

**STATE OF NEW MEXICO
EMW GAS ASSOCIATION
AUDIT REPORT
JUNE 30, 2011**

**STATE OF NEW MEXICO
EMW GAS ASSOCIATION
JUNE 30, 2011**

Table of Contents

	<u>Page Number</u>
INTRODUCTORY SECTION	
Official Roster.....	1
INDEPENDENT AUDITORS' REPORT	2-3
FINANCIAL STATEMENT SECTION	
Statement of Net Assets	4-5
Statement of Revenues, Expenses and Change in Net Assets	6
Statement of Cash Flows	7
Notes to Financial Statements.....	8-16
SUPPLEMENTARY INFORMATION SECTION	
Statement of Revenue and Expenses (Budget and Actual).....	17
OTHER REPORTS	
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 Standard</i>	18-19
Schedule of Findings and Responses, Financial Statement Preparation and Exit Conference	20-24

INTRODUCTORY SECTION

**OFFICIAL ROSTER
FOR THE FISCAL YEAR ENDING
JUNE 30, 2011**

ASSOCIATION BOARD MEMBERS

<u>Name</u>	<u>Title</u>
Mr. James Schwebach	Chairman
Mr. Martin Hibbs	Vice Chairman
Mr. Nick Sedillo	Secretary/Treasurer
Mr. George Martin	Board Member
Ms. Arlene Mendez	Board Member
Mr. Jace Alderson	Board Member
Mr. Mike Anaya	Board Member
Mr. Santiago Garcia	Board Member
Mr. Robert Chavez	Board Member

ASSOCIATION ADMINISTRATION

Mr. Ronnie Reynolds	General Manager
Ms. Pam Lambert	Office Manager



PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

Board Members
State of New Mexico
EMW Gas Association
Estancia, New Mexico
and
Hector B. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

We have audited the accompanying financial statements of EMW Gas Association, New Mexico (the Association) as of and for the year ended June 30, 2011, which collectively comprise the Association's basic financial statements as listed in the table of contents. We also have audited the budgetary comparison presented as supplementary information as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Association's management. 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 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of EMW Gas Association, New Mexico as of June 30, 2011, and the respective changes in financial position, its cash flows and budgetary comparison for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2011, on our consideration of the EMW Gas Association, New Mexico'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* and should be considered in assessing the results of our audit.

The Association has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not a required part of, the basic financial statements.

Pattillo, Brown & Hill LLP

Pattillo, Brown & Hill, L.L.P.

Albuquerque, New Mexico

November 2, 2011

FINANCIAL STATEMENT SECTION

**STATE OF NEW MEXICO
EMW GAS ASSOCIATION
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2011**

ASSETS

Current assets:	
Cash and cash equivalents	\$ 515,009
Investments	1,338,508
Receivables (net of allowances for uncollectibles)	194,724
Inventory	175,673
Accrued interest	<u>7,622</u>
Total current assets	<u>2,231,536</u>
Restricted assets:	
Customers' meter deposits	<u>368,293</u>
Total restricted assets	<u>368,293</u>
Noncurrent assets:	
Capital assets:	
Land and land rights	247,595
Capital assets, being depreciated	
Mains, services and meters	17,351,039
Buildings and improvements	570,322
Office furniture and equipment	560,530
Equipment	877,565
Less: accumulated depreciation	<u>(6,009,343)</u>
Total capital assets	<u>13,597,708</u>
Total assets	<u>\$ 16,197,537</u>

LIABILITIES

Current liabilities:		
Accounts payable	\$	220,004
Unearned revenue		112,966
Accrued expenses		25,808
Compensated absences		<u>9,515</u>
Total current liabilities		<u>368,293</u>
Noncurrent liabilities:		
Customer deposits		<u>283,189</u>
Total noncurrent liabilities		<u>283,189</u>
Total liabilities		<u>651,482</u>

NET ASSETS

Investment in capital assets		13,597,708
Unrestricted		<u>1,948,347</u>
Total net assets	\$	<u><u>15,546,055</u></u>

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

STATE OF NEW MEXICO
EMW GAS ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDING JUNE 30, 2011

