STATE OF NEW MEXICO

EMW GAS ASSOCIATION

FINANCIAL STATEMENTS
AND
SUPPLEMENTAL INFORMATION
YEAR ENDED JUNE 30, 2016
WITH
INDEPENDENT AUDITORS' REPORT

ACCOUNTING & FINANCIAL
SOLUTIONS
CERTIFIED PUBLIC ACCOUNTANTS

THIS PAGE INTENTIONALLY LEFT BLANK

INTRODUCTORY SECTION

THIS PAGE INTENTIONALLY LEFT BLANK

TABLE OF CONTENTS
Year Ended June 30, 2016

INTRODUCTORY SECTION

FINANCIAL SECTION

COMPLIANCE SECTION

THIS PAGE INTENTIONALLY LEFT BLANK

OFFICIAL ROSTER

June 30, 2016

Board of Directors

James Schwebach	Board Chairman
Martin Hibbs	Board Vice Chairman
Nick Sedillo	Board Sec/Treasurer
George Martin	Board Member
Bobby Ortiz	Board Member
Mike Anaya	Board Member
Arlene Mendez	Board Member
Faye Chavez	Board Member
Bobby Chavez	Board Member

Administrative Employees

Ronnie Reynolds	General Manager
Pam Lambert	Office Manager
Kay Brown	Procurement Officer
Teresa Armstrong	AP Specialist/Payroll

THIS PAGE INTENTIONALLY LEFT BLANK

FINANCIAL SECTION

FISCAL YEAR 2016

JULY 1, 2015 THROUGH JUNE 30, 2016

THIS PAGE INTENTIONALLY LEFT BLANK

INDEPENDENT AUDITORS' REPORT

THIS PAGE INTENTIONALLY LEFT BLANK

INDEPENDENT AUDITOR'S REPORT

Tim Keller, State Auditor, and
The Board of Directors of
EMW Gas Association

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of EMW Gas Association, as of and for the year ended June 30, 2016, 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 have also audited the budget comparison presented as supplemental information in the financial statements as of and for the year ended June 30, 2016, 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 of EMW Gas Association, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the Association for the year then ended in accordance with accounting principles generally accepted in the United States of America.

4801 N Butler Ave. Ste 8101
Farmington, NM 87401
afs@afsolutions-cpa.com
Telephone (505) 566-1900
Fax (505) 566-1911

Tim Keller, State Auditor, and
The Board of Directors of
EMW Gas Association

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require 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 Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Accounting principles generally accepted in the United States of America also require that the Schedule of Proportionate Share of the Net Pension Liability and Schedule of Contributions on page 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. 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 EMW Gas Association's financial statements and 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 my report dated September 30, 2016 on our consideration of the EMW Gas 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 EMW Gas Association's internal control over financial reporting and compliance.

Accounting & Financial Solutions, LLC
Farmington, New Mexico
September 30, 2016

4801 N Butler Ave. Ste 8101
Farmington, NM 87401
afs@afsolutions-cpa.com
Telephone (505) 566-1900
Fax (505) 566-1911

BASIC FINANCIAL STATEMENTS

STATE OF NEW MEXICO

EMW GAS ASSOCIATION

PROPRIETARY FUND

Statement of Net Position

June 30, 2016

Assets	
Current assets:	
Cash and cash equivalents	$ 3,160,037
Investments	3,158,732
Accounts receivable	291,325
Prepaid fees	11,101
Inventory	118,213
Total current assets	6,739,408
Noncurrent assets:	
Restricted cash - customer deposits	283,571
Land	247,595
Buildings and improvements	570,322
Irrigation system	17,920,684
Equipment	1,722,126
Less: accumulated depreciation	(8,272,114)
Total noncurrent assets	12,472,184
Total Assets	19,211,592
Deferred Outflows of Resources	
Contributions to pension subsequent to the measurement date	73,874
Change in proportionate share of pension liability	13,700
Total Deferred Outflows of Resources	87,574
Total Assets and Deferred Outflows of Resources	$ 19,299,166

