consulting with legal counsel and independent financial/swap advisors, NMMEAA agreed with RBC’s above assertions and early in fiscal year 2015 will refund the Series 2009 bonds with Series 2014 Refunding Bonds for an initial 5 year period while retaining potential to continue beyond 5 years with a future gas discount for the 3 gas purchasers to be determined at that time.

Summary of the Financial Statements

The financial statements, related notes and management’s discussion and analysis provide information about NMMEAA’s financial position and activities as of June 30, 2014. The statement of net assets presents assets, liabilities and net assets; the statement of revenues, expenses and changes in net assets present operating results and change in net assets; and the statement of cash flows shows sources and uses of cash during the year. The notes to the financial statements provide additional disclosures and information essential to a full understanding of the data provided in the statements.

Report of Management

NMMEAA has prepared and is responsible for the financial statements and related information included in this report. Management believes that its policies and procedures provide guidance and reasonable assurance that NMMEAA’s operations are conducted according to management’s intentions within an ethical framework. In management’s opinion, the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of NMMEAA in conformity with accounting principles generally accepted in the United States of America. Questions regarding this report or for additional information should be addressed to the manager of NMMEAA, the City of Farmington, at the address shown below.

The City of Farmington
101 N. Browning Parkway
Farmington, NM 87401-7995
505-599-8311

BASIC FINANCIAL STATEMENTS

New Mexico Municipal Energy Acquisition Authority
Statements of Net Position
June 30, 2014 and 2013

ASSETS:	FY 2014	Restated FY 2013
Current assets:		
Cash and cash equivalents	\$ 3,765,217	\$ 4,026,679
Receivables - gas supply agreements	1,623,655	1,496,023
Receivables - other	1,349,354	1,383,296
Restricted cash and cash equivalents	20,247,097	18,970,187
Prepaid gas supply, current	24,696,348	24,696,348
Total current assets	<u>51,681,671</u>	<u>50,572,533</u>
Noncurrent assets:		
Prepaid gas supply, long-term	612,364,847	637,061,195
Costs recoverable from future billings	107,729,966	88,729,966
Fair value of derivative instruments	310,995,846	181,020,205
Total noncurrent assets	<u>1,031,090,659</u>	<u>906,811,366</u>
Total assets	<u><u>1,082,772,330</u></u>	<u><u>957,383,899</u></u>
DEFERRED OUTFLOWS OF RESOURCES:		
Accumulated decrease in fair value of derivative instrument	104,788,742	94,576,923
Total deferred outflows of resources	<u>104,788,742</u>	<u>94,576,923</u>
LIABILITIES:		
Current liabilities:		
Accounts payable	172,696	197,900
Accrued interest payable	2,719,269	2,748,256
Current maturities of long-term debt	6,900,000	5,375,000
Total current liabilities	<u>9,791,965</u>	<u>8,321,156</u>
Noncurrent liabilities:		
Fair value of derivative instruments	104,788,742	94,576,923
Long-term debt, net of current maturities	761,100,000	768,010,000
Total noncurrent liabilities	<u>865,888,742</u>	<u>862,586,923</u>
Total liabilities	<u><u>875,680,707</u></u>	<u><u>870,908,079</u></u>
DEFERRED INFLOWS OF RESOURCES:		
Accumulated increase in fair value of derivative instrument	310,995,846	181,020,205
Total deferred inflows of resources	<u>310,995,846</u>	<u>181,020,205</u>
NET POSITION:		
Unrestricted net position	884,519	32,538
Total net position	<u>\$ 884,519</u>	<u>\$ 32,538</u>

See notes to financial statements.

New Mexico Municipal Energy Acquisition Authority
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2014 and 2013

	FY 2014	Restated FY 2013
Operating revenues:		
Gas supply agreement income	\$ 21,465,593	\$ 17,074,591
Operating expenses:		
Cost of gas sold	24,696,348	24,696,348
Gas service administration expense	14,971	14,971
Savings distribution to gas purchasers	1,611,460	1,686,880
Trustee expense	7,660	23,192
Rating agency expense	2,933	8,633
Liquid facility expense	792,587	801,237
Remarketing agency expense	617,061	619,823
Legal expense	19,149	7,873
Audit expense	8,570	8,570
Management fee expense	6,300	6,300
Total operating expenses	27,777,039	27,873,827
Operating income (loss)	(6,311,446)	(10,799,236)
Nonoperating revenues(expenses):		
Investment income	1,343	5,797
Net costs to be recovered in future periods	19,000,000	20,057,372
Commodity swap	13,695,203	16,679,880
Interest rate swaps:		
Transaction I swap-fixed 4.1871%	(32,330,832)	(32,519,775)
Transaction I swap-actual variable rate	464,737	1,118,734
Transaction II swap-80% 1 mth LIBOR+80.74bp	6,797,212	6,438,676
Total interest rate swap expense	(25,068,883)	(24,962,365)
Interest expense to bondholders	(464,236)	(1,117,551)
Total nonoperating revenues (expenses)	7,163,427	10,663,133
Change in net position	851,981	(136,103)
Net position - beginning	32,538	168,641
Net position - ending	\$ 884,519	\$ 32,538

See notes to financial statements.