Operating Revenues:

Natural gas sales	\$ 4,936,110
Installation fees	72,051
Connect and reconnect fees	33,551
Other charges	<u>30,894</u>
Total operating revenues	<u>5,072,606</u>

Operating Expenses:

Source of supply	
Natural gas purchases	2,517,726
Salaries	678,662
Other payroll expenses	233,911
Professional fees	21,142
Other	94,238
Advertising and promotion	11,567
Supplies	8,724
Automotive	43,525
Repairs and maintenance	2,214
Office and postage	161,370
Insurance	76,499
Travel	1,299
Utilities	27,333
Depreciation	<u>349,201</u>
Total expenses	<u>4,227,411</u>

Operating income 845,195

Non-operating revenues (expenses):

Investment expenses	(8,719)
Income from investments	<u>34,965</u>
Total non-operating revenues (expenses)	<u>26,246</u>

Change in net assets 871,441

Net assets, beginning of year 14,674,614

Net assets, end of year \$ 15,546,055

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO
EMW GAS ASSOCIATION
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDING JUNE 30, 2011**

Cash flows from operating activities	
Receipts from customers and users	\$ 5,038,371
Payments to employees for services	(680,751)
Payments to suppliers for goods and services	<u>(3,003,749)</u>
Net cash provided by operating activities	<u>1,353,871</u>
Cash flows from capital and related activities	
Acquisition of fixed assets	<u>(8,467,417)</u>
Net cash provided by capital and related activities (used by)	<u>(8,467,417)</u>
Cash flows from investing activities	
Interest	47,521
Proceeds from sale and maturities of securities	5,500,000
Purchase of investments net of brokerage fees	<u>(70,154)</u>
Net cash provided by investing activities (used by)	<u>5,477,367</u>
Net increase in cash and cash equivalents	(1,636,179)
Cash and equivalents, beginning of year	<u>2,519,481</u>
Cash and equivalents, end of year	<u>\$ 883,302</u>
Reconciliation of net income to net cash provided by operating activities:	
Net income	\$ 871,441
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation	349,201
Changes in assets & liabilities	
(Increase) decrease in accounts receivable	37,393
(Increase) decrease in inventory	(26,302)
(Increase) decrease in accrued interest	7,939
Increase (decrease) in accounts payable	69,074
Increase (decrease) in unearned revenue	44,059
Increase (decrease) in accrued liabilities	462
Increase (decrease) in customer deposits	3,155
Increase (decrease) in compensated absences	<u>(2,551)</u>
Net cash provided by operating activities	<u>\$ 1,353,871</u>

The accompanying notes are an integral part of these financial statements

NOTES TO FINANCIAL STATEMENTS SECTION

**STATE OF NEW MEXICO
EMW GAS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 1. FORM AND FUNCTION

EMW Gas Association (the Association) was incorporated on January 23, 1964 for the purpose of providing natural gas to the towns of Estancia, Moriarty, Willard and the surrounding area.

The financial statements of the Association are prepared in accordance with Generally Accepted Accounting Principles (GAAP). The Association applies all relevant Governmental Accounting Standards Board (GASB) pronouncements, Financial Accounting Standards Board (FASB) Statements and Interpretations and applicable Accounting Principles Board (APB) pronouncements.

A. Reporting Entity

In evaluating how to define the Association for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria for including a potential component unit within the reporting entity. The first criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operation, and accountability for fiscal matters. A second criterion used in evaluating potential components units is the scope of public service. Application of this criterion involves considering whether the activity benefits the Association, or whether the activity is conducted within the geographic boundaries of the Association. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationship, regardless of whether the Association is able to exercise oversight responsibilities. Based upon the application of these criteria, the Association does not have component units that need to be presented in these financial statements.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Accounting

The Association's basic financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. The Association has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

The accounts of the Association are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the Association's assets, liabilities, net assets, revenues and expenses. Enterprise Funds account for activities (i) they are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The accounting and financial reporting treatment applied to the Association is determined by its measurement focus. The transactions of the Association are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets (i.e., total assets net of total liabilities) are segregated into invested in capital assets, net of related debt; restricted for debt service; and unrestricted components.

