

**NEW MEXICO MUNICIPAL
ENERGY ACQUISITION AUTHORITY
FINANCIAL STATEMENTS
June 30, 2015 and 2014**

INTRODUCTORY SECTION

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY SECTION:	
Table of Contents	i
List of Principal Officials	ii
BASIC FINANCIAL STATEMENTS:	
Report of Independent Auditors	v
Management's Discussion and Analysis.....	ix
Statements of Net Position	2
Statements of Revenues, Expenses and Changes in Net Position.....	3
Statements of Cash Flows.....	4
Notes to the Financial Statements.....	5
SUPPLEMENTARY INFORMATION:	
Schedule of Revenues, Expenses and Changes in Net Position - Budget to Actual.....	19
OTHER INFORMATION:	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	22
Schedule of Vendor Information.....	24
EXIT CONFERENCE	25

**NEW MEXICO MUNICIPAL
ENERGY ACQUISITION AUTHORITY
List of Principal Officials
June 30, 2015**

<u>Name</u>	<u>Title</u>
Robert Westervelt.....	Chairperson
Jorge Garcia	Vice Chairperson
Victoria Frederick.	Secretary
Susan Nipper	Treasurer
Richard Matzke.....	Member
Jennifer Breakell.....	Member
Patty Holland.....	Member

FINANCIAL SECTION

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
New Mexico Municipal Energy Acquisition Authority
and
Tim Keller, State Auditor
Farmington, New Mexico

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of New Mexico Municipal Energy Acquisition Authority (NMMEAA) as of and for the year ended June 30, 2015, and the related notes to the financial statements which collectively comprise the NMMEAA's basic financial statements as listed in the table of contents. We have also audited the budgetary comparison presented as supplementary information, as defined by Governmental Accounting Standards Board, in the accompanying fund 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 misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

To the Board of Directors
New Mexico Municipal Energy Acquisition Authority
and
Tim Keller, State Auditor
Farmington, New Mexico

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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the New Mexico Municipal Energy Acquisition Authority as of June 30, 2015, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the respective budgetary comparison for the year ended June 30, 2015 in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The financial statements of NMMEAA as of and for the year ended June 30, 2014 were audited by other auditors whose report dated November 25, 2014, expressed an unqualified opinion on those financial statements.

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 viii-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 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.

To the Board of Directors
New Mexico Municipal Energy Acquisition Authority
and
Tim Keller, State Auditor
Farmington, New Mexico

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2015 on our consideration of the NMMEAA'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 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 NMMEAA's internal control over financial reporting and compliance.

Mess Adams LLP

Albuquerque, New Mexico
December 15, 2015

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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, 2015. 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. Due to new guidelines adopted by the Canadian Office of the Superintendent of Financial Institutions ("OSFI") which RBC determined materially affected the 2009 transaction, the Series 2009 bonds were refunded with Series 2014 Refunding Bonds for an initial 5 year period with a potential to continue beyond 5 years. The refunding took place on August 1, 2014.

Financial Analysis

The following condensed financial statements summarize NMMEAA's financial position and operating results for the years ended June 30, 2015 and 2014.

New Mexico Municipal Energy Acquisition Authority Net Position

	FY 2015	FY 2014
Current assets	\$ 40,324,607	\$ 51,681,671
Noncurrent assets	<u>1,165,375,323</u>	<u>1,031,090,659</u>
Total assets	1,205,699,930	1,082,772,330
 Total deferred outflows of resources	 5,523,035	 104,788,742
 Current liabilities	 24,186,119	 9,791,965
Noncurrent liabilities	<u>726,504,285</u>	<u>865,888,742</u>
Total liabilities	750,690,404	875,680,707
 Total deferred inflows of resources	 460,248,578	 310,995,846
 Unrestricted net position	 <u>283,983</u>	 <u>884,519</u>
Total net position	\$ <u><u>283,983</u></u>	\$ <u><u>884,519</u></u>

Condensed Statements of Revenues, Expenses and Changes in Net Position
Years ended June 30, 2015 and 2014