New Mexico Municipal Energy Acquisition Authority
Statements of Cash Flows
For the Years Ended June 30, 2014 and 2013

	FY 2014	FY 2013
Cash flows from operating activities		
Receipts from customers/users	\$ 21,337,961	\$ 16,440,420
Payments to other suppliers of goods and services	(1,494,434)	(1,493,191)
Annual savings distribution to gas purchasers	<u>(1,611,460)</u>	<u>(1,686,880)</u>
Net cash provided (used) by operating activities	<u>18,232,067</u>	<u>13,260,349</u>
Cash flows from noncapital financing activities		
Principal payments on long-term debt	(5,385,000)	(3,935,000)
Interest paid	<u>(25,558,198)</u>	<u>(26,078,181)</u>
Net cash provided (used) by noncapital financing activities	<u>(30,943,198)</u>	<u>(30,013,181)</u>
Cash flows from investing activities		
Investment income	1,343	5,797
Net change from commodity swap	<u>13,725,236</u>	<u>17,213,302</u>
Net cash provided (used) by investing activities	<u>13,726,579</u>	<u>17,219,099</u>
Net increase in cash and cash equivalents	1,015,448	466,267
Cash and cash equivalents, beginning of year	<u>22,996,866</u>	<u>22,530,599</u>
Cash and cash equivalents, end of year	<u>\$ 24,012,314</u>	<u>\$ 22,996,866</u>
Reconciliation of operating income to net cash provided (used) by operating activities		
Operating income (loss)	\$ (6,311,446)	\$ (10,799,236)
Changes in operating assets and liabilities		
Receivables - gas supply agreement	(127,632)	(634,171)
Prepaid gas supply	24,696,348	24,696,348
Accounts payable	<u>(25,203)</u>	<u>(2,592)</u>
Net cash provided (used) by operating activities	<u>\$ 18,232,067</u>	<u>\$ 13,260,349</u>

See notes to financial statements.

New Mexico Municipal Energy Acquisition Authority
Notes to Financial Statements
June 30, 2014 and 2013

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

New Mexico Municipal Energy Acquisition Authority (NMMEAA) was established in 2008 through a joint powers agreement to acquire long-term energy supplies by the City of Las Cruces, NM and the City of Gallup, NM. Both cities are New Mexico charter municipalities with municipal home-rule powers created and existing pursuant to the Constitution and laws of the State of New Mexico. NMMEAA was formed to:

- Purchase natural gas to be furnished to retail gas customers within the gas service area of the City of Las Cruces for purposes other than electric generation, or for sale to another municipal or governmentally-owned utility to be furnished to retail gas customers within such utility's natural gas service area for purposes other than electric generation;
- Purchase natural gas to be used to produce electricity to be furnished to retail customers within the electricity service area of the City of Gallup, or for sale to another municipal or governmentally-owned utility to be used to produce electricity to be furnished to retail customers within such utility's electric service area for such use;
- Purchase electricity for distribution and sale of electricity for distribution and sale of electricity by the City of Gallup to its retail customers and to other municipal or governmentally-owned electric utilities for such use; and
- Finance the cost of purchasing natural gas or electricity through the issuance of revenue bonds secured by natural gas supply and related contracts and/or electricity supply and related contracts (Supply Contracts) and revenues received pursuant to such Supply Contracts and other contracts.

Beginning in October 2009, NMMEAA began selling natural gas to the City of Farmington, NM, and in November 2009 to the City of Las Cruces, NM and the Incorporated County of Los Alamos, NM through long-term gas supply contracts. Proceeds received from issuing New Mexico Municipal Energy Acquisition Authority Gas Supply Variable Rate Revenue Bonds, Series 2009 were used to purchase a long-term prepaid gas supply for these contracts.

Reporting Entity

In evaluating how to define a governmental entity, for financial reporting purposes, management must consider all potential component units for which financial accountability may exist. The determination of financial accountability pursuant to Governmental Accounting Standards Board (GASB 14, *The Financial Reporting Entity* and GASB No. 39,

Determining Whether Certain Organizations are Component Units) includes consideration of a number of criteria, including: (1) the ability to appoint a voting majority of another entity's governing body and to impose its will on that entity, (2) the potential for that entity to provide specific financial benefits to or impose specific financial burdens on others, and (3) the entity's fiscal dependency on others. NMMEAA has determined that it has no reportable component units.