Management of the Association has made certain estimates and assumptions relating to the reporting of assets and liabilities and revenues and expenses to prepare these financial statements in conformity with generally accepted accounting principles. Actual results may differ from those estimates.

Cash, Investments and Restricted Assets

Cash includes amounts in demand deposits as well as certificates of deposits. Investments are stated at market value. Customer meter deposits are classified as restricted assets.

Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the Association. Operating revenues consist primarily of charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from nonexchange transactions or ancillary activities. When an expense is incurred for purposes for which there are both restricted and unrestricted net assets available, it is the Association's policy to apply those expenses to restricted net assets to the extent such are available and then to unrestricted net assets.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

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

Capital Assets

All purchased fixed assets and infrastructures are recorded at historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the assets lives are not capitalized but are expensed as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets. The Association defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

Depreciation of buildings, improvements, infrastructure (utility system), equipment, vehicles, and land use permits is computed using the straight-line method over the estimated useful lives as follows:

Utility system mains and lines	40 years
Building and improvements	30 years
Utility meters	15, 20 years
Equipment, Vehicles, Computers and Software	3, 5, 10 years
Land use permits	35 years

Budgetary Compliance

An operating budget is adopted each fiscal year and is approved by the Board of Directors and the New Mexico Department of Finance and Administration. The budget is prepared on a basis consistent with accounting principles generally accepted in the United States of America. The Board of Directors is authorized to transfer budgetary amounts between the items within the fund; however, any revision that alters the total expenditures must be approved by the New Mexico Department of Finance and Administration. In conjunction with this, they can overspend line items within the fund, but it is a violation of state statute to over-expend a fund total.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the Association or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

NOTE 3. ACCOUNTS RECEIVABLE

The accounts receivable are shown net of the allowance for bad debts. The reserve for uncollectible accounts for June 30, 2011 is \$39,839. The reserve is based on management's estimates of uncollectible accounts receivable for utility billings.

NOTE 4. CASH AND CASH EQUIVALENT

For the purpose of reporting cash flows, all highly liquid investments (including restricted assets) with a maturity date of three months or less are considered to be cash equivalents.

NOTE 5. PENSION PLAN

Substantially all of the Associations' full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11 NMSA 1978) the Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, New Mexico 87504-2123. This report is also available on PERA's website at www.pera.state.nm.us.

Funding Policy

Plan members are required to contribute 9.15% of their gross salary. The Association is required to contribute 9.15% of the gross salary. The contribution requirements of plan members and the Association are established in Chapter 10, Article 11, NMSA 1978. The requirements may be amended by act of legislature. The contributions to PERA for the years ending June 30, 2011, 2010, and 2009, are \$54,639, \$51,121, and \$53,365, respectively, equal to the amount of the required contributions for each year.

NOTE 6. COMPENSATED ABSENCES

Sick Leave

An employee who has passed the probation of six (6) months will start to earn 2.46 hours of sick leave per pay period. Pay periods consist of 80 working hours during a two-week period.

Sick leave could be accumulated up to but not exceeding 160 hours within a six (6) month period. Semi-annually, an employee who has accumulated sick leave over the maximum of 160 hours will be paid for accrued sick leave up to the maximum of 32 hours at his/her current hourly salary. Payments will be semi-annually, on June 30, or December 30.

If an employee terminates, they will be paid, at their current hourly wage, for all accumulated hours at the time of termination.

Annual Leave

An employee, who has passed a probation period of six (6) months, will earn annual leave at the following rates, per pay period. Pay period consists of 80 working hours during a two-week period.