	FY 2015	FY 2014
Operating revenues	\$ 16,673,043	\$ 21,465,593
Operating expenses	<u>28,063,308</u>	<u>27,777,039</u>
Operating income	(11,390,265)	(6,311,446)
Nonoperating revenues (expenses)		
Investment earnings	446	1,343
Net costs to be recovered in future periods	9,806,575	19,000,000
Bond issue expense and underwriter's discount	(5,070,428)	-
Commodity swap	19,329,571	13,695,203
Interest rate swaps	(7,515,973)	(25,068,883)
Interest expense bondholders	(8,499,212)	(464,236)
Amortization of bond premium	<u>2,738,750</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>10,789,729</u>	<u>7,163,427</u>
Change in net position	(600,536)	851,981
Net position-beginning	<u>884,519</u>	<u>32,538</u>
Net position-ending	<u>\$ 283,983</u>	<u>\$ 884,519</u>

2015 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. The Series 2009 Gas Supply Variable Rate Revenue bonds were refunded with Series 2014A and 2014B Gas Supply bonds. At the time of the NMMEA restructure, the value of the interest rate swaps was zero. Derivative financial instruments necessary to make the transaction possible are shown at their fair value as of June 30, 2015.

Operating Revenues:

Operating revenues result from gas deliveries which are based on a specified index less a discount from such price, plus a premium.

Operating Expenses:

The largest operating expense of NMMEAA is amortization of the prepaid gas supply. Another large expense occurring in October 2014 was the savings distribution to the three gas purchasers of \$3,110,227. Various administrative expenses comprise the remainder of FY2015 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 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 August 2014 these bonds were refunded with Series 2014 Refunding Bonds for an initial 5 year period while retaining potential to continue beyond 5 years with a gas discount for the 3 gas purchasers of \$0.2894/MMBtu. Series 2014 consists of floating rate notes (FRNs) with hard maturities, FRNs with a hard put, and fixed rate bonds. 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 2015 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. With the restructure, the original interest rate swap transactions were replaced with a fixed rate swap transaction.

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, 2015. 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, 2015 and 2014

ASSETS:	FY 2015	FY 2014
Current assets:		
Cash and cash equivalents	\$ 4,577,605	\$ 3,765,217
Receivables - gas supply agreements	917,930	1,623,655
Receivables - other	1,916,960	1,349,354
Restricted cash and cash equivalents	8,137,469	20,247,097
Prepaid gas supply, current	24,774,643	24,696,348
Total current assets	<u>40,324,607</u>	<u>51,681,671</u>
Noncurrent assets:		
Prepaid gas supply, long-term	587,590,204	612,364,847
Costs recoverable from future billings	117,536,541	107,729,966
Fair value of derivative instruments	460,248,578	310,995,846
Total noncurrent assets	<u>1,165,375,323</u>	<u>1,031,090,659</u>
Total assets	<u><u>1,205,699,930</u></u>	<u><u>1,082,772,330</u></u>
DEFERRED OUTFLOWS OF RESOURCES:		
Accumulated decrease in fair value of derivative instrument	5,523,035	104,788,742
Total deferred outflows of resources	<u>5,523,035</u>	<u>104,788,742</u>
LIABILITIES:		
Current liabilities:		
Accounts payable	73,493	172,696
Accrued interest payable	1,230,126	2,719,269
Current maturities of long-term debt	22,882,500	6,900,000
Total current liabilities	<u>24,186,119</u>	<u>9,791,965</u>
Noncurrent liabilities:		
Fair value of derivative instruments	5,523,035	104,788,742
Long-term debt, net of current maturities	720,981,250	761,100,000
Total noncurrent liabilities	<u>726,504,285</u>	<u>865,888,742</u>
Total liabilities	<u><u>750,690,404</u></u>	<u><u>875,680,707</u></u>
DEFERRED INFLOWS OF RESOURCES:		
Accumulated increase in fair value of derivative instrument	460,248,578	310,995,846
Total deferred inflows of resources	<u>460,248,578</u>	<u>310,995,846</u>
NET POSITION:		
Unrestricted net position	283,983	884,519
Total net position	<u>\$ 283,983</u>	<u>\$ 884,519</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, 2015 and 2014