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

STATE OF NEW MEXICO
EMW GAS ASSOCIATION

PROPRIETARY FUND
Statement of Net Position
June 30, 2016

Liabilities	
Current liabilities:	
Accounts payable	$ 170,963
Accrued payroll	13,411
Compensated absences	99,333
Total current liabilities	283,707
Noncurrent liabilities:	
Customer deposits payable	283,571
Net pension liability	924,765
Total noncurrent liabilities	1,208,336
Total Liabilities	1,492,043
Deferred inflows of resources:	
Deferred revenue	218,367
Difference between expected and actual experience	20,484
Net difference between projected and actual investment earnings on plan investments	2,925
Change in assumptions	360
Total Deferred Inflows of Resources	242,136
Net Position	
Net investment in capital assets	12,188,613
Unrestricted	5,376,374
Total Net Position	17,564,987
Total liabilities and net position	19,057,030
Total liabilities, deferred inflows of resources, and net position	$ 19,299,166

STATE OF NEW MEXICO

EMW GAS ASSOCIATION

PROPRIETARY FUND

Statement of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2016

Operating revenue:	
Gas sales	$ 4,984,515
Installation fees	103,511
Connection fees	22,540
Other	22,852
Total operating revenue	5,133,418
Operating expenses:	
Natural gas purchases	2,351,649
Salaries and benefits	871,297
Employee benefits	248,667
Office expense	114,550
Advertising	12,073
Supplies	248,600
Automotive	34,329
Repairs and maintenance	9,528
Insurance	59,539
Utilities	24,693
Legal and professional	12,928
Miscellaneous	128,192
Depreciation	467,057
Total operating expenses	4,583,102
Operating income (loss)	550,316
Non-Operating income (expenses):	
Investment expense	(1,581)
Income (loss) on investments	10,516
Total nonoperating revenues (expenses)	8,935
Change in net position	559,251
Net position - beginning	17,005,736
Net position - ending	$ 17,564,987

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

STATE OF NEW MEXICO

EMW GAS ASSOCIATION

PROPRIETARY FUND

Statement of Cash Flows

Year ended June 30, 2016

Cash Flows From Operating Activities	
Cash received from customers	$ 5,218,601
Cash payments to employees	(1,110,194)
Cash payments for supplies and maintenance	(2,913,836)
Net cash provided by operating activities	1,194,571
Cash Flows From Capital And Related Financing Activities	
Purchases of capital assets	(540,552)
Contributions to pension subsequent to the measurement date	(2,222)
Change in proportionate share of pension liability	(13,700)
Net pension liability	235,150
Difference between expected and actual experience	(270,263)
Net difference between projected and actual investment earnings on plan investments	20,484
Change in assumptions	2,458
Change in proportionate share of pension liability	827
Net cash used in capital and related financing activities	(567,818)
Cash Flows From Investing Activities	
Purchase of investments	(7,450)
Investment expense	(1,581)
Income (loss) on investments	10,516
Deposits to restricted cash	(283,571)
Net cash used in investing activities	(282,086)
Net increase in cash and cash equivalents	344,667
Cash and cash equivalents at beginning of the year	2,815,370
Cash and cash equivalents at end of the year	$ 3,160,037
Reconciliation Of Operating Income To Net Cash Provided (Used) By Operating Activities	
Operating income	$ 550,316
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	467,057
(Increase) decrease in:	
Customer receivables	(18,639)
Inventory	2,645
Increase (decrease) in:	
Accounts payable	79,600
Accrued liabilities	(8,464)
Compensated absences	18,234
Deferred revenue	75,522
Change in customer deposits	28,300
Total adjustments	644,255
Net cash provided by operating activities	$ 1,194,571

THIS PAGE INTENTIONALLY LEFT BLANK

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The EMW Gas Association (Association) was incorporated on January 23, 1964. EMW Gas Association is a special purpose government corporation governed by an elected nine-member Board of Directors. The Board of Directors is the base level of government, which has oversight responsibility and control over the delivery of natural gas to the towns of Estancia, Moriarty, Willard and the surrounding areas. The Association receives funding from charges for the delivery of natural gas.