Accounting Method

NMMEAA's funds are accounted for on the accrual basis of accounting. NMMEAA's records are maintained in accordance with accounting principles generally accepted in the United States of America for regulated utilities and generally follow the Uniform System of Accounts for Public Utilities and License prescribed by the Federal Energy Regulatory Commission (FERC). NMMEAA prepares its financial statements as a business-type activity in conformity with applicable pronouncements of GASB.

GASB Statement No. 62 incorporated into the GASB's authoritative literature certain accounting and reporting guidance included in the Financial Accounting Standards Board (FASB) Statements and Interpretations that were issued on or before November 30, 1989 which did not conflict with or contradict GASB pronouncements. Under the provisions of GASB Statement No. 62, *Regulated Operations*, NMMEAA has deferred certain income and expense items in the determination of net income until such time as the costs are recoverable.

Implementation of New Accounting Pronouncement

In FY2014, NMMEAA implemented the provisions of GASB 65, *Items Previously Reported as Assets and Liabilities*, which established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. In addition, the statement changes the method of reporting debt issuance costs. Prior to implementation of GASB Statement No. 65, NMMEAA reported debt issuance costs as deferred charges which were capitalized and amortized over the life of the related debt. Under GASB Statement No. 65, debt issuance costs are to be recognized as an expense in the period incurred. The adoption of GASB Statement No. 65 resulted in a retroactive restatement of the FY2013 financial statements for the Series 2009 debt issuance costs. The FY2013 Statement of Revenues, Expenses and Changes in Net Position amortization of the Series 2009 debt issuance costs was removed as an expense of \$242,628 and the net costs to be recovered in future periods was decreased by this same amount, resulting in a total amount of costs to be recovered in future periods of \$20,057,372. The FY2013 Statement of Net Position was also restated for the Series 2009 bond issue costs. The bond issue costs are now included in costs recoverable from future billings, which was increased by \$6,429,966 to a total of \$88,729,966. These costs were previously shown as a deferred outflow of resources.

Reclassifications

Certain reclassifications have been made to the FY2013 financial statements to conform to the FY2014 presentation. The reclassifications had no effect on the change in net position.

Use of 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

NMMEAA considers all highly liquid investments with original maturities of three months or less at the time of purchase to be cash and cash equivalents. Cash and cash equivalents consist of money market mutual funds invested in government securities and US Treasury Bills.

Investments

Interest rate swaps with financial services companies are carried at contract value. Investment income consists of interest income. Investments for NMMEAA are reported at fair value.

Receivables

Receivables are stated at the amount billed to customers and interest receivable. Receivables billed to customers are due within 10 days after issuance of the invoice, or by the 20th of the month or the business day immediate preceding such day if the 20th is not a business day. Management does not believe an allowance for doubtful accounts is necessary at June 30, 2014.

Prepaid Gas Supply

NMMEAA prepaid for deliveries of the natural gas supplies with the proceeds from the revenue bonds. Prepaid gas supplies are stated at average cost, as determined by the prepay contract.

Costs Recoverable from Future Billings

NMMEAA's Natural Gas Supply Agreements establish a pricing mechanism outlining the methods for billing customers for the natural gas supply. Expenses in excess of amounts currently billable to customers under the pricing mechanism will be recovered in future billings to customers and are classified as a deferred debit. These amounts are principally related to long-term supply and include interest expense, amortization, and other costs that are realized at different times than they are billed to customers.

NMMEAA's derivative financial instruments are accounted for in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. In connection with this Statement, the fair value of NMMEAA's derivative financial instruments is recorded on the Statement of Net Position, with offsetting deferrals.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time.

Net Position Classification

Restricted assets within net position have externally imposed constraints by creditors (such as debt covenants), contributors, laws or regulations of other governments. NMMEAA has no restricted assets within net position, nor does it have any net investment in capital assets. NMMEAA's net position is completely unrestricted.

Classification of Revenues

NMMEAA has classified its revenues as either operating or nonoperating revenues according to the following criteria:

- Operating revenues are derived from delivery of gas supplies to customers.
- Nonoperating revenues are derived from capital and related financing, noncapital financing and investing activities such as net costs to be recovered in future periods and investment income.