6 months to 2 years of service	2.77 hours
2 years to 11 years of service	4.32 hours
Over 11 years of completed service	5.85 hours

An employee's accumulated annual leave may not exceed the total hours of base annual leave. An employee who has completed 11 years of service may sell, at his current hourly rate, up to 40 hours of annual leave within a fiscal year. The Association's fiscal year is July 1 to June 30. An employee who terminates will be paid at his current hourly wage, for all accumulated hours, both annual and sick leave, at the time of his termination. The balance of compensated absences at June 30, 2011 was \$9,515 and will be paid from the propriety fund.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-type activities					
Compensated absences	\$ 12,066	\$ 42,403	\$ 44,954	\$ 9,515	\$ 9,515
Business-type activities long-term liabilities	\$ 12,066	\$ 42,403	\$ 44,954	\$ 9,515	\$ 9,515

The Association does not have any short-term debt obligations.

NOTE 7. CASH AND INVESTMENTS

Cash

At June 30, 2011, the Association had cash and cash equivalents on deposit with local financial institutions, consisting of checking accounts and certificates of deposit that are carried at cost, which also have values approximating market value. Following is a schedule as of June 30, 2011, of the cash and cash equivalents and collateral pledged to secure the public funds on deposit. All funds are held in the name of the Association in financial institutions that have exceeded the minimum collateral requirements. All financial institutions have pledged collateral with securities held by their trust department or agent.

	Balance Per Bank 6-30-11	Add Deposits In Transit	Less Outstanding Checks	Adjustment	Balance Per Books 6-30-11
First Community					
Checking	\$ 358,032	\$ 949	\$ 11,068	\$ -	\$ 347,913
Certificates of Deposit	250,000	-	-		250,000
My Bank					
Certificate of Deposit	<u>284,889</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>284,889</u>
Total Cash in Banks	<u>\$ 892,921</u>	<u>\$ 949</u>	<u>\$ 11,068</u>	<u>\$ -</u>	882,802
Plus Cash on Hand					500
Total Cash Per Books					<u>\$ 883,302</u>
As Reported in Financial Statements:					
Cash					\$ 600,113
Restricted Cash					<u>283,189</u>
					<u>\$ 883,302</u>

In accordance with Section 6-10-17, NMSA 1978 compilation, deposits of public monies are required to be collateralized. Pledged collateral is required in amounts in aggregate equal to one half of the amount of uninsured public money in each account during the fiscal year. Securities which are obligations of the State of New Mexico, its agencies, institutions, counties, or municipalities or other subdivisions are accepted as security at par value; all other securities are accepted as security at market value. No security is required for the deposit of public money that is insured by the Federal Deposit Insurance Corporation.

NOTE 7. CASH AND INVESTMENTS (continued)

Cash (continued)

	First <u>Community</u>	<u>My Bank</u>	<u>Total</u>
Amount on Deposit in Bank	\$ 608,032	\$ 284,889	\$ 892,921
Less: FDIC Coverage	<u>(250,000)</u>	<u>(250,000)</u>	<u>(500,000)</u>
Total uninsured public funds	<u>358,032</u>	<u>34,889</u>	<u>392,921</u>
Collateral pledged:			
GNR 2009-116-AT (FMV)	572,497	-	572,497
LUNA CNTY NM SCH DIST (PAR)	<u>-</u>	<u>25,000</u>	<u>25,000</u>
	<u>572,497</u>	<u>25,000</u>	<u>597,497</u>
Uninsured and uncollateralized	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the Association’s deposits may not be returned to them. The Association does not have a deposit policy for custodial credit risk. As of June 30, 2011, \$392,921 of the Association’s bank balance of \$892,921 was exposed to custodial credit risk as follows:

	First Community <u>Bank</u>	<u>My Bank</u>	<u>Total</u>
Uninsured and uncollateralized	\$ -	\$ -	\$ -
Uninsured and collateral held by pledging bank's trust department in the Bank's name	<u>358,032</u>	<u>34,889</u>	<u>392,921</u>
Total	<u>\$ 358,032</u>	<u>\$ 34,889</u>	<u>\$ 392,921</u>

Investments

The Association invests idle cash under the guidelines of the State of New Mexico Statute 6-10-10 which authorizes investments in the following instruments:

- (1) Bonds or negotiable securities of the United States, the state or a county, municipality or school district that has a taxable valuation or real property for the last preceding year of at least one million dollars (\$1,000,000) and has not defaulted in the payment of any interest or sinking fund obligation or failed to meet any bonds at maturity at any time within five years last preceding; or

NOTE 7. CASH AND INVESTMENTS (continued)

Investments (continued)

- (2) Securities that are issued by the United States government or by its agencies or instrumentalities and that are either direct obligations of the United States, the federal home loan mortgage association, the federal national mortgage association, the federal farm credit bank or the student loan marketing association or are backed by the full faith and credit of the United States government.