The Association's financial statements include all financial information over which the Board of Directors exercises oversight responsibility. Oversight responsibility includes such aspects as appointment of governing body members, designation of management, the ability to significantly influence operations, and accountability for fiscal matters. Based upon the application of these criteria, no component units were included in the financial statements.

Generally Accepted Accounting Principles (GAAP) requires that financial statements present the Association (primary government) and its component units. The Association has no component units that are required to be presented in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units, an amendment of GASB Statement No. 14*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*.

1. Blended Component Units

The Association does not have any component units reported as blended component units.

2. Discretely Presented Component Units

The Association does not have any component units reported as discretely presented component units.

The summary of significant accounting policies of the Association is presented to assist in the understanding of the Association's financial statements. The financial statements and notes are the representation of EMW Gas Association's management who is responsible for their integrity and objectivity. The financial statements of the Association conform to Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation

During fiscal year 2016, EMW Gas Association adopted the following GASB Statements:

- GASB 72, Fair Value Measurement and Application, This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This Statement will be effective for the year ended June 30, 2016.
- GASB 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, this Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, Accounting and Financial Reporting for Pensions, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, Financial Reporting for Pension Plans, and Statement 68 for pension plans and pensions that are within their respective scopes. This Statement will be effective for the year ended June 30, 2016.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation (cont'd)

- GASB 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, This Statement supersedes Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement will be effective for the year ended June 30, 2016.

- GASB 79, *Certain External Investment Pools and Pool Participants*, this Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

  If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, as amended. If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this Statement, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement 31, as amended.

  This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals.

  The requirements of this Statement are effective for reporting periods beginning after June 15, 2015 (FYE June 30, 2016), except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015 (FYE June 30, 2017). Earlier application is encouraged.

Other accounting standards that EMW Gas Association is currently reviewing for applicability and potential impact on the financial statements include:

- GASB 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, This Statement replaces Statements No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, as amended, Statement 43, and Statement No. 50, Pension Disclosures. This Statement will be effective for the year ended June 30, 2017.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation (cont'd)

- GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, this Statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB. Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, establishes new accounting and financial reporting requirements for OPEB plans. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to 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. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. This Statement will be effective for the year ended June 30, 2018.

- GASB 77, *Tax Abatement Disclosures*, financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as inter-period equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time.

  Financial statement users need information about certain limitations on a government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from government programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development. For financial reporting purposes, this Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens.

  Although many governments offer tax abatements and provide information to the public about them, they do not always provide the information necessary to assess how tax abatements affect their financial position and results of operations, including their ability to raise resources in the future. This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues.

  This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

  - Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients
  - The gross dollar amount of taxes abated during the period
  - Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

  Governments should organize those disclosures by major tax abatement program and may disclose information for individual tax abatement agreements within those programs.

  Tax abatement agreements of other governments should be organized by the government that entered into the tax abatement agreement and the specific tax being abated. Governments may disclose information for individual tax abatement agreements of other governments within the specific tax being abated. For those tax abatement agreements, a reporting government should disclose:

  - The names of the governments that entered into the agreements
  - The specific taxes being abated
  - The gross dollar amount of taxes abated during the period.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation (cont'd)

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015 (FYE June 30, 2017). Earlier application is encouraged.

- GASB 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, the objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, Accounting and Financial Reporting for Pensions. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions.

  Prior to the issuance of this Statement, the requirements of Statement 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that Statement.

  This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

  The requirements of this Statement are effective for reporting periods beginning after December 15, 2015 (FYE June 30, 2017). Earlier application is encouraged.