Derivative Instruments

Derivative instruments are utilized by NMMEAA to manage market risk and reduce its exposure resulting from fluctuations in prices of natural gas in order to meet debt service requirements. These instruments include a commodity swap agreement which converts index-priced natural gas revenues to fixed prices for servicing outstanding debt obligations and interest rate swap agreements which effectively convert NMMEAA's variable interest rate to a synthetic fixed rate. Interest expense in each operating period includes the netting adjustments of interest rate swap agreements.

Income Taxes

NMMEAA operates as a governmental entity under a joint powers agreement in the State of New Mexico and is exempt from federal and state income taxes.

Note 2: Cash and Investments

As of June 30, 2014 and 2013 NMMEAA had the following cash and investments which are held in trust by Wells Fargo Bank, National Association, as Trustee.

	<u>FY 2014</u> <u>Trust</u>		<u>FY 2013</u> <u>Trust</u>
Wells Fargo Advantage 100% Treasury Money Market Fund #008	\$ 24,012,314	\$	20,667,309
U.S. Treasury bill; 10/31/2013;#912796BH1	-		2,329,557
Total cash and cash equivalents	<u>\$ 24,012,314</u>	\$	<u>22,996,866</u>
	<u>Financial Statements</u>		<u>Financial Statements</u>
Cash and cash equivalents	\$ 3,765,217	\$	4,026,679
Restricted cash and cash equivalents	20,247,097		18,970,187
Total cash and cash equivalents	<u>\$ 24,012,314</u>	\$	<u>22,996,866</u>

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. NMMEAA may only invest in direct obligations of the United States or obligations guaranteed as to full and timely payment both as to principal and interest by the United States; and in investments in a money market fund secured by obligations of the United States. The money market funds are presented as cash and cash equivalents with a maturity of less than one year because they are redeemable in full immediately.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The trust indenture requires counterparties to have a credit rating by Moody's of at least A1.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure NMMEAA's deposits with the Trustee may not be returned to it. All moneys held under the Indenture by the Trustee are to be held in such manner as required by applicable Federal or State laws and regulations of the state in which the Trustee is located and shall be either continuously or fully insured by the Federal Deposit Insurance Corporation (FDIC), or if not continuously and fully secured by FDIC, by lodging with the Trustee, as custodian, as collateral security, qualified investments having a market value (exclusive of accrued interest) not less than the amount of such moneys. At June 30, 2014, NMMEAA's did not have any bank deposits and there was no collateral pledged by the Trustee.

Concentration of Credit Risk

NMMEAA and the trust indenture place no limit on the amount that may be invested in any one issuer.

	FY 2014 Portfolio Composition		FY 2013 Portfolio Composition
Wells Fargo Advantage 100% Treasury Money Market Fund #008	\$ 24,012,314	\$	20,667,309
U.S. Treasury bill; 10/31/2013;#912796BH1	-		2,329,557
Total cash and cash equivalents	\$ 24,012,314	\$	22,996,866

Note 3: Restricted Assets

The following is a summary of restricted assets as of June 30, 2014 and 2013.

	FY 2014		FY 2013
<u>Restricted assets</u>			
Debt service required reserve	\$ 13,753,000	\$	13,753,000
Primary rate stabilization requirement	1,920,000		1,933,463
Debt service fund principal	3,115,274		2,330,496
Bond redemption fund	10,821		7,358
Secondary rate stabilization requirement	1,448,002		945,870
Total restricted assets	\$ 20,247,097	\$	18,970,187

Note 4: Long-term Debt

Long-term debt at June 30, 2014 and 2013 consisted of the following:

	FY 2014		FY 2013
<u>Revenue Bonds:</u>			
New Mexico Municipal Energy Acquisition Authority Gas Supply Variable Rate Revenue Bonds, Series 2009 (2014-2039)	\$ 768,000,000	\$	773,385,000
Less current maturities of long-term debt	(6,900,000)		(5,375,000)
Long-term debt	\$ 761,100,000	\$	768,010,000

Changes in Long-term Liabilities

During the years ended June 30, 2014 and 2013, the following changes occurred in long-term liabilities:

	<u>Balance June 30, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2013</u>	<u>Due Within One Year</u>
Total Revenue Bonds-Series 2009	\$ 777,320,000	-	(3,935,000)	\$ 773,385,000	\$ 5,375,000
	<u>Balance June 30, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2014</u>	<u>Due Within One Year</u>
Total Revenue Bonds-Series 2009	\$ 773,385,000	-	(5,385,000)	\$ 768,000,000	\$ 6,900,000

Bond redemptions occurring in FY2014 include two sinking fund redemptions; one on November 1, 2013 for \$2,330,000 and one on May 1, 2014 for \$3,045,000. In addition, there were two optional redemptions for \$5,000 each, one on November 1, 2013 and one on May 1, 2014. This did not affect the interest rate swap contract because interest payable under this contract is not based on outstanding bonds, but on the notional amount found in the Annex I of the interest rate swap contract between NMMEAA and RBC.