	FY 2015	FY 2014
Operating revenues:		
Gas supply agreement income	\$ 16,673,043	\$ 21,465,593
Operating expenses:		
Cost of gas sold	24,696,348	24,696,348
Gas service administration expense	15,306	14,971
Savings distribution to gas purchasers	3,110,227	1,611,460
Trustee expense	22,790	7,660
Rating agency expense	8,525	2,933
Credit support expense	59,546	-
Liquid facility expense	33,447	792,587
Remarketing agency expense	52,182	617,061
Legal expense	44,287	19,149
Audit expense	8,575	8,570
Management fee expense	12,075	6,300
Total operating expenses	<u>28,063,308</u>	<u>27,777,039</u>
Operating income (loss)	<u>(11,390,265)</u>	<u>(6,311,446)</u>
Nonoperating revenues/(expenses):		
Investment income	446	1,343
Net costs to be recovered in future periods	9,806,575	19,000,000
Bond issue expense	(921,740)	-
Underwriter's discount	(4,148,688)	-
Commodity swap	19,329,571	13,695,203
Interest rate swaps:		
Transaction I swap-fixed 4.1871%	(2,682,658)	(32,330,832)
Transaction I swap-actual variable rate	43,181	464,737
Transaction II swap-80% 1 mth LIBOR+80.74bp	564,733	6,797,212
Fixed rate 1.89403% coupon	(9,522,307)	-
Variable rate	4,081,078	-
Total interest rate swap expense	<u>(7,515,973)</u>	<u>(25,068,883)</u>
Interest expense to bondholders	(8,499,212)	(464,236)
Amortization of bond premium	2,738,750	-
Total nonoperating revenues	<u>10,789,729</u>	<u>7,163,427</u>
Change in net position	<u>(600,536)</u>	<u>851,981</u>
Net position - beginning	884,519	32,538
Net position - ending	<u>\$ 283,983</u>	<u>\$ 884,519</u>

See notes to financial statements.

New Mexico Municipal Energy Acquisition Authority
Statements of Cash Flows
For the Years Ended June 30, 2015 and 2014

	FY 2015	FY 2014
Cash flows from operating activities		
Receipts from customers/users	\$ 17,381,469	\$ 21,337,961
Payments to other suppliers of goods and services	(364,637)	(1,494,434)
Annual savings distribution to gas purchasers	<u>(3,110,227)</u>	<u>(1,611,460)</u>
Net cash provided (used) by operating activities	<u>13,906,605</u>	<u>18,232,067</u>
Cash flows from noncapital financing activities		
Proceeds from Series 2014 issuance	726,995,000	-
Premium on Series 2014 bonds	27,387,500	-
Redemption of Series 2009 bonds	(768,000,000)	-
Series 2014 issue expense	(921,740)	-
Series 2014 underwriter's discount	(4,148,688)	-
Principal payments on long-term debt	(7,780,000)	(5,385,000)
Interest paid	<u>(17,308,159)</u>	<u>(25,558,198)</u>
Net cash provided (used) by noncapital financing activities	<u>(43,776,087)</u>	<u>(30,943,198)</u>
Cash flows from investing activities		
Investment income	446	1,343
Net change from commodity swap	18,571,796	13,725,236
Net cash provided (used) by investing activities	<u>18,572,242</u>	<u>13,726,579</u>
Net increase (decrease) in cash and cash equivalents	(11,297,240)	1,015,448
Cash and cash equivalents, beginning of year	<u>24,012,314</u>	<u>22,996,866</u>
Cash and cash equivalents, end of year	<u>\$ 12,715,074</u>	<u>\$ 24,012,314</u>
Reconciliation of operating income to net cash provided (used) by operating activities		
Operating income (loss)	\$ (11,390,265)	\$ (6,311,446)
Prepaid gas supply	24,696,348	24,696,348
Changes in operating assets and liabilities		
Receivables - gas supply agreement	699,725	(127,632)
Accounts payable	<u>(99,203)</u>	<u>(25,203)</u>
Net cash provided (used) by operating activities	<u>\$ 13,906,605</u>	<u>\$ 18,232,067</u>

See notes to financial statements.

New Mexico Municipal Energy Acquisition Authority
Notes to Financial Statements
June 30, 2015

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, which were refunded with Series 2014 Refunding bonds.

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.

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 position 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.

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, 2015.

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 regulatory asset. 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.

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 an interest rate swap agreement in which NMMEAA pays a fixed rate of 1.89403% to RBC and receives in return, an actual variable rate equal to the variable rate paid to holders of the Series 2014 Bonds.

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.

Budgets

The budget is adopted on a cash basis of accounting. The legal compliance for the budget is total expenditures.

Note 2: Cash and Investments

As of June 30, 2015 and 2014, NMMEAA had the following cash and investments which are held in trust by Wells Fargo Bank, National Association, as Trustee.