- GASB 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*, the objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, The Financial Reporting Entity, as amended.

  This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, Determining Whether Certain Organizations Are Component Units.

  The requirements of this Statement are effective for reporting periods beginning after June 15, 2016 (FYE June 30, 2017). Earlier application is encouraged.

- GASB 81, *Irrevocable Split-Interest Agreements,* The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

  Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts—or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements—in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate.

  This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

  The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016 (FYE June 30, 2018), and should be applied retroactively. Earlier application is encouraged.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation (cont'd)

- GASB 82, Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73, the objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and 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. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016 (FYE June 30, 2017), except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017 (FYE June 30, 2018). Earlier application is encouraged.

The proprietary fund financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The government uses a proprietary fund to record all of its transactions.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Association enterprise fund is charges to customers for sales and services. Operating expense for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

C. Assets, Liabilities, and Net Position or Equity

1. *Deposits and investments*

The Association's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the investment of the Association's funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, and money market accounts. The Association is also allowed to invest in United States Government obligations. All funds for the Association must follow the above investment policies.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more banks or savings and loan within the geographical boundaries of the Association. Deposits may be made to the extent that they are insured by an agency of the United States or by collateral deposited as security or by bond given by the financial institution.

The rate of interest on non-demand interest-bearing accounts shall be set by the State Board of Finance, but in no case shall the rate of interest be less than one hundred percent of the asked price on United States Treasury bills of the same maturity on the day of deposit.

Excess of funds may be temporarily invested in securities which are issued by the State or by the United States government, or by their departments or agencies, and which are either direct obligations of the State or the United States or are backed by the full faith and credit of those governments.

Investments for the Association are reported at fair value.

Customer meter deposits are classified as restricted assets.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

C. Assets, Liabilities, and Net Position or Equity (cont'd)

2. *Accounts Receivable*

The accounts receivable reported in the Statement of Net Assets and an allowance for doubtful accounts has been recorded. Receivables are recognized when services are rendered and revenue has been earned.

3. *Capital assets*

The Association's policy is to capitalize all disbursements for equipment in excess of $5,000. Property and equipment are recorded at cost. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight-line method. Improvements are capitalized, while expenditures for maintenance and repairs are charged to expenses as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the statements of activities. The Association's assets have the following estimated useful lives:

	Years
Buildings and improvements	20-40
Utility system mains and lines	40
Land use permits	35
Utility meters	15-20
Equipment, vehicles, computers and software	3-10

4. *Vacation*

It is the Association's policy to permit employees to accumulate earned unused vacation benefits. Employees that have worked past the probation period of six months, will earn annual leave at the following rates, per pay period. A 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 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.

5. *Sick*

It is the Association's policy to permit employees to accumulate earned unused sick benefits. Employees that have worked past the probation period of six months, will earn sick leave at the rate of 2.46 hours per pay period. A pay period consists of 80 working hours during a two week period. Sick leave can be accumulated up to but not exceeding 160 hours within a six month period. Semi-annually an employee who has accumulated sick leave at 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 and December 30 or upon termination.

6. *Use of Estimates*

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

A budget for the Proprietary Fund is prepared by management and approved by the Board of Directors and the State Department of Finance and Administration.

This budget is prepared on the Non-GAAP cash basis, excluding encumbrances, and secures appropriation of funds for only one year. Carryover funds must be re-appropriated in the budget of the subsequent fiscal year. The budget process in the State of New Mexico requires that the beginning cash balance be appropriated in the budget of the subsequent fiscal year.

Actual expenditures may not exceed the budget on a line item basis, i.e., each budgeted expenditure must be within budgeted amounts. Budgets may be amended in two ways. If a budget transfer is necessary within a major category called a 'series', this may be accomplished with only local Board of Directors approval. If a transfer between 'series' or a budget increase is required, approval must also be obtained from State Department of Finance and Administration.

