STATE OF NEW MEXICO
EMW GAS ASSOCIATION
AUDIT REPORT
JUNE 30, 2015

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STATE OF NEW MEXICO
EMW GAS ASSOCIATION
JUNE 30, 2015

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INTRODUCTORY SECTION

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OFFICIAL ROSTER
FOR THE FISCAL YEAR ENDING
JUNE 30, 2015

ASSOCIATION BOARD MEMBERS

Name	Title
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

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

INDEPENDENT AUDITORS' REPORT

To the Board Members of
EMW Gas Association
Estancia, New Mexico
and
Timothy M. Keller
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, 2015, 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, 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 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.

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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, 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 financial statements referred to above present fairly, in all material respects, as of June 30, 2015, 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 (GASB), 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.

The supplementary information for GASB required supplementary pension schedules are presented to supplement the basic financial statements. Such information, although not a part of the basic financial statement, is required by the GASB 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.

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.

The schedule of vendor information for purchases 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 November 19, 2015 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 & Hill LLP

Pattillo, Brown and Hill, LLP
Albuquerque, New Mexico
November 19, 2015

FINANCIAL STATEMENT SECTION

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STATE OF NEW MEXICO
EMW GAS ASSOCIATION
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2015

ASSETS		
Current assets:		
Cash and cash equivalents	$	2,560,099
Investments		3,151,282
Receivables (net of allowances for uncollectibles)		272,685
Prepaid fees		11,101
Inventory		120,858
Accrued interest		-
Total current assets		6,116,025
Restricted assets:		
Customers' meter deposits		255,271
Total restricted assets		255,271
Noncurrent assets:		
Capital assets:		
Land and land rights		247,595
Capital assets, being depreciated		
Mains, services and meters		17,498,601
Buildings and improvements		570,322
Office furniture and equipment		560,530
Equipment		1,043,125
Less: accumulated depreciation		(7,805,054)
Total capital assets		12,115,119
Total assets		18,486,415
Deferred Outflows - Pension related		71,652
Total assets and deferred outflows	$	18,558,067

The accompanying notes are an integral part of these financial statements

LIABILITIES

Current liabilities:	
Accounts payable	$ 91,363
Accrued expenses	21,875
Compensated absences	81,099
Total current liabilities	194,337
Noncurrent liabilities:	
Net pension liability	689,615
Customer deposits	255,271
Total noncurrent liabilities	944,886
Total liabilities	1,139,223
Deferred Inflows:	
Pension related	270,263
Unearned revenue	142,845
Total deferred inflows	413,108

NET POSITION

Investment in capital assets	12,115,119
Unrestricted	4,890,617
Total net position	17,005,736
Total liabilities, deferred inflows and net position	$ 18,558,067

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, 2015

Operating Revenues:	
Natural gas sales	$ 5,169,295
Installation fees	65,135
Connect and reconnect fees	19,701
Other charges	28,899
Total operating revenues	5,283,030
Operating Expenses:	
Source of supply	
Natural gas purchases	2,446,273
Salaries	833,411
Other payroll expenses	220,600
Professional fees	74,326
Other	206,149
Advertising and promotion	13,568
Supplies	63,485
Automotive	49,885
Repairs and maintenance	10,015
Office and postage	120,108
Insurance	66,191
Utilities	22,335
Depreciation	448,370
Total expenses	4,574,716
Operating income	708,314
Non-operating revenues (expenses):	
Investment expenses	(2,572)
Income (loss) from investments	669
Total non-operating revenues (expenses)	(1,903)
Change in net position	706,411
Net position, beginning of year	17,230,447
Restatement	(931,122)
Net position, restated	16,299,325
Net position, end of year	$ 17,005,736