Future principal and interest payments required to be made in accordance to the interest rate swap counterparty under Transaction I (fixed interest rate of 4.1871%) are as follows:

Year Ending June 30,	Fixed @ 4.1871%		
	Principal	Interest	Total
2015	\$ 6,900,000	\$ 32,078,559	\$ 38,978,559
2016	8,470,000	31,762,294	40,232,294
2017	9,950,000	31,380,081	41,330,081
2018	11,385,000	30,938,517	42,323,517
2019	12,890,000	30,434,948	43,324,948
2020-2024	89,055,000	142,257,734	231,312,734
2025-2029	134,225,000	119,319,789	253,544,789
2030-2034	194,795,000	85,045,200	279,840,200
2035-2039	257,380,000	38,015,902	295,395,902
2040	42,950,000	450,113	43,400,113
	<u>\$ 768,000,000</u>	<u>\$ 541,683,137</u>	<u>\$ 1,309,683,137</u>

Note 5: Related Party Transactions

NMMEAA's natural gas sales to members (City of Las Cruces) were \$1,042,163 during the year ended June 30, 2014. At June 30, 2014, receivables of \$36,130 are due from members (City of Las Cruces).

Note 6: Gas Purchase and Sales Agreements

NMMEAA has entered into long-term gas purchase and supply contracts for which prepayments have been made and amounts remaining of \$24,696,348 and \$612,364,847 are reflected in both current and noncurrent asset categories at June 30, 2014. Long-term sales agreements also exist with customers, to take delivery of the natural gas over a period continuing through 2039. The sale price to the customer for these contracts is at specified index prices less a discount. As discussed in Note 7, swap agreements are used to convert these variable index prices to fixed prices sufficient to meet debt service requirements.

Gas Supply Variable Rate Revenue Bonds, Series 2009

In October 2009, NMMEAA issued \$780,965,000 of gas supply revenue bonds to fund the prepayment of 171,322,165 MMBtus of gas from Royal Bank of Canada (RBC) with deliveries beginning November 2009 and ending October 2039. The City of Farmington, NM, and the City of Las Cruces, NM and the Incorporated County of Los Alamos, NM will purchase the scheduled monthly gas at a specified index less a discount from such index

price for the entire term of November 2009 through October 2039. The revenue bonds are secured by a pledge of the gas supply revenues derived from the prepay transaction.

NMMEA entered into an interest rate swap with RBC in connection with the Series 2009, Gas Supply Variable Rate Revenue Bonds. Under the swap agreement, NMMEA pays a fixed interest rate of 4.1871% to the interest rate counterparty and receives a payment back equal to the variable interest amount payable to bondholders. Under Transaction II NMMEA then pays the swap counterparty the interest amount payable to bondholders and receives back an interest rate equal to 80% of the LIBOR rate plus 80.74 basis points. The synthetic rate for FY2014 for the interest rate swap was 3.3436%.

Note 7: Derivative Instruments

Composition of Derivative Instruments

The fair value balances and notional amounts of derivative instruments outstanding as of June 30, 2014 and 2013, classified by type, are as follows:

	Notional Amount		Fair Value	Counterparty Credit Rating
<u>June 30, 2014</u>				
Positive cash flow:				
Natural gas commodity swap	171,322,165	MMBtu	\$ 310,995,846	Aa3
Net negative cash flow:				
Pay fixed interest rate swap	\$ 780,965,000		\$ (154,486,109)	Aa3
Pay periodic floating rate swap	\$ 780,965,000		49,697,367	Aa3
			<u>\$ (104,788,742)</u>	
<u>June 30, 2013</u>				
Positive cash flow:				
Natural gas commodity swap	171,322,165	MMBtu	\$ 181,020,205	Aa3
Net negative cash flow:				
Pay fixed interest rate swap	\$ 780,965,000		\$ (149,375,676)	Aa3
Pay periodic floating rate swap	\$ 780,965,000		54,798,753	Aa3
			<u>\$ (94,576,923)</u>	

All fair values are classified as derivative instruments on the statements of net assets. The increase and decrease in fair values of the natural gas commodity swap derivative instrument were \$129,975,641 and (\$122,514,170) for 2014 and 2013, respectively. The decrease and increase in fair values for the combined interest rate swaps were (\$10,211,819) and \$95,000,638 for 2014 and 2013, respectively. As these commodity and interest rate swaps are considered hedging derivative instruments, the change in fair value is reflected within deferred outflows and inflows on the statements of net assets. The positive and negative fair values of the commodity and interest rate swaps are not netted when the swaps were entered into with different counterparties. The fair values of the commodity swaps are based on forward prices from established indexes for the applicable region and discounted using established rate indexes. The fair values of the interest rate

swaps are based on the future yield curve for tax-exempt bonds and discounted using established rate indexes.

