

**STATE OF NEW MEXICO
EMW GAS ASSOCIATION
AUDIT REPORT
JUNE 30, 2014**

**STATE OF NEW MEXICO
EMW GAS ASSOCIATION
JUNE 30, 2014**

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INTRODUCTORY SECTION

**OFFICIAL ROSTER
FOR THE FISCAL YEAR ENDING
JUNE 30, 2014**

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. Mike Anaya	Board Member
Mr. Robert Ortiz	Board Member
Ms. Faye Chavez	Board Member
Mr. Robert Chavez	Board Member

ASSOCIATION ADMINISTRATION

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

INDEPENDENT AUDITORS' REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities, and the aggregate remaining fund information, of the EMW Gas Association, New Mexico (the Association), as of and for the year ended June 30, 2014, and the related notes to the financial statements, 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 defined by the Government Accounting Standards Board, as of and for the year ended June 30, 2014, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material 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 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. 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 respective financial position of the business-type activities, and the aggregate remaining fund information of the EMW Gas Association, New Mexico, as of June 30, 2014, 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 financial statements referred to above present fairly, in all material respects, as of June 30, 2014, the respective budgetary comparison for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the MD&A which is required to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements is required by the Government 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the Association's financial statements, and the budgetary comparison. The other schedules required by 2.2.2 NMAC are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other schedules required by 2.2.2 NMAC are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other schedules required by 2.2.2 NMAC are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2014 on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.

Pattillo, Brown and Hill, LLP
Albuquerque, New Mexico
October 8, 2014

Pattillo, Brown & Hill LLP

FINANCIAL STATEMENT SECTION

**STATE OF NEW MEXICO
EMW GAS ASSOCIATION
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014**

ASSETS

Current assets:

Cash and cash equivalents	\$	1,596,017
Investments		3,141,797
Receivables (net of allowances for uncollectibles)		294,106
Prepaid fees and software lease		11,101
Inventory		172,848
Accrued interest		<u>13,153</u>
 Total current assets		 <u>5,229,022</u>

Restricted assets:

Customers' meter deposits		<u>261,992</u>
 Total restricted assets		 <u>261,992</u>

Noncurrent assets:

Capital assets:		
Land and land rights		247,595
Capital assets, being depreciated		
Mains, services and meters		17,423,026
Buildings and improvements		570,322
Office furniture and equipment		560,530
Equipment		932,063
Less: accumulated depreciation		<u>(7,356,682)</u>
 Total capital assets		 <u>12,376,854</u>
 Total assets		 <u>\$ 17,867,868</u>

LIABILITIES

Current liabilities:

Accounts payable	\$ 164,785
Accrued expenses	10,688
Compensated absences	<u>86,734</u>

Total current liabilities 262,207

Noncurrent liabilities:

Customer deposits	<u>261,992</u>
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Total noncurrent liabilities 261,992

Total liabilities 524,199

Deferred inflows:

Unearned revenue	<u>113,222</u>
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NET POSITION

Investment in capital assets	12,376,854
Unrestricted	<u>4,853,593</u>

Total net position \$ 17,230,447

**STATE OF NEW MEXICO
EMW GAS ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDING JUNE 30, 2014**

Operating Revenues:

Natural gas sales	\$ 5,249,072
Installation fees	53,882
Connect and reconnect fees	16,143
Other charges	<u>32,110</u>
Total operating revenues	<u>5,351,207</u>

Operating Expenses:

Source of supply	
Natural gas purchases	2,910,596
Salaries	804,430
Other payroll expenses	251,253
Professional fees	54,033
Other	146,043
Advertising and promotion	12,031
Supplies	7,778
Automotive	48,597
Repairs and maintenance	4,489
Office and postage	127,081
Insurance	78,090
Utilities	24,270
Depreciation	<u>447,602</u>
Total expenses	<u>4,916,293</u>

Operating income 434,914

Non-operating revenues (expenses):

Investment expenses	(24,508)
Income (loss) from investments	<u>110,977</u>
Total non-operating revenues (expenses)	<u>86,469</u>