As of June 30, 2011 the Association had the following investments:

	Fair Value	Investment Maturities			
		Current	1-5 years	6-10 years	More than 10 years
ML Bank Deposit Program	\$ 717,915	\$ 717,915	\$ -	\$ -	\$ -
Federal Home Loan Bank Bonds	413,551	300,000	-	113,551	-
Corporate Bonds	<u>207,042</u>	<u>207,042</u>	-	-	-
Total Investments	<u>\$ 1,338,508</u>	<u>\$ 1,224,957</u>	<u>\$ -</u>	<u>\$ 113,551</u>	<u>\$ -</u>

Custodial Credit Risk - Investments

In accordance with GASB 40, the Association's investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by the counterparty. All of the Association's investments are purchased through Merrill Lynch. Merrill Lynch holds all U.S. depository – eligible securities with the federally regulated Depository Trust Company (DTC) or through the Federal Reserve Bank System in Merrill Lynch's name. The Treasury Fund and Federal Agencies investments of the Association meet the above criteria and the cost subject to custodial credit risk is \$1,175,573. The Association does not have a formal investment policy to limit this risk.

Interest Rate Risk - Investments

The Association does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - Investments

As noted above the Association follows the guidelines provided by the State of New Mexico for its investments. The Association's investments in Federal Home Loan Bank Bonds were rated Aaa by Moody's Investors Services and AAA by Standard & Poor's.

Concentration of Credit Risk - Investments

The Association places no limit on the amount the Association may invest in any one issuer. More than 45 percent of the Association's investments are in Federal Home Loan Bank Bonds and Corporate Bonds. These investments are 30% and 15%, respectively of the Association's total investments.

NOTE 8. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 was as follows:

	<u>Beginning Balance</u>	<u>Adjustments/ Increases</u>	<u>Decreases/ Reclassifications</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land & land rights	\$ 247,595	\$ -	\$ -	\$ 247,595
Construction in process	294,829	-	294,829	-
Total capital assets not being depreciated	<u>542,424</u>	<u>-</u>	<u>294,829</u>	<u>247,595</u>
Capital assets, being depreciated:				
Mains, services and meters	8,632,115	8,424,095	294,829	17,351,039
Buildings and improvements	521,518	-	-	521,518
Office furniture and equipment	560,530	-	-	560,530
Land use permits	48,804	-	-	48,804
Equipment	834,243	43,322	-	877,565
Total capital assets being depreciated	<u>10,597,210</u>	<u>8,467,417</u>	<u>294,829</u>	<u>19,359,456</u>
Less accumulated depreciation:				
Mains, services and meters	3,991,869	303,762	-	4,295,631
Buildings and improvements	322,007	16,874	-	338,881
Office furniture and equipment	544,267	8,131	-	552,398
Land use permits	16,282	1,245	-	17,527
Equipment	785,717	19,189	-	804,906
Total accumulated depreciation	<u>5,660,142</u>	<u>349,201</u>	<u>-</u>	<u>6,009,343</u>
Total capital assets being depreciated, net	<u>4,937,068</u>	<u>8,118,216</u>	<u>294,829</u>	<u>13,350,113</u>
Capital assets, net	<u>\$ 5,479,492</u>	<u>\$ 8,118,216</u>	<u>\$ 589,658</u>	<u>\$ 13,597,708</u>

NOTE 9. UNEARNED REVENUE

Customer accounts on the budget plan are billed a monthly flat fee based upon their prior year usage. Adjustments are made to the monthly bills every June in which a recalculation is prepared for the next twelve month cycle.