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, 2015

Cash flows from operating activities	
Receipts from customers and users	$ 5,322,269
Payments to employees for services	(827,859)
Payments to suppliers for goods and services	(3,309,283)
Net cash provided by operating activities	1,185,127
Cash flows from capital and related activities	
Acquisition of fixed assets	(186,635)
Net cash provided by capital and related activities (used by)	(186,635)
Cash flows from investing activities	
Interest	13,153
Proceeds from sale and maturities of securities	3,148,726
Purchase of investments, fees and fmv adjustment	(3,203,010)
Net cash provided by investing activities (used by)	(41,131)
Net increase in cash and cash equivalents	957,361
Cash and equivalents, beginning of year	1,858,009
Cash and equivalents, end of year	$ 2,815,370
Reconciliation of net income to net cash provided by operating activities:	
Net income	$ 708,314
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation	448,370
Provision for bad debts	5,084
Changes in assets & liabilities	
(Increase) decrease in accounts receivable	16,337
(Increase) decrease in inventory	51,990
(Increase) decrease in prepaid items	-
Increase (decrease) in accounts payable	(73,422)
Increase (decrease) in unearned revenue	29,623
Increase (decrease) in accrued liabilities	11,187
Increase (decrease) in customer deposits	(6,721)
Increase (decrease) in compensated absences	(5,635)
Net cash provided by operating activities	$ 1,185,127

NOTES TO FINANCIAL STATEMENTS SECTION

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 then 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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Deferred Outflows of Resources

In addition to assets, the balance sheet reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a use of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenditure) until that time. The Association has only one type of item that qualifies for reporting in this category. Accordingly, the item, contributions subsequent to measurement date, is reported in the Statement of Net Position. This amount is deferred and recognized as an outflow of resources the next period. The Association has recorded $71,652 related to contributions subsequent to the measurement date.

Deferred Inflows of Resources

In addition to liabilities, the balance sheet reports 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. Revenue must be susceptible to accrual (measurable and available to finance expenditures of the current fiscal period) to be recognized. If assets are recognized in connection with a transaction, but those assets are not yet available to finance expenditures of the current fiscal period, then the assets must be offset by a corresponding deferred inflows of resources. The Association has two types of items, which arise due to the implementation of GASB 68 and the related net pension liability. Accordingly, the items, net difference between expected and actual earnings and change in assumptions, are reported on the Statement of Net Position. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The Association has recorded $467 related to change in assumptions and $269,796 related to the net difference between expected and actual earnings.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the New Mexico Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, on the economic resources measurement focus and accrual basis of accounting. For this purpose, benefit payments (including refunds of employee

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

New Accounting Standards Adopted

During the year ended June 30, 2015, the District adopted GASB Statements No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27 ("GASB 68"), and No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68 ("GASB 71"). These two Statements are required to be implemented at the same time. GASB 68 addresses accounting and financial reporting for pensions that are provided to the employees of state and local governments through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit plan, plan assets are also legally protected from creditors of the plan members.

GASB 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to pensions. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. As a result of the implementation of GASB 68, the government recognized a net pension liability ("NPL") measured as of a date no later than the end of its prior fiscal year. If the government employer makes a contribution to the pension plan subsequent to the measurement date but prior to the end of the current fiscal year, GASB 68 requires the government to recognize that contribution as a deferred outflow of resources. In addition, GASB 68 requires the recognition of deferred outflows of resources and deferred inflows of resources for changes in the NPL that arise from other types of events, but does not require the government to recognize beginning deferred outflows of resources or deferred inflows of resources if the amounts are not practical to estimate. At transition to Statement 68, Statement 71 requires the employer or nonemployer contributing entity to recognize a beginning deferred outflow of resources for its pension contributions made subsequent to the measurement date of the beginning net pension liability but before the start of the government's fiscal year, thus avoiding possible understatement of an employer or nonemployer contributing entity's beginning net position and expense in the initial period of implementation. This pronouncement has materially impacted the financial statements and additional disclosures are included in the notes to the financial statements to highlight the effects.