The budgetary information presented in these financial statements has been amended in accordance with the above procedures.

The Association follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In April, the management submits to the Board of Directors a proposed operating budget of the fiscal year commencing the following July. The operating budget includes proposed expenditures and the means of financing them, and has been approved by the State Department of Finance and Administration.
2. In July, the budget is approved by the Board of Directors.
3. The board meeting, while not intended for the general public, is open for the general public unless a closed meeting has been called for.
4. The management is authorized to transfer budgeted amounts between departments within any fund; however, the Board of Directors and the State Department of Finance and Administration must approve revisions that alter the total expenditure of the Proprietary Fund.
5. Formal budgetary integration is employed as a management control device during the year.
6. The budget for the Proprietary Fund is adopted on a basis not consistent with generally accepted accounting principles (GAAP). Encumbrances are treated the same way for GAAP purposes and for budget purposes.

The Board of Directors may approve amendments to the appropriated budget, which are required when a change is made affecting budgeted ending balances. The appropriated budget for the year ended June 30, 2016 was properly amended by the Board through the year. These amendments resulted in the following changes:

Original Budget	Final Budget
$ 7,542,353	$ 7,542,353

III. DETAILED NOTES ON ALL FUNDS

A. Cash and Temporary Investments

Cash and equivalents

Reconciliation of bank balances to the financial statements:

		Balance
Financial institution:		
US Bank	$	3,154,211
My Bank		298,210
Less net reconciling items		(9,313)
Less restricted cash		500
Less restricted cash		(283,571)
Total cash and equivalents	$	3,160,037

At June 30, 2016, the carrying amount of the Association's deposits was $3,443,108 and the bank balance was $3,452,421 with the difference consisting of outstanding checks. Of this balance $500,000 was covered by federal depository insurance and $2,929,291 was covered by collateral held in joint safekeeping by a third party.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Association's deposits may not be returned to it. New Mexico State Statutes require collateral pledged for deposits in excess of the federal deposit insurance to be delivered, or a joint safekeeping receipt be issued, to the Association for at least one half of the amount on deposit with the institution. The statement listed below will meet the State of New Mexico Office of the State Auditor's requirement in reporting the uninsured portion of the deposits. As of June 30, 2016, $23,130 of the Association's bank balance of $3,452,421 was exposed to custodial risk as follows:

Bank deposits:	US Bank	My Bank	Total
Uninsured and uncollateralized	$ -	$ 23,130	$ 23,130
Uninsured and collateral held by pledging bank's trust dept not in the District's name	2,904,211	25,080	2,929,291
Total uninsured	2,904,211	48,210	2,952,421
Insured (FDIC)	250,000	250,000	500,000
Total deposits	$ 3,154,211	$ 298,210	$ 3,452,421
State of New Mexico collateral requirement:			
50% of uninsured public fund bank deposits	$ 1,615,426	$ 24,105	$ 1,639,531
Pledged security	3,100,000	25,080	3,125,080
Over collateralization	$ 1,484,574	$ 975	$ 1,485,549

The collateral pledged is listed on page 33 of this report. The types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by any agency, Association or political subdivision of the State of New Mexico.

According to the Federal Deposit Insurance Authority, public unit deposits are funds owned by the Association. Time deposits, savings deposits and interest bearing "Now" accounts of a public unit in an institution in the same state will be insured up to $250,000 in aggregate and separate from the $250,000 coverage for public unit demand deposits at the same institution.

III. DETAILED NOTES ON ALL FUNDS (cont'd)

A. Cash and Temporary Investments (cont'd)

Investments

Interest Rate Risk

Interest rate risk is the risk that the fair value of the investments will change due to changes in the rate of interest applied to those investments. The Association's fair values of investments are not affected by changes in interest rates.