Derivative instruments are utilized by NMMEAA to manage market risk and reduce its exposure resulting from fluctuations in prices of natural gas in order to meet debt service requirements. These instruments include a commodity swap agreement which converts index-priced natural gas revenues to fixed prices for servicing outstanding debt obligations and an interest rate swap with two transactions which effectively convert NMMEAA's variable interest rate to a synthetic fixed rate. Effective with fiscal years beginning after June 15, 2009, GASB Statement No. 53 requires that the fair value of financial arrangements called "derivatives" or "derivative instruments" be reported in the financial statements of state and local governments. If a derivative effectively hedges, or significantly reduces the risk of rising or falling cash flows or fair values, then its annual fair value changes are deferred until the hedged transaction occurs or the derivative ceases to be effective. According to GASB 53, a derivative is defined as a financial arrangement with values or cash payments that are based on what happens in separate transactions, agreements, or rates and have these characteristics:

- The financial arrangements are leveraged. There is minimal or no initial investment, but the arrangement achieves changes in fair value that would have required a far larger investment.
- The financial arrangement can be settled early with a cash payment or the transfer of an equivalent asset.

Even though governments enter into a derivative to minimize an identified risk, the derivative itself can expose the government to the following risks:

- Credit risk is the chance the counterparty to a swap agreement will not make good on its promise to pay the government.
- Interest rate risk refers to the idea that the longer a derivative is in place the greater the potential is that changes in interest rates could reduce the value of the transaction to the government.
- Termination risk refers to a derivative ending earlier than planned, thereby depriving a government of risk protection and potentially requiring a significant termination payment. This can happen if the credit rating of either the government or the counterparty falls below the agreed upon level.
- Basis risk is the idea that in some derivatives the amount received by the government from the counterparty is based on one market rate, and the amount it pays to bondholders is based on another index. An example of this is one payment being based on the Securities Industry and Financial Markets Association (SIFMA) index and the other payment based on the London Interbank Offered Rate (LIBOR). If the rate on which the bondholder payments going out increases more than the rate determining the receipts to the government, less money will be received than payments going out.

- Rollover risk happens when the derivative does not last as long as the associated debt is outstanding. This would happen if the interest rate swap was for 15 years, but the variable rate debt was for 30 years. At the end of the 15 years, the government may not be able to get another interest rate swap derivative and would no longer be protected from rising interest rates.
- Market-access risk is the chance a government will not be able to issue debt, or in doing so it would become more expensive.
- Foreign currency risk is the chance that changes in foreign exchange rates will adversely affect the value of the derivative if it is denominated in a foreign currency.

As of June 30, 2014 NMMEAA had the following derivative instruments:

Item	Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms	Fair Value
A	Natural gas commodity swap	To enable NMMEAA to receive a fixed revenue stream with respect to the sale of the entire gas supply delivered under the prepaid gas agreement.	171,322,165 MMBtu	October 1, 2009	September 30, 2039	Receive fixed price, pays Inside FERC El Paso SJ index	\$ 310,995,846
B	Pay-fixed interest rate swap (Transaction I)	Hedge exposure to interest rate fluctuations on bonds and match with expected revenues from supply agreements and the commodity swap.	\$ 780,965,000	November 19, 2009	November 1, 2039	Pay 4.1871% fixed, receive periodic floating bond rate determined by Remarketing Agent (RBC).	\$ (154,486,109)
C	Pay periodic floating bond rate determined by Remarketing agent (Item B above) Transaction II	Same as Transaction I	\$ 780,965,000	November 19, 2009	November 1, 2039	Pay floating bond rate determined by Remarketing Agent and receive 80% of USD-LIBOR-BBA one-month +80.74bp	\$ 49,697,367

The fair value of the commodity swap was provided by the commodity swap counterparty, J.P. Morgan Chase Bank NA. The fair value of Transaction I and Transaction II interest rate swaps were provided by the interest rate swap counterparty, Royal Bank of Canada (RBC).