Change in net position 521,383

Net position, beginning of year 16,709,064

Net position, end of year \$ 17,230,447

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, 2014**

Cash flows from operating activities	
Receipts from customers and users	\$ 5,295,609
Payments to employees for services	(795,073)
Payments to suppliers for goods and services	<u>(3,664,060)</u>
Net cash provided by operating activities	<u>836,476</u>
Cash flows from capital and related activities	
Acquisition of fixed assets	<u>(38,149)</u>
Net cash provided by capital and related activities (used by)	<u>(38,149)</u>
Cash flows from investing activities	
Interest	86,113
Proceeds from sale and maturities of securities	1,407,283
Purchase of investments, fees and fmV adjustment	<u>(1,492,492)</u>
Net cash provided by investing activities (used by)	<u>904</u>
Net increase in cash and cash equivalents	799,231
Cash and equivalents, beginning of year	<u>1,058,778</u>
Cash and equivalents, end of year	<u>\$ 1,858,009</u>
Reconciliation of net income to net cash provided by operating activities:	
Net income	\$ 434,914
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation	447,602
Provision for bad debts	14,935
Changes in assets & liabilities	
(Increase) decrease in accounts receivable	(84,036)
(Increase) decrease in inventory	(68,178)
(Increase) decrease in prepaid items	14,753
Increase (decrease) in accounts payable	38,691
Increase (decrease) in unearned revenue	22,595
Increase (decrease) in accrued liabilities	4,694
Increase (decrease) in customer deposits	5,843
Increase (decrease) in compensated absences	<u>4,663</u>
Net cash provided by operating activities	<u>\$ 836,476</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, 2014**

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 component 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 position, 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 position available, it is the Association's policy to apply those expenses to restricted net position to the extent such are available and then to unrestricted net position.

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
Buildings 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 Position

Net position represents the difference between assets and liabilities. Net investment in capital assets, 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 position is reported as restricted when there are limitations imposed on the 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, 2014 is \$64,951. 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 – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

Plan Description. 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 benefits, 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 for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, NM 87504-2123. The report is also available on PERA's website at www.pera.state.nm.us.

Funding Policy. Plan members are required to contribute 10.65% of their gross salary. The Association is required to contribute 9.15% of the gross covered salary. The contribution requirements of plan members and the Association are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Association's contributions to PERA for the years ending June 30, 2014, 2013, and 2012, were \$65,647, \$66,735, and \$59,543, respectively, which equal the amount of the required contributions for each fiscal 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 can 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, or upon 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 annual leave hours at the time of his termination. The balance of compensated absences at June 30, 2014 was \$86,734 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	\$ <u>82,071</u>	\$ <u>65,534</u>	\$ <u>60,871</u>	\$ <u>86,734</u>	\$ <u>86,734</u>
Business-type activities long-term liabilities	\$ <u>82,071</u>	\$ <u>65,534</u>	\$ <u>60,871</u>	\$ <u>86,734</u>	\$ <u>86,734</u>

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

NOTE 7. CASH AND INVESTMENTS

Cash

At June 30, 2014, 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, 2014, 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 <u>6-30-14</u>	Add Deposits <u>In Transit</u>	Less Outstanding <u>Checks</u>	Balance Per Books <u>6-30-14</u>
US Bank				
Checking	\$ 1,598,351	\$ 3,682	\$ 39,533	\$ 1,562,500
My Bank				
Certificate of Deposit	<u>295,009</u>	<u>-</u>	<u>-</u>	<u>295,009</u>
Total Cash in Banks	<u>\$ 1,893,360</u>	<u>\$ 3,682</u>	<u>\$ 39,533</u>	1,857,509
Plus Cash on Hand				<u>500</u>
Total Cash Per Books				<u>\$ 1,858,009</u>
As Reported in Financial Statements:				
Cash				\$ 1,596,017
Restricted Cash				<u>261,992</u>
				<u>\$ 1,858,009</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)