NOTE 3. ACCOUNTS RECEIVABLE

The accounts receivable are shown net of the allowance for bad debts. The reserve for uncollectible accounts for June 30, 2015 is $59,867. 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. The Public Employees Retirement Fund (PERA Fund) is a **cost-sharing, multiple employer defined benefit pension plan.** This fund has six divisions of members, including State General, State Police/Adult Correction Officer, Municipal General, Municipal Police/Detention Officers, Municipal fire, and State Legislative Divisions, and offers 24 different types of coverage within the PERA plan. All assets accumulated may be used to pay benefits, including refunds of member contributions, to any of the plan members or beneficiaries, as defined by the terms of this plan. Certain coverage plans are only applicable to a specific division. Eligibility for membership in the PERA Fund is set forth in the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). Except as provided for in the Volunteer Firefighters Retirement Act (10-11A-1 to 10-11A-7, NMSA 1978), the Judicial Retirement Act (10-12B-1 to 10-12B-19, NMSA 1978), the Magistrate Retirement Act (10-12C- 1 to 10-12C-18, NMSA 1978), and the Educational Retirement Act (Chapter 22, Article 11, NMSA 1978), and the provisions of Sections 29-4-1 through 29-4-11, NMSA 1978 governing the State Police Pension Fund, each employee and elected official of every affiliated public employer is required to be a member in the PERA Fund.

PERA issues a publicly available financial report and a comprehensive annual financial report that can be obtained at http://saonm.org/ using the Audit Report Search function for agency 366.

Benefits provided. For a description of the benefits provided and recent changes to the benefits see Note 1 in the PERA audited financial statements for the fiscal year ended June 30, 2014 available at
http://www.pera.state.nm.us/pdf/AuditFinancialStatements/366_Public_Employees_Retirement_Association_2014.pdf.

Contributions. The contribution requirements of defined benefit plan members and the EMW Gas Association are established in state statute under Chapter 10, Article 11, NMSA 1978. The contribution requirements may be amended by acts of the legislature. For the employer and employee contribution rates in effect for FY14 for the various PERA coverage options, for both Tier I and Tier II, see the tables available in the note disclosures on pages 29 through 31 of the PERA FY14 annual audit report at
http://osanm.org/media/audits/366_Public_Employees_Retirement_Association_2014.pdf.
The PERA coverage options that apply to EMW Gas Association are: Municipal General Division. Statutorily required contributions to the pension plan from the EMW Gas Association

NOTE 5. PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (continued)

were $71,652 and employer paid member benefits that were "picked up" by the employer were $ -0- for the year ended June 30, 2015.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: The PERA pension liability amounts, net pension liability amounts, and sensitivity information were based on an annual actuarial valuation performed as of June 30, 2013. The PERA pension liability amounts for each division were rolled forward from the valuation date to the Plan year ending June 30, 2014, using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date June 30, 2014.

The assets of the PERA fund are held in one trust, but there are six distinct membership groups (municipal general members, municipal police members, municipal fire members, state general members, state police members and legislative members) for whom separate contribution rates are determined each year pursuant to chapter 10, Article 11 NMSA 1978. Therefore, the calculations of the net pension liability, pension expense and deferred Inflows and Outflows were preformed separately for each of the membership groups: municipal general members; municipal police members; municipal fire members; state general members; state police members and legislative members. The EMW Gas Association proportion of the net pension liability for each membership group that the employer participates in is based on the employer contributing entity's percentage of that membership group's total employer contributions for the fiscal year ended June 30, 2014. Only employer contributions for the pay period end dates that fell within the period of July 1, 2013 to June 30, 2014 were included in the total contributions for a specific employer. Regular and any adjustment contributions that applied to FY 2014 are included in the total contribution amounts. In the event that an employer is behind in reporting to PERA its required contributions, an estimate (receivable) was used to project the unremitted employer contributions. This allowed for fair and consistent measurement of the contributions with the total population. This methodology was used to maintain consistent measurement each year in determining the percentages to be allocated among all the participating employers.

For PERA Fund Division Municipal General, at June 30, 2015, the EMW Gas Association reported a liability of $689,615 for its proportionate share of the net pension liability. At June 30, 2014, the EMW Gas Association proportion was 0.0884% percent, which was unchanged from its proportion measured as of June 30, 2013, due to the insignificance of the difference. For the year ended June 30, 2015, the EMW Gas Association recognized PERA Fund Division Municipal General Pension expense of $28,756. At June 30, 2015, the EMW Gas Association reported PERA Fund Division Municipal General deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