NOTE 10. RISK MANAGMENT

Commercial insurance covers all losses. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the prior three years. There are no claim liabilities at year-end.

NOTE 11. RELATED PARTY TRANSACTIONS

The Association paid \$2,265 for other expenses to El Comedor De Anayas & Mike's Friendly Store which is owned by Board Member Mike Anaya.

SUPPLEMENTARY INFORMATION SECTION

STATE OF NEW MEXICO
EMW GAS ASSOCIATION
STATEMENT OF REVENUE AND EXPENSES
BUDGET and ACTUAL
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget- Postive (Negative)
	Original	Amended		
REVENUES				
Natural gas sales	\$ 5,884,408	\$ 5,884,408	\$ 4,936,110	\$(948,298)
Installation fees	40,000	40,000	72,051	32,051
Connect and reconnect fees	32,500	32,500	33,551	1,051
Other charges	44,375	44,375	30,894	(13,481)
Total revenues	<u>6,001,283</u>	<u>6,001,283</u>	<u>5,072,606</u>	<u>(928,677)</u>
EXPENDITURES				
Operating expense				
Source of supply				
Purchase of natural gas	3,102,030	3,102,030	2,517,726	584,304
Salaries	783,205	783,205	678,662	104,543
Other payroll expenses	231,402	231,402	233,911	(2,509)
Professional fees	38,725	38,725	21,142	17,583
Other	355,305	355,305	94,238	261,067
Advertising and promotion	12,000	12,000	11,567	433
Supplies	10,950	10,950	8,724	2,226
Automotive	48,950	48,950	43,525	5,425
Repairs and maintenance	13,000	13,000	2,214	10,786
Office and postage	241,200	241,200	161,370	79,830
Insurance	55,600	55,600	76,499	(20,899)
Travel	2,500	2,500	1,299	1,201
Utilities	27,200	27,200	27,333	(133)
Depreciation	330,000	330,000	349,201	(19,201)
Total expenditures	<u>5,252,067</u>	<u>5,252,067</u>	<u>4,227,411</u>	<u>1,024,656</u>
Operating income	<u>749,216</u>	<u>749,216</u>	<u>845,195</u>	<u>95,979</u>
Non-operating income (deductions):				
Investment expenses	(4,000)	(4,000)	(8,719)	(4,719)
Interest earned	100,000	100,000	34,965	(65,035)
Total non-operating income (deductions)	<u>96,000</u>	<u>96,000</u>	<u>26,246</u>	<u>(69,754)</u>
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	<u>\$ 845,216</u>	<u>\$ 845,216</u>	<u>\$ 871,441</u>	<u>\$ 26,225</u>

The accompanying notes are an integral part of these financial statements



PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

**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***

Board Members
State of New Mexico
EMW Gas Association
Estancia, New Mexico
and
Hector B. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

We have audited the financial statements and related budgetary comparison of EMW Gas Association (the Association) as of and for the year ended June 30, 2011, and have issued our report thereon, dated November 2, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Association's internal control over financial reporting as a basis for designing our auditing procedures 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 Association's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control over financial reporting.

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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting as finding, 2007A & 2010B. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association's basic 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings and responses as 2009A.

The Association's responses to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit the Association's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the administration, the board members, the Office of the State Auditor, the New Mexico State Legislature and its committees, and the New Mexico Department of Finance and Administration and should not be used by anyone other than these specified parties.

Pattillo, Brown & Hill LLP

Pattillo, Brown & Hill, L.L.P.
Albuquerque, New Mexico
November 2, 2011

**STATE OF NEW MEXICO
EMW GAS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2011**

Prior Year Audit Findings:

- 2006-B Submission of Audit Report - resolved**
- 2007-A Auditor Prepared Financial Statements - repeat**
- 2008-A Under Pledged Collateral - resolved**
- 2009-A Investments Corporate Bonds - repeat**
- 2010-A Bank Reconciliation Adjustments to General Ledger - resolved**
- 2010-B Under-remittance of Gross Receipts Tax - modified**

Current Year Audit Findings:

- 2007-A Auditor Prepared Financial Statements - repeat**
- 2009-A Investments Corporate Bonds – repeat**
- 2010-B Under-remittance of Gross Receipts Tax**

STATE OF NEW MEXICO
EMW GAS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2011

**2007-A Auditor Prepared Financial Statements
(significant deficiency)**

Condition

Due to the small office the Association does not have personnel with adequate qualifications and training to prepare the Association's financial statements.