	<u>CUSIP</u>	<u>Maturity Date</u>	<u>US Bank</u>	<u>My Bank</u>	<u>Total</u>
Amount on Deposit in Bank			\$ 1,598,351	\$ 295,009	\$ 1,893,360
Less: FDIC Coverage			(250,000)	(250,000)	(500,000)
Total uninsured public funds			<u>1,348,351</u>	<u>45,009</u>	<u>1,393,360</u>
Collateral pledged:					
FNMA Pool 890193	31410K7E8	8/1/2025	730,987		730,987
FNMA Pool AB4480 25DD	31417A6S3	2/1/2027	334,945	-	334,945
FHLMC FGTW C90689	31335HXS7	7/1/2023	559,936		559,936
Luna Cnty NM Sch District (PAR)	550340DL4	8/1/2016	-	25,000	67,583
			<u>1,625,868</u>	<u>25,000</u>	<u>1,650,868</u>
Uninsured and uncollateralized			<u>\$ -</u>	<u>\$ 20,009</u>	<u>\$ 20,009</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, 2014, \$1,393,360 of the Association’s bank balance of \$1,893,360 was exposed to custodial credit risk as follows:

	<u>US Bank</u>	<u>My Bank</u>	<u>Total</u>
Uninsured and uncollateralized	\$ -	\$ 20,009	\$ 20,009
Uninsured and collateral held by pledging bank’s trust department in the Bank’s name	<u>1,348,351</u>	<u>25,000</u>	<u>1,373,351</u>
Total	<u>\$ 1,348,351</u>	<u>\$ 45,009</u>	<u>\$ 1,393,360</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
- (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.

NOTE 7. CASH AND INVESTMENTS (continued)

Investments (continued)

As of June 30, 2014 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	\$ 212,764	\$ 212,764	\$ -	\$ -	\$ -
Federal Home Loan Mortgage Corp.	963,665	-	19,621	95,879	848,165
Federal National Mortgage Assoc.	639,546	-	1,773	11,651	626,122
US Treasury Bonds	<u>1,325,822</u>	<u>-</u>	<u>1,143,799</u>	<u>155,720</u>	<u>26,303</u>
Total Investments	<u>\$ 3,141,797</u>	<u>\$ 212,764</u>	<u>\$ 1,165,193</u>	<u>\$ 263,250</u>	<u>\$ 1,500,590</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 \$3,142,140. 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 Mortgage Corp. & Federal National Mortgage Assoc. were rated Aaa by Moody’s Investors Services and AA+ 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 42 percent of the Association’s investments are in US Treasury Bonds.

NOTE 8. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014 was as follows:

	Beginning Balance	Adjustments/ Increases	Decreases/ Reclassifications	Ending Balance
Capital assets, not being depreciated:				
Land & land rights	\$ 247,595	\$ -	\$ -	\$ 247,595
Total capital assets not being depreciated	<u>247,595</u>	<u>-</u>	<u>-</u>	<u>247,595</u>
Capital assets, being depreciated:				
Mains, services and meters	17,404,597	18,429	-	17,423,026
Buildings and improvements	521,518	-	-	521,518
Office furniture and equipment	560,530	-	-	560,530
Land use permits	48,804	-	-	48,804
Equipment	<u>912,343</u>	<u>19,720</u>	<u>-</u>	<u>932,063</u>
Total capital assets being depreciated	<u>19,447,792</u>	<u>38,149</u>	<u>-</u>	<u>19,485,941</u>
Less accumulated depreciation:				
Mains, services and meters	5,123,766	414,752	-	5,538,518
Buildings and improvements	371,919	16,164	-	388,083
Office furniture and equipment	560,530	-	-	560,530
Land use permits	20,016	1,245	-	21,261
Equipment	<u>832,849</u>	<u>15,441</u>	<u>-</u>	<u>848,290</u>
Total accumulated depreciation	<u>6,909,080</u>	<u>447,602</u>	<u>-</u>	<u>7,356,682</u>
Total capital assets being depreciated, net	<u>12,538,712</u>	<u>(409,453)</u>	<u>-</u>	<u>12,129,259</u>
Capital assets, net	<u>\$ 12,786,307</u>	<u>\$ (409,453)</u>	<u>\$ -</u>	<u>\$ 12,376,854</u>

NOTE 9. PREPAID FEES & SOFTWARE LEASE

The Association entered into a professional services contract with Tyler Technologies for their utility billing on line software service. The contract was set up for a 60 month period and can be cancelled at any time. The annual fee is \$15,840 payable in February, which covers the twelve month period beginning in March 2014. Prepaid professional service fees under this lease of \$11,101 for the fiscal year ended June 30, 2014.

NOTE 10. 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. Unearned revenue at June 30, 2014 was \$113,222.