NOTE 5. PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 269,796
Changes of assumptions	-	467
Net difference between projected and actual earnings on pension plan investments	-	-
Changes in proportion and differences between EMW Gas Association contributions and proportionate share of contributions	-	-
EMW Gas Association contributions subsequent to the measurement date	71,652	-
Total	$ 71,652	$ 270,263

$71,652 reported as deferred outflows of resources related to pensions resulting from EMW Gas Association contributions subsequent to the measurement date June 30, 2014 will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2016	$(67,565)
2017	(67,565)
2018	(67,565)
2019	(67,565)
2020	(3)
Thereafter	-

Actuarial assumptions. As described above, the PERA Fund member group pension liabilities and net pension liabilities are based on actuarial valuations performed as of June 30, 2013 for each of the membership groups. Then each PERA Fund member group pension liability was rolled forward from the valuation date to the Plan year ending June 30, 2014 using generally accepted actuarial principles. There were no significant events or changes in benefit provisions that required an adjustment to the roll-forward liabilities as of June 30,

2014. These actuarial methods and assumptions were adopted by the Board for use in the June 30, 2014 actuarial valuation.

NOTE 5. PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (continued)

Actuarial valuation date		June 30, 2013
Actuarial cost method		Entry age normal
Amortization method		Level percentage of pay
Amortization period		Solved for based on statutory rates
Asset valuation method		Fair value
Actuarial assumptions:		
• Investment rate of return		7.75% annual rate, net of investment
• Payroll growth		3.50% annual rate
• Projected salary increases		3.50% to 14.25% annual rate
• Includes inflation at		3.00% annual rate

The long-term expected rate of return on pension plan investments was determined using a statistical analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and most recent best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

ALL FUNDS - Asset Class	**Target Allocation**	**Long-Term Expected Real Rate of Return**
US Equity	21.1%	5.00%
International Equity	24.8	5.20
Private Equity	7.0	8.20
Core and Global Fixed Income	26.1	1.85
Fixed Income Plus Sectors	5.0	4.80
Real Estate	5.0	5.30
Real Assets	7.0	5.70
Absolute Return	4.0	4.15
Total	100.0%	

Discount rate: The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that future contributions will be made in accordance with statutory rates. On this basis, the pension plan's fiduciary net position together with the expected future contributions are sufficient to provide all projected future benefit payments of current plan members as determined in accordance with GASBS 67. Therefore, the 7.75% assumed long- term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the *EMW Gas Association****'s proportionate share of the net pension liability to changes in the discount rate.*** The following tables show the sensitivity of the net pension liability to changes in the discount rate. In particular, the tables present the EMW Gas

NOTE 5. PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (continued)

Association net pension liability in each PERA Fund Division that EMW Gas Association participates in, under the current single rate assumption, as if it were calculated using a discount rate one percentage point lower (6.75%) or one percentage point higher (8.75%) than the single discount rate.

PERA Fund Division Municipal General	**1% Decrease (6.75%)**	**Current Discount Rate (7.75%)**	**1% Increase (8.75%)**
EMW Gas Association's proportionate share of the net pension liability	$ 1,300,079	$ 689,615	$ 218,002

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued FY14 Restated PERA financial report. The report is available at http://www.pera.state.nm.us/publications.html.

Payables to the pension plan. Employers should disclose the amount of payables to the Plan with a description of what gave rise to the payable per GASBS 68, paragraphs 122 and 124.

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

NOTE 6. COMPENSATED ABSENCES (continued)

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, 2015 was $81,099 and will be paid from the propriety fund.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities					
Compensated absences	$ 86,734	$ 24,529	$ 30,164	$ 81,099	$ 81,099
Business-type activities long-term liabilities	$ 86,734	$ 24,529	$ 30,164	$ 81,099	$ 81,099

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

NOTE 7. CASH AND INVESTMENTS

Cash

At June 30, 2015, 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, 2015, 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.