Criteria

Per the provisions of Subsection J of 2.2.2.5 NMAC, SAS 112, insufficient expertise in selecting and applying accounting principles, including the preparation of the Association's financial statements, is considered to be a significant deficiency in internal control.

Effect

A significant deficiency in internal control.

Cause

The Association does not have personnel with adequate qualifications to prepare the Association's financial statements.

Recommendation

The Association should provide training to current personnel to prepare the Association's financial statements.

Management Response

Management agrees with the recommendation.

STATE OF NEW MEXICO
EMW GAS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2011

**2009-A Investments Corporate Bonds
(significant deficiency)**

Condition

EMW Gas Association invested in corporate bonds through the Merrill Lynch investment account.

Criteria

Per requirements of Section 6-10-10-A-H & 6-10-44, NMSA 1978, the Association does not qualify to make this type of investment. Per statutes all securities are to be issued by the United States government or its agencies or instrumentalities and that are either direct obligations of the United States, the federal home loan mortgage association, the federal national mortgage association, the federal farm credit bank or the student loan marketing association or are backed by the full faith and credit of the United States government.

Effect

The Association is not in compliance with state statutes above and have increased risk for public money held by the institution.

Cause

The Association was unaware that they did not qualify for this type of investment.

Recommendation

The Association should make the appropriate changes in the investment account to comply with state statute.

Management Response

Management agrees with the recommendation.

**STATE OF NEW MEXICO
EMW GAS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2011**

**2010-B Under-remittance of Gross Receipts Tax
(significant deficiency)**

Condition

Gross receipts tax remitted by EMW Gas Association to the State of New Mexico Taxation & Revenue Department was under-reported by \$114,796. The sales tax liability per the general ledger was correct as it is interfaced with the utility program and recorded in the general ledger as billed.

Criteria

NMSA 1978, 7-9-1 through 7-9-4 discusses the imposition, collection and remittance of gross receipts tax on the sales of gas, services and fees in the State of New Mexico.

Effect

The Association has under paid their gross receipts tax and therefore is not in compliance, leading to differences or errors not corrected in a timely manner. Penalties and interest for the underpaid taxes could apply.

Cause

The Association made changes on the worksheets they prepare for the calculation of the gross receipts tax due and remitted. There were no procedures in place to reconcile the reports generated from the utility program and the excel worksheet utilized to prepare the sales tax report, to ensure that the appropriate tax was paid.

Recommendation

The Association should contact the New Mexico Taxation & Revenue Department, Audit and Compliance Division to set up a managed audit. This program if approved by the Department allows the Association to pay taxes due without the imposition of penalties and interest.

Management Response

Management agrees with the recommendation and have set up procedures to reconcile the reports from the utility program and the worksheets utilized to prepare the sales tax reports. Management is in the final stages of completion of their managed audit with New Mexico Taxation & Revenue.

**STATE OF NEW MEXICO
EMW GAS ASSOCIATION
EXIT CONFERENCE
JUNE 30, 2011**

EXIT CONFERENCE

An exit conference was held on November 2, 2011; in attendance were Jace Alderson, Board Member, Mike Anaya, Board Member, Ronnie Reynolds, General Manager and Pam Lambert, Office Manager of EMW Gas Association with Cynthia James, CPA of Pattillo, Brown & Hill, L.L.P.

FINANCIAL STATEMENT PREPARATION

The financial statements contained herein were primarily prepared from the original books and records of the EMW Gas Association as of June 30, 2011 by Pattillo, Brown & Hill, L.L.P. Maintaining the audited entity's books and records is the responsibility of its management. Accordingly, management is responsible for ensuring that these books and records adequately support the preparation of financial statements in accordance with generally accepted accounting principles and that records are current and in balance.