NOTE 11. 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 12. RELATED PARTY TRANSACTIONS

The Association paid no related party in the year ended June 30, 2014.

SUPPLEMENTARY INFORMATION SECTION

**STATE OF NEW MEXICO
EMW GAS ASSOCIATION
STATEMENT OF REVENUE AND EXPENSES
BUDGET and ACTUAL
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2014**

	Budgeted Amounts		Actual	Variance with Final Budget- Positive
	Original	Amended		(Negative)
REVENUES				
Natural gas sales	\$ 5,070,732	\$ 5,070,732	\$ 5,249,072	\$ 178,340
Installation fees	40,000	40,000	53,882	13,882
Connect and reconnect fees	21,000	21,000	16,143	(4,857)
Other charges	<u>35,350</u>	<u>35,350</u>	<u>32,110</u>	<u>(3,240)</u>
Total revenues	<u>5,167,082</u>	<u>5,167,082</u>	<u>5,351,207</u>	<u>184,125</u>
EXPENDITURES				
Operating expense				
Source of supply				
Purchase of natural gas	2,410,677	2,410,677	2,910,596	(499,919)
Salaries	855,032	855,032	804,430	50,602
Other payroll expenses	269,480	269,480	251,253	18,227
Professional fees	72,665	72,665	54,033	18,632
Other	233,600	233,600	146,043	87,557
Advertising and promotion	16,000	16,000	12,031	3,969
Supplies	65,100	65,100	7,778	57,322
Automotive	54,600	54,600	48,597	6,003
Repairs and maintenance	11,500	11,500	4,489	7,011
Office and postage	168,900	168,900	127,081	41,819
Insurance	72,211	72,211	78,090	(5,879)
Travel	2,000	2,000	-	2,000
Utilities	27,500	27,500	24,270	3,230
Depreciation	<u>430,000</u>	<u>430,000</u>	<u>447,602</u>	<u>(17,602)</u>
Total expenditures	<u>4,689,265</u>	<u>4,689,265</u>	<u>4,916,293</u>	<u>(227,028)</u>
Operating income	<u>477,817</u>	<u>477,817</u>	<u>434,914</u>	<u>(42,903)</u>
Non-operating income (deductions):				
Investment expenses	(12,500)	(12,500)	(24,508)	(12,008)
Interest and investment income	<u>104,000</u>	<u>104,000</u>	<u>110,977</u>	<u>6,977</u>
Total non-operating income (deductions)	<u>91,500</u>	<u>91,500</u>	<u>86,469</u>	<u>(5,031)</u>
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	<u>\$ 569,317</u>	<u>\$ 569,317</u>	<u>\$ 521,383</u>	<u>\$ (47,934)</u>

The accompanying notes are an integral part of these financial statements

**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**

INDEPENDENT AUDITORS' REPORT

To the Board Members of
EMW Gas Association
Estancia, New Mexico
and
Hector H. Balderas
New Mexico State Auditor
Santa Fe, 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, the aggregate remaining fund information, and the budgetary comparisons of the EMW Gas Association, New Mexico (the Association), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements, and the related budgetary comparison of the Association, presented as supplemental information, and have issued our report thereon dated October 8, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Association'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 Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association'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.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency, 2007-001.

Compliance and Other Matters


As part of obtaining reasonable assurance about whether the Association'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*.

EMW Gas Association, New Mexico's Response to Findings

EMW Gas Association, New Mexico's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Association's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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



Pattillo, Brown & Hill, LLP
Albuquerque, New Mexico
October 8, 2014

**STATE OF NEW MEXICO
EMW GAS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2014**

Prior Year Audit Findings:

- 2007-A Auditor Prepared Financial Statements – repeat**
- 2013-A Audit Contract no Delivered to the State Auditor by Deadline - resolved**

Current Year Audit Findings:

- 2007-001 (2007-A) Auditor Prepared Financial Statements – repeat**

**STATE OF NEW MEXICO
EMW GAS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2014**

**2007-001 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
EXIT CONFERENCE
JUNE 30, 2014**

EXIT CONFERENCE

An exit conference was held on October 8, 2014; in attendance were James Schwebach, Board Chairman, Robert Ortiz, Board Member, Robert Chavez, 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, 2014 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.