	<u>FY 2015</u> <u>Trust</u>	<u>FY 2014</u> <u>Trust</u>
Wells Fargo Advantage 100% Treasury Money Market Fund #008	\$ -	\$ 24,012,314
Wells Fargo Advantage Treasury Plus Money Market Service #454	12,715,074	-
Total cash and cash equivalents	<u>\$ 12,715,074</u>	<u>\$ 24,012,314</u>

	<u>Financial Statements</u>	<u>Financial Statements</u>
Cash and cash equivalents	\$ 4,577,605	\$ 3,765,217
Restricted cash and cash equivalents	8,137,469	20,247,097
Total cash and cash equivalents	<u>\$ 12,715,074</u>	<u>\$ 24,012,314</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 monies 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, 2015, 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 2015		FY 2014
	<u>Portfolio Composition</u>		<u>Portfolio Composition</u>
Wells Fargo Advantage 100% Treasury Money Market Fund #008	\$ -	\$	24,012,314
Wells Fargo Advantage Treasury Plus Money Market Service #454	12,715,074		-
Total cash and cash equivalents	<u>\$ 12,715,074</u>	<u>\$</u>	<u>24,012,314</u>

Note 3: Restricted Assets

The following is a summary of restricted assets as of June 30, 2015 and 2014.

	<u>FY 2015</u>	<u>FY 2014</u>
<u>Restricted assets</u>		
Debt service required reserve	\$ -	\$ 13,753,000
Primary rate stabilization requirement	-	1,920,000
Debt service fund principal	8,137,469	3,115,274
Bond redemption fund	-	10,821
Secondary rate stabilization requirement	-	1,448,002
Total restricted assets	<u>\$ 8,137,469</u>	<u>\$ 20,247,097</u>

Note 4: Long-term Debt

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.

On August 1, 2014, NMMEAA refunded the Series 2009 bonds with Series 2014 Refunding Bonds for an initial 5 year period with a potential to continue beyond 5 years.

NMMEAA entered into an interest rate swap with RBC in connection with the Series 2009, Gas Supply Variable Rate Revenue Bonds. Under the swap agreement, NMMEAA paid a fixed interest rate of 4.1871% to the interest rate counterparty and received a payment back equal to the variable interest amount payable to bondholders. Under Transaction II NMMEAA then paid the swap counterparty the interest amount payable to bondholders and received back an interest rate equal to 80% of the LIBOR rate plus 80.74 basis points.

With the bond refunding in August, 2015 NMMEAA also replaced the original interest rate swap transactions with a fixed rate swap transaction.

Long-term debt at June 30, 2015 and 2014 consisted of the following:

	<u>FY 2015</u>	<u>FY 2014</u>
<u>Revenue Bonds:</u>		
New Mexico Municipal Energy Acquisition Authority Gas Supply Variable Revenue Bonds, Series 2009	\$ -	\$ 768,000,000
New Mexico Municipal Energy Acquisition Authority Gas Supply Revenue Bonds, Sub-series 2014A	175,000,000	-
New Mexico Municipal Energy Acquisition Authority Gas Supply Revenue Bonds, Sub-series 2014B (Variable Rate)	544,215,000	-
Less current maturities of long-term debt	<u>(17,405,000)</u>	<u>(6,900,000)</u>
Long-term debt	<u>\$ 701,810,000</u>	<u>\$ 761,100,000</u>

Changes in Long-term Liabilities

During the years ended June 30, 2015 and 2014, the following changes occurred in long-term liabilities:

	<u>Balance</u> <u>June 30, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2014</u>	<u>Due Within</u> <u>One Year</u>
Total Revenue Bonds-Series 2009	\$ 773,385,000	-	(5,385,000)	\$ 768,000,000	\$ 6,900,000
	<u>Balance</u> <u>June 30, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2015</u>	<u>Due Within</u> <u>One Year</u>
Total Revenue Bonds-Series 2009	\$ 768,000,000	-	(768,000,000)	\$ -	\$ -
Total Revenue Refunding Series 2014	\$ -	726,995,000	(7,780,000)	\$ 719,215,000	\$ 17,405,000
Bond Premium	\$ -	27,387,500	(2,738,750)	\$ 24,648,750	\$ 5,477,500
	<u>\$ 768,000,000</u>	<u>754,382,500</u>	<u>(778,518,750)</u>	<u>\$ 743,863,750</u>	<u>\$ 22,882,500</u>

Revenue Bond Series 2009 was refunded with Gas Supply Revenue Refunding Bonds, Series 2014, consisting of Sub-series 2014A with a principal amount of \$175,000,000 and a fixed interest rate of 5%, and Sub-series 2014B with fixed rate notes (FRNs) with hard maturities and a principal amount of \$98,545,000 and FRNs with hard puts and a principal amount of \$453,450,000 with hard maturities. All FRNs have a coupon rate of 1.89403%. The refunding was made for RBC to comply with regulatory liquidity requirements. It did not result in an economic gain to NMMEA.