Concentration Credit Risk

Investments. For an investment, concentration credit risk is when any one issuer is 5% or more of the investment portfolio of the Association. The investments in the State Pool-4101 LGIP Fund represent 100% of the investment portfolio. Since the Association only purchases investments with the highest credit rating, the additional concentration is not viewed to be an additional risk by the Association. The Association's policy related to concentration risk is to comply with the state statute as put forth in the Public Money Act (Section 6-10-1 to 6-10- 63, NMSA 1978).

The State Treasurer Local Government Investment Pool is not SEC Registered. Section 6-10-10 I, NMSA 1978, empowers the State Treasurer, with the advice and consent of the State Board of Finance, to invest money held in the short-term investment funds in the securities that are issued by the United States government or by its departments or agencies and are either backed by the full faith and credit of the United States government or are agencies sponsored by the United States government. The Local Government Investment Pool investments are monitored by the same investment committee and the same policies and procedures that apply to all other state investments. The pool does not have unit shares; at the end of each month all interest earned is distributed by the State Treasurer to the contributing entities in the amounts of the fund were invested. Any realized gain or loss on the portfolio is distributed through the investment yield on distribution dates. The carrying amount of the portfolio approximates the fair value of all investments at June 30, 2016. The State of New Mexico is regulatory oversight entity and participation in the pool is voluntary.

Investments for the Association are reported at fair value. The State Treasurer's Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares

Investment Type	Maturities	Fair Value	Rating (S&P)
State Investment Pool – 4101 LGIP Fund	27.5 days (WAM)	$3,158,732	AAAm

B. Receivables

Receivables as of year-end for the Association are as follows:

Receivables:		
Accounts receivable	$	329,117
Allowance for doubtful		(37,792)
Total	$	291,325

Allowance for doubtful accounts has been estimated by management.

C. 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 March 1. Prepaid professional fees under this agreement are $11,101 for the year ended June 30, 2015.

III. DETAILED NOTES ON ALL FUNDS (cont'd)

D. Capital Assets

Capital assets activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Business type activities				
Capital assets,not being depreciated:				
Land	$ 247,595	$ -	$ -	$ 247,595
Capital assets, being depreciated:				
Mains, services and meters	17,498,601	422,083	-	17,920,684
Buildings and improvements	521,518	-	-	521,518
Land use permits	48,804	-	-	48,804
Equipment	1,603,655	118,471	-	1,722,126
Total capital assets being depreciated	19,672,578	540,554	-	20,213,132
Less accumulated depreciation for:				
Mains, services and meters	(5,953,902)	(421,166)	-	(6,375,068)
Buildings and improvements	(403,459)	(15,637)	-	(419,096)
Land use permits	(22,506)	(1,246)	-	(23,752)
Equipment	(1,425,187)	(29,011)	-	(1,454,198)
Total accumulated depreciation	(7,805,054)	(467,060)	-	(8,272,114)
Total capital assets being depreciated, net	11,867,524	73,494	-	11,941,018
Business type activities capital assets, net	$ 12,115,119	$ 73,494	$ -	$ 12,188,613

E. Liabilities

Changes in long term debt – During the year ended June 30, 2016 the following changes occurred in liabilities reported in the general obligation bonds account group:

	Beginning Balance	Additions	Retirements	Ending Balance	Amount Due Within One Year
Compensated absences:					
Compensated vacation	$ 33,700	$ 41,630	$ 33,700	$ 41,630	$ 41,630
Compensated sick leave	47,399	29,570	19,266	57,703	57,703
Total Compensated absences	$ 81,099	$ 71,200	$ 52,966	$ 99,333	$ 99,333

The liability of compensated absences is liquidated with resources from the unrestricted net position.

IV. OTHER INFORMATION

A. Retained Risk of Loss

The Association is exposed to various risks of loss related to torts, theft to, damage to, and destruction of assets, error and omissions, injuries to employees, and natural disasters. The Association carries commercial insurance for all risks. Settlement of claims resulting from these risks has not exceeded commercial insurance coverage in the past three years.