NOTE 7. CASH AND INVESTMENTS (continued)

	Balance Per Bank 6-30-15	Add Deposits In Transit	Less Outstanding Checks	Balance Per Books 6-30-15
US Bank				
Checking	$ 2,567,165	$ 10,623	$ 59,643	$ 2,518,145
My Bank				
Certificate of Deposit	296,725	-	-	296,725
Total Cash in Banks	$ 2,863,890	$ 10,623	$ 59,643	2,814,870
Plus Cash on Hand				500
Total Cash Per Books				$ 2,815,370
As Reported in Financial Statements:				
Cash				$ 2,560,099
Restricted Cash				255,271
				$ 2,815,370

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

	CUSIP	Maturity Date	US Bank	My Bank	Total
Amount on Deposit in Bank			$ 2,518,645	$ 296,725	$ 2,815,370
Less: FDIC Coverage			(250,000)	(250,000)	(500,000)
Total uninsured public funds			2,268,645	46,725	2,315,370
Collateral pledged:					
FHLMC FGTW C90689 (FMV)	31335HXS7	7/1/2023	708,011	-	708,011
FHLMC GOLD POOL E99837 (FMV)	3128H74W9	10/1/2018	80,322	-	80,322
FNMA POOL 890193 (FMV)	31410K7E8	8/1/2025	779,292	-	779,292
FNMA POOL AB4480 25DD (FMV)	31417A6S3	2/1/2027	707,576	-	707,576
FNMA POOL AE5486 (FMV)	31419GCY8	10/1/2025	269,793	-	269,793
LUNA CNTY SD#1 BLDG I (PAR)	550340DL4	8/1/2016	-	25,000	25,000
			2,544,993	25,000	2,569,993
Uninsured and uncollateralized			$ -	$ 21,725	$ 21,725

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, 2015, $2,315,370 of the Association's bank balance of $2,815,370 was exposed to custodial credit risk as follows:

	US Bank	My Bank	Total
Uninsured and uncollateralized	$ -	$ 21,725	$ 21,725
Uninsured and collateral held by pledging bank's trust department in the Bank's name	2,268,645	25,000	2,293,645
Total	$ 2,268,645	$ 46,725	$ 2,315,370

Investments

The Association invests idle cash in compliance with Governmental Accounting Standards Board Statement No. 31, the Associations investments are stated at fair value, in the New Mexico State Treasurer's Local Government Investment Pool (LGIP). The investment portfolio is posted on the State Treasurer's Office website, www.nmsto.gov and available for review by participants at any time.

As of June 30, 2015 the Association had the following investments:

Investment Type	**Fair Value**
State Treasurer's Investment Pool	$ 3,151,282

NOTE 7. CASH AND INVESTMENTS (continued)

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 the State Treasures Local Government Investment Pool were rated AAAm (Standard & Poor's) $3,151,282 [54.6] day WAR (R); [77.7] day WAM (F).

NOTE 8. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 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	247,595	-	-	247,595
Capital assets, being depreciated:				
Mains, services and meters	17,423,026	75,575	-	17,498,601
Buildings and improvements	521,518	-	-	521,518
Office furniture and equipment	560,530	-	-	560,530
Land use permits	48,804	-	-	48,804
Equipment	932,063	111,062	-	1,043,125
Total capital assets being depreciated	19,485,941	186,637	-	19,672,578
Less accumulated depreciation:				
Mains, services and meters	5,538,518	415,384	-	5,953,902
Buildings and improvements	388,083	15,376	-	403,459
Office furniture and equipment	560,530	-	-	560,530
Land use permits	21,261	1,245	-	22,506
Equipment	848,290	16,367	-	864,657
Total accumulated depreciation	7,356,682	448,372	-	7,805,054
Total capital assets being depreciated, net	12,129,259	(261,735)	-	11,867,524
Capital assets, net	$ 12,376,854	$(261,735)	$ -	$ 12,115,119

NOTE 9. PREPAID FEES

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 2015. Prepaid professional service fees under this lease of $11,101 for the fiscal year ended June 30, 2015.

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, 2015 was $142,845.

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, 2015.

NOTE 13. NET POSITION RESTATEMENT

The Association has restated net position in the amount of ($931,122) for the implementation of GASB 68, which requires the inclusion of the Association's proportionate share of the net pension liability related to the Association's participation in the Public Employees Retirement Association. As of June 30, 2013, the proportionate share was $931,122.