Future principal and interest payments required to be made are as follows:

Year Ending June 30,	Principal	Fixed Interest Hard Put/Hard Maturity @ 1.89403%; Fixed @ 5%	Total Debt Service
2016	\$ 17,405,000	\$ 18,836,286	\$ 36,241,286
2017	19,055,000	18,485,180	37,540,180
2018	20,405,000	18,107,558	38,512,558
2019	21,900,000	17,702,133	39,602,133
2020	640,450,000	5,109,647	645,559,647
	<u>\$ 719,215,000</u>	<u>\$ 78,240,804</u>	<u>\$ 797,455,804</u>

Note 5: Related Party Transactions

NMMEA's natural gas sales to members during the year ended June 30, 2015 were as follows: \$808,243 to the City of Las Cruces, \$13,570,880 to the City of Farmington and \$2,293,920 to Los Alamos County. At June 30, 2015, receivables due from members were

follows: \$20,471 from the City of Las Cruces, \$862,725 from the City of Farmington and \$34,734 from Los Alamos County.

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 \$24,774,643 and \$587,590,204 are reflected in both current and noncurrent asset categories at June 30, 2015. 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.

Note 7: Derivative Instruments

Composition of Derivative Instruments

The fair value balances and notional amounts of derivative instruments outstanding as of June 30, 2015 and 2014, classified by type, are as follows:

	Notional Amount		Fair Value	Counterparty Credit Rating
<u>June 30, 2015</u>				
Positive cash flow:				
Natural gas commodity swap	171,322,165	MMBtu	\$ 460,248,578	Aa3
Net negative cash flow:				
Pay fixed interest rate, receive variable	\$ 544,215,000		\$ (5,523,035)	Aa3
 <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>	

All fair values are classified as derivative instruments on the statements of net position. The increase in fair values of the natural gas commodity swap derivative instrument were \$149,252,573 and \$129,975,641 for 2015 and 2014, respectively. The fair value of the interest rate swap at the time of NMMEAA's restructure in August 2014 was \$0, and the fair value for the new interest rate swap decreased by (\$5,523,035) by the end of FY2015. For FY2014 the fair value decreased (\$10,211,819). As these commodity and interest rate swaps are considered effective hedging derivative instruments, the change in fair value is reflected within deferred outflows and inflows on the statements of net position. 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, 2015, 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	\$ 460,248,578
B	Pay-fixed interest rate swap	Hedge exposure to interest rate fluctuations on bonds and match with expected revenues from supply agreements and the commodity swap.	\$ 544,215,000	August 1, 2014	August 1, 2019	Pay fixed coupon rate of 1.89403% and receive variable rate equal to interest rate to bond holders	\$ (5,523,035)

The fair value of the commodity swap was provided by the commodity swap counterparty, J.P. Morgan Chase Bank NA. The fair value of the interest rate swap was 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	\$ 149,252,732	Derivative instruments	\$ 460,248,578	171,322,165 MMBtu
B	Pay fixed interest rate swap (Transaction I)	Deferred outflow	\$ (5,523,035)	Derivative instruments	\$ (5,523,035)	\$ 544,215,000

NMMEAA evaluated the effectiveness of its derivative instruments using the consistent critical terms method. Following are tables showing the 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 instruments are effective, and any changes in the fair value are deferred in FY 2015.