Item	Type	Changes in Fair Value		Fair Value at June 30, 2014		Notional Amount
		Classification	Amount	Classification	Amount	
A	Natural gas commodity swap	Deferred inflow	\$ 129,975,641	Derivative instruments	\$ 310,995,846	171,322,165 MMBtu
B	Pay fixed interest rate swap (Transaction I)	Deferred outflow	(5,110,433)	Derivative instruments	(154,486,109)	\$ 780,965,000
C	Pay periodic floating bond rate determined by Remarketing agent (Item B above) Transaction II	Deferred outflow	(5,101,386)	Derivative instruments	49,697,367	\$ 780,965,000

NMMEAA evaluated the effectiveness of its derivative instruments using the consistent critical terms method. Following are tables showing the three derivative instruments and critical terms of the hedging instrument and the item that it is hedging. Since the critical terms are the same it is assumed the three instruments are effective, and any changes in the fair value are deferred in FY 2014.

Consistent Critical Terms	Commodity Swap NMMEAA and J.P. Morgan	Natural Gas Supply Agreements (COF, LA, LC with NMMEAA) - is Revenue in NMMEAA	Prepaid Natural Gas Purchase and Sale Agreement NMMEAA and RBC
Commodity	Natural Gas	Natural Gas	Natural Gas
Beginning Gas Delivery Date	October 1, 2009	October 1, 2009	October 1, 2009
Ending Gas Delivery Date	September 30, 2039	September 30, 2039	September 30, 2039
Notional Total Quantity Gas (MMBtu)	171,322,165	171,322,165	171,322,165
Natural Gas Spot Market Index	Inside FERC Gas Market Report El Paso San Juan Basin Index	Inside FERC Gas Market Report El Paso San Juan Basin Index	Inside FERC Gas Market Report El Paso San Juan Basin Index
Price	Swap counterparty pays fixed price per Appendix A-1,2,3; NMMEAA pays at inside FERC; Amt is netted	Index-discount+premium	\$4.406 per MMBtu fixed
Delivery Point (#1) City of Farmington (COF) gas	The interconnection between Transwestern and Public Service Company of New Mexico with the Transwestern Blanco Hub	The interconnection between Transwestern and Public Service Company of New Mexico with the Transwestern Blanco Hub	The interconnection between Transwestern and Public Service Company of New Mexico with the Transwestern Blanco Hub
Delivery Point (#2) Las Cruces (LC) gas	El Paso Natural Gas Company's Blanco Pool, DRN 216748	El Paso Natural Gas Company's Blanco Pool, DRN 216748	El Paso Natural Gas Company's Blanco Pool, DRN 216748
Delivery Point (#3) Los Alamos (LA) gas	El Paso Natural Gas Company's Blanco Pool	El Paso Natural Gas Company's Blanco Pool	El Paso Natural Gas Company's Blanco Pool

Consistent Critical Terms	Interest Rate Swap Transaction I NMMEAA & RBC	Variable-Rate Bonds
Notional Amount	\$ 780,965,000	\$ 780,965,000
Effective Date	November 19, 2009	November 19, 2009
Termination Date	November 1, 2039	November 1, 2039
Variable interest rate	Bond interest rate (calculated by Remarketing Agent)	calculated by Remarketing Agent
Variable rate reset dates	Thursday	Thursday
Frequency of rate resets	Weekly	Weekly

Consistent Critical Terms	Interest Rate Swap Transaction II NMMEAA & RBC	Variable-Rate Bonds
Notional Amount	\$ 780,965,000	\$ 780,965,000
Effective Date	November 19, 2009	November 19, 2009
Termination Date	November 1, 2039	November 1, 2039
Variable interest rate (a)	Bond rate calculated by Remarketing Agent	Bond rate calculated by Remarketing Agent
Variable rate reset dates (a)	Thursday	Thursday
Frequency of rate resets (a)	Weekly	Weekly

Risks

Credit risk: NMMEAA's derivative instruments are held with two separate counterparties. Should the credit rating drop below A1 as issued by Moody's Investors Service, collateral must be posted. On July 1, 2010 J.P. Morgan Chase Bank NA became the commodity swap counterparty due to a drop in the credit rating of the original commodity swap counterparty, BPCNA. On June 21, 2014, Moody's Investor Services downgraded both counterparties to the NMMEAA derivative instruments two notches, but with a stable outlook, due to significant exposure to the volatility and risk of outsized losses from the firms' global capital market operations. As a result of the downgrade, Moody's also downgraded the NMMEAA Gas Supply Variable Rate Revenue Bonds, Series 2009, to Aa3 from Aa1.

Derivative Instrument	Type	Counterparty	Required Credit Rating of Counterparty (Moody's)	Actual Credit Rating of Counterparty (Moody's) on June 30, 2012	Counterparty Collateral Posted with NMMEAA
A	Natural gas commodity swap	J.P. Morgan Chase Bank NA	A1	Aa3	\$ -
B	Pay-fixed interest rate swap (Transaction I)	Royal Bank of Canada (RBC)	A1	Aa3	\$ -
C	Pay periodic floating bond rate determined by Remarketing agent (Item B above)Transaction II	Royal Bank of Canada (RBC)	A1	Aa3	\$ -

The aggregate fair value of hedging derivative instruments in asset positions at June 30, 2014 was \$206,207,104. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted.