NOTE 14. SUBSEQUENT PRONOUNCEMENTS

In February 2015, GASB Statement No. 72 Fair Value Measurement and Application, was issued. Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2015. Earlier application is encouraged. The Association will implement this standard during the fiscal year ended June 30, 2016. The Association is still evaluating how this pronouncement will affect the financial statements.

In June 2015, GASB Statement No. 73 Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, was issued. Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2016. Earlier application is encouraged. The Association is still evaluating how this pronouncement will affect the financial statements.

In June 2015, GASB Statement No. 74 Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, was issued. Effective Date: The provisions of this Statement are effective for fiscal years beginning after June 15, 2016. This pronouncement will not effect the Association's financial statements.

NOTE 14. SUBSEQUENT PRONOUNCEMENTS (continued)

In June 2015, GASB Statement No. 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, was issued. Effective Date: The provisions of this Statement are effective for fiscal years beginning after June 15, 2017. The standard will be implemented during the fiscal year ended June 30, 2018. The Association does not expect this pronouncement to have an effect on the financial statements as they do not participate in such a plan.

In June 2015, GASB Statement No. 76 The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, was issued. Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2015. Earlier application is encouraged. The Association is still evaluating how this pronouncement will effect the financial statements.

In August 2015, GASB Statement No. 77 Tax Abatement Disclosures, was issued. Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2015. Earlier application is encouraged. The Association will implement this standard during the fiscal year ended June 30, 2017. The Association is still evaluating how this pronouncement will effect the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION SECTION

STATE OF NEW MEXICO
EMW GAS
SCHEDULE OF THE PROPORATIONATE SHARE OF THE NET PENSION LIABILITY
June 30, 2015

New Mexico PERA Pension Plan
Last 10 Fiscal Years*
(Dollars in Thousands)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Association's Proportion of the Net Pension Liability (Asset)	0.0884%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Association's Proportionate Share of Net Pension Liability (Asset)	$ 690	-	-	-	-	-	-	-	-	-
Covered-Employee Payroll	$ 782	-	-	-	-	-	-	-	-	-
Associations's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered-Employee	88.20%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	81.29%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

*The amounts presented for each fiscal year were determined as of June 30. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the EMW Gas Association will present information for those years for which information is available.

See notes to required supplementary information.

STATE OF NEW MEXICO

EMW GAS
SCHEDULE OF CONTRIBUTIONS
June 30, 2015

New Mexico PERA Pension Plan
Last 10 Fiscal Years*
(Dollars in Thousands)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Contractually Required Contribution	$ 72	-	-	-	-	-	-	-	-	-
Contributions in Relation to the Contractually Required Contribution	(72)	-	-	-	-	-	-	-	-	-
Contribution Deficiency (Excess)	-	-	-	-	-	-	-	-	-	-
Covered-Employee Payroll	$ 782									
Contributions as a percentage of covered employee-payroll	9%									

Increase (Decrease) in Pension Expense over Recognition Periods

Year	Total Amount Deferred	Amortization Years	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
2014	$ 270	5		$ 68	68	68	68	-				
2015	-	5			-	-	-	-	-			
2016	-	5				-	-	-	-	-		
2017	-	5					-	-	-	-	-	
2018	-	5						-	-	-	-	-
2019	-	5							-	-	-	-
2020	-	5								-	-	-
2021	-	5									-	-
2022	-	5										-
2023	-	5										
	$ 270			$ 68	68	68	68	-	-	-	-	-

*The amounts presented for each fiscal year were determined as of June 30. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the EMW Gas Association will present information for those years for which information is available.

See notes to required supplementary information.

Changes of benefit terms. The PERA Fund COLA and retirement eligibility benefits changes in recent years are described in Note 1 of the PERA FY14 audit available at http://www.pera.state.nm.us/pdf/AuditFinancialStatements/366_Public_Employees_Retirement_Associati on_2014.pdf.

Changes of assumptions.