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	Variable-Rate Bonds
Notional Amount (Debt outstanding Sub-Series 2014 B at June 30, 2015)	\$ 544,215,000	\$ 544,215,000
Effective Date	August 1, 2014	August 1, 2014
Maturity Date	August 1, 2019	August 1, 2019
Variable interest rate	Bond interest rate (calculated by Remarketing Agent)	calculated by Remarketing Agent
Variable rate reset dates	1st of month	1st of month
Frequency of rate resets	Monthly	Monthly

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, 2015, 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, 2015	Counterparty Collateral Posted with NMMEAA
A	Natural gas commodity swap	J.P. Morgan Chase Bank NA	A1	Aa3	\$ -
B	Pay-fixed interest rate swap	Royal Bank of Canada (RBC)	A1	Aa3	\$ -

The aggregate fair value of hedging derivative instruments in asset positions at June 30, 2015 was \$454,725,543. 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. NMMEAA pays a fixed interest rate and receives a variable rate equal to the bondholder rate. NMMEAA also pays a fixed interest rate of 5% on Sub-series 2014A, and a fixed coupon rate of 1.89403% on Sub-series 2014B.

Basis risk: NMMEAA is not exposed to basis risk on its fixed interest rate swap because the variable rate payment received is based on the LIBOR index and so is the bond interest payment.

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.

SUPPLEMENTARY INFORMATION

New Mexico Municipal Energy Acquisition Authority
Schedule of Revenues, Expenses and Changes in Net Position
Budget to Actual
For the Year Ended June 30, 2015

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
Operating revenues:				
Gas supply/Commodity swap less adm	\$ 35,987,645	\$ 35,987,645	\$ 35,938,294	\$ (49,351)
Interest income	100	100	446	346
Other income	550,000	550,000	1,095,410	545,410
Bond proceeds	754,382,500	754,382,500	754,382,500	-
Total operating revenues	<u>790,920,245</u>	<u>790,920,245</u>	<u>791,416,650</u>	<u>496,405</u>
Operating expenses:				
Savings distribution to gas purchasers	2,798,000	3,113,000	3,110,227	2,773
Trustee expense	-	24,720	22,790	1,930
Rating agency expense	-	9,300	8,525	775
Credit support expense	-	59,545	59,546	(1)
Liquid facility expense	33,000	33,500	33,447	53
Remarketing agency expense	52,000	52,200	52,182	18
Legal expense	47,400	53,825	44,287	9,538
Audit expense	15,000	8,575	8,575	-
Management fee expense	12,600	12,600	12,075	525
Bond redemption	768,000,000	768,000,000	768,000,000	-
Bond issuance costs/underwriter's discount	5,175,501	5,176,000	5,076,428	99,572
Principal payment	7,780,000	7,780,000	7,780,000	-
Interest expense	12,285,134	18,300,000	18,381,884	(81,884)
Total operating expenses	<u>796,198,635</u>	<u>802,623,265</u>	<u>802,589,966</u>	<u>33,299</u>
Operating income (loss)	(5,278,390)	(11,703,020)	(11,173,316)	\$ 529,704
Adjustments to GAAP:				
Cost of gas sold			(24,696,348)	
Net costs to be recovered in future periods			9,806,575	
Principal payment			7,780,000	
Bond proceeds			(754,382,500)	
Bond redemption			768,000,000	
Amortization of bond premium			2,738,750	
Change in accounts receivable			(481,663)	
Change in accounts payable			1,807,966	
			<u>10,572,780</u>	
GAAP BASIS CHANGE IN NET POSITION:			(600,536)	
Net position - beginning	884,519	884,519	884,519	
Net position - ending	<u>\$ (4,393,871)</u>	<u>\$ (10,818,501)</u>	<u>\$ 283,983</u>	

OTHER INFORMATION

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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**

To the Board of Directors
New Mexico Municipal Energy Acquisition Authority
and
Tim Keller, State Auditor
Farmington, New Mexico

We 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 the New Mexico Municipal Energy Acquisition Authority (NMMEAA) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the NMMEAA's basic financial statements, and the related budgetary comparison, presented as supplementary information, and have issued our report thereon dated December 15, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the NMMEAA's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 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.

To the Board of Directors
New Mexico Municipal Energy Acquisition Authority
and
Tim Keller, State Auditor
Farmington, New Mexico

Our 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weakness may exist that have not been identified.

Compliance and Other Matters

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

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 NMMEAA'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 NMMEAA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mess Adams LLP

Albuquerque, New Mexico
December 15, 2015

**NEW MEXICO MUNICIPAL ENERGY ACQUISITION AUTHORITY
EXIT CONFERENCE
Year Ended June 30, 2015**

An exit conference was held on December 10, 2015. In attendance were:

NMMEAA:

Susan Nipper, Treasurer
Jennifer Breakell, City of Farmington Attorney

Moss Adams LLP:

Jaime Rumbaoa, CPA, Senior Manager