Interest rate risk: NMMEAA is exposed to interest rate risk on its interest rate swap. In Transaction I, NMMEAA pays a fixed interest rate and receives a variable rate equal to the bondholder rate. As interest rates increase, the net payment on the swap decreases but the interest expense to bondholders increases. In Transaction II, NMMEAA receives a variable rate based on the LIBOR index which is netted against the variable rate of Transaction I, so as LIBOR increases the net payment on the swap decreases.

Basis risk: NMMEAA is exposed to basis risk on its pay-fixed interest rate swap because the variable rate payment received under Transaction II is based on the LIBOR index, while the payment made under Transaction II and the receipt under Transaction I are at the same rate as the variable rate debt. The weighted-average interest rate on NMMEAA's hedged variable-rate debt is .0595%, 80 percent of LIBOR + 80.74 basis points is .8704%. The fixed interest rate under Transaction I is 4.1871% and the synthetic blended rate is 3.3436%.

Termination risk: NMMEAA or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. Each party is only required to pay the other party the amounts owed under the contract.

Rollover risk: NMMEAA is not exposed to rollover risk because the hedging derivative instruments mature at the same time as the items they hedge.

Note 8: Significant Estimates and Concentrations

Generally accepted accounting principles require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Major Suppliers

NMMEAA purchased all of its natural gas supply from one national gas supplier. There are a limited number of national gas suppliers in which NMMEAA could contract with under prepay gas transactions and any disruption of deliveries under the supply contracts could have an impact on NMMEAA's operations.

Current Economic Conditions

The current protracted economic decline continues to present energy companies with difficult circumstances and challenges, which in some cases have resulted in large declines in the fair value of financial instruments and other assets, declines in revenues, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to NMMEAA.

Note 9: Debt Restructuring - Subsequent Event

In October, 2013 RBC notified NMMEAA that the Canadian Office of the Superintendent of Financial Institutions ("OSFI") had adopted guidelines requiring RBC to apply an additional capital charge to the 2009 transaction with NMMEAA and that RBC had determined that this additional credit valuation adjustment ("CVA" capital) materially affected the 2009 transaction. RBC notified NMMEAA that absent a restructuring of the 2009 transaction that reduced or eliminated the CVA capital charges, RBC would terminate the 2009 transaction. In addition, in May 2014, OSFI released its final Liquidity Adequacy Requirements ("LAR") which would require RBC to hold high quality liquid assets against 100% of the outstanding 2009 Bonds and this requirement would materially adversely affect the 2009 transaction.

After consulting with legal counsel and independent financial/swap advisors, NMMEAA agreed with RBC's above assertions and early in FY 2015 will refund the Series 2009 bonds with Series 2014 Refunding Bonds for an initial 5 year period while retaining potential to continue beyond 5 years with a future gas discount for the 3 gas purchasers to be determined at that time.

Note 10: Subsequent Events Review

NMMEAA has evaluated subsequent events through November 25, 2014, which is the date the financial statements were available to be issued.

COMPLIANCE SECTION

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

Hector H. Balderas, New Mexico State Auditor and
Board Members
New Mexico Municipal Energy Acquisition Authority
Farmington, New Mexico

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities of the New Mexico Municipal Energy Acquisition Authority (NMMEAA) as of and for the ended June 30, 2014, and the related notes to the financial statements, which collectively comprise NMMEAA's basic financial statements, and have issued our report thereon dated November 25, 2014.

Internal Control Over Financial Reporting

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

Our consideration of the 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 our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "David Berry, CPA, PC". The signature is written in a cursive style with a large, sweeping initial "D".

Farmington, New Mexico
November 25, 2014

NEW MEXICO MUNICIPAL ENERGY ACQUISITION AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2014

A. Summary of Audit Results

1. The auditor's report expresses an unmodified opinion on the basic financial statements of NMMEAA.
2. No material weaknesses were disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of NMMEAA were disclosed during the audit.
4. A single audit was not required.

B. Findings - Financial Statements Audit

Prior Year Findings

None

Current Year Findings

None

**NEW MEXICO MUNICIPAL ENERGY ACQUISITION AUTHORITY
EXIT CONFERENCE
Year Ended June 30, 2014**

An exit conference was held on November 25, 2014. In attendance were:

NMMEAA:
Chairman Jay Burnham
Treasurer Susan Nipper

David Berry, CPA, PC:
Auditor..... David Berry, CPA