The Public Employees Retirement Association (PERA) of New Mexico Annual Actuarial Valuation as of June 30, 2014 report is available at http://www.pera.state.nm.us/pdf/Investments/RetirementFundValuationReports/6-30-2014%20PERA%20Valuation%20Report_FINAL.pdf. The summary of Key Findings for the PERA Fund (on page 2 of the report) states "based on a recent experience study for the five-year period ending June 30, 2013, the economic and demographic assumptions were updated for this valuation. The changes in assumptions resulted in a decrease of $30.8 million to Fund liabilities and an increase of 0.13% to the funded ratio. For details about changes in the actuarial assumptions, see Appendix B on page 60 of the report.

SUPPLEMENTARY INFORMATION SECTION

STATE OF NEW MEXICO
EMW GAS ASSOCIATION
STATEMENT OF REVENUE AND EXPENSES
BUDGET and ACTUAL
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2015

	Budgeted Amounts Original	Budgeted Amounts Amended	Actual	Variance with Final Budget-Postive (Negative)
REVENUES				
Natural gas sales	$ 4,955,020	$ 4,955,020	$ 5,169,295	$ 214,275
Installation fees	50,000	50,000	65,135	15,135
Connect and reconnect fees	22,000	22,000	19,701	(2,299)
Other charges	37,350	37,350	28,899	(8,451)
Total revenues	5,064,370	5,064,370	5,283,030	218,660
EXPENDITURES				
Operating expense				
Source of supply				
Purchase of natural gas	2,443,256	2,443,256	2,446,273	(3,017)
Salaries	880,585	880,585	833,411	47,174
Other payroll expenses	276,829	276,829	220,600	56,229
Professional fees	72,665	72,665	74,326	(1,661)
Other	369,500	369,500	206,149	163,351
Advertising and promotion	16,500	16,500	13,568	2,932
Supplies	64,200	64,200	63,485	715
Automotive	55,600	55,600	49,885	5,715
Repairs and maintenance	9,500	9,500	10,015	(515)
Office and postage	120,700	120,700	120,108	592
Insurance	76,240	76,240	66,191	10,049
Travel	2,000	2,000	-	2,000
Utilities	28,000	28,000	22,335	5,665
Depreciation	450,000	450,000	448,370	1,630
Total expenditures	4,865,575	4,865,575	4,574,716	290,859
Operating income	198,795	198,795	708,314	509,519
Non-operating income (deductions):				
Investment expenses	(20,000)	(20,000)	(2,572)	17,428
Interest and investment income	109,000	109,000	669	(108,331)
Total non-operating income (deductions)	89,000	89,000	(1,903)	(90,903)
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	$ 287,795	$ 287,795	$ 706,411	$ 418,616

The accompanying notes are an integral part of these financial statements

EMW Gas Association

SCHEDULE OF VENDOR INFORMATION for Purchases Exceeding $60,000 (excluding GRT)

For the Year Ended June 30, 2015

Prepared by Agency Staff Name:__Pam Lambert________Title:____Office Manager_________Date___11/18/2015_________

RFB#/RFP#	***Type of Procurement***	***Awarded Vendor***	***$ Amount of Awarded Contract***	***$ Amount of Amended Contract***	***Name and Physical Address per the procurement documentation, of ALL Vendor(s) that responded***	***In-State/ Out-of-State Vendor (Y or N) (Based on Statutory Definition)***	***Was the vendor in-state and chose Veteran's preference (Y or N) For federal funds answer N/A***	***Brief Description of the Scope of Work***
NOT APPLICABLE								

OTHER REPORTS SECTION

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
Timothy M. Keller
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 November 19, 2015.

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-A.

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
November 19, 2015

STATE OF NEW MEXICO
EMW GAS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2015

Prior Year Audit Findings:
2007-001 Auditor Prepared Financial Statements – repeat

Current Year Audit Findings:
2007-001 Auditor Prepared Financial Statements

STATE OF NEW MEXICO
EMW GAS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2015

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 a be 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. This is a small office in a rural community; therefore the organization does not have the staff or expertise to prepare the financials. Due to the limited employee resources management does not have a corrective action plan and will continue to have the auditors prepare the financial statements.

EXIT CONFERENCE

An exit conference was held on November 19, 2015; in attendance were James Schwebach, Board Chairman, Martin Hibbs, Vice Chairman, 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, 2015 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.