B. Employee Retirement Plan

Pensions. For purposes of measuring the net pension liability, deferred outflows and 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 the New Mexico Public Employees Retirement Plan (Plan), the economic resources measurement focus and accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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 www.pera.state.nm.us or www.saonm.org or writing:

PERA
P.O. Box 2123
Santa Fe, NM 87504-2123
www.nmpera.org

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 (name of employer) 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: General and Police. Statutorily required contributions to the pension plan from EMW Gas Association were $79,995 for the year ended June 30, 2015.

IV. OTHER INFORMATION (cont'd)

B. Employee Retirement Plan (cont'd)

Liabilities, Deferred Outflows of Resources, Deferred Inflows of Resources, and Expense 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, 2014. The PERA pension liability amounts for each division were rolled forward from the valuation date to the Plan year ending June 30, 2015, using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date June 30, 2015. 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 Association's 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, 2015. Only employer contributions for the pay period end dates that fell within the period of July 1, 2013 to June 30, 2015 were included in the total contributions for a specific employer. Regular and any adjustment contributions that applied to FY 2015 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.

PERA Fund Municipal General Division

For PERA Municipal General Division, at June 30, 2015, the Association reported a liability of $924,765 for its proportionate share of the net pension liability. At June 30, 2015, the Association's proportion was .08607 percent, which was unchanged from its proportion measured as of June 30, 2014, due to the insignificance of the difference.

For the year ended June 30, 2015, the Association recognized PERA Fund Municipal General Division pension expense of $46,608

Pension Expense Calculation

Add:	Net pension liability - end of the year	$	924,765
Deduct:	Net pension liability - beginning of the year		(689,615)
Deduct:	Deferred outflows of resources during the year		(17,942)
Add:	First year of amortization of deferred outflows of resources		4,242
Add:	Deferred inflows of resources during the year		23,769
Deduct:	First year of amortization of deferred inflows of resources		-
Add:	Layered amortization of prior year(s) deferred outflows of resources		-
Deduct:	Layered amortization of prior year(s) deferred inflows of resources		(270,263)
Reductions to ending net pension liability due contributions paid			71,652
Total Pension Expense		$	46,608

At June 30, 2015, the EMW Gas Association reported PERA Fund Division General Fund deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

IV. OTHER INFORMATION (cont'd)

B. Employee Retirement Plan (cont'd)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 20,484
Change of assumptions	-	360
Net difference between projected and actual earnings on pension plan investments	-	2,925
Changes in proportion and differences between Association contributions and proportionate share of contributions	13,700	-
Association contributions subsequent to the measurement date	73,874	-
Total	$ 87,574	$ 23,769

Deferred outflows of resources related to PERA Fund Division General Fund in the amount of $73,874 resulting from the Association's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to PERA Fund Division General Fund will be recognized in pension expense as follows:

Year Ending June 30,	
2016	$ (20,251)
2017	(20,251)
2018	(19,277)
2019	49,710
2020	-
Thereafter	-
Total	$ (10,069)

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, 2014 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, 2015 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, 2015. These actuarial methods and assumptions were adopted by the Board for use in the June 30, 2015 actuarial valuation.

Actuarial valuation date	June 30, 2014
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 expense
Projected benefit payment	100 years
Payroll growth	3.50% annual rate
Projected salary increases	3.50% to 14.25% annual rate
Includes inflation at	3.00% annual rate
Mortality Assumption	RP-2000 Mortality Tables (Combined table for health post-retirements, Employee table for active members and Disabled table for disabled retirees before retirement age) with projection to 2018 using Scale AA
Experience Study Dates	July 1, 2008 to June 30, 2013

IV. OTHER INFORMATION (cont'd)

B. Employee Retirement Plan (cont'd)

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	29.00%	5.00
International Equity	20.00%	5.20
Private Equity	26.00%	8.20
Core and Global Fixed Income	5.00%	1.85
Fixed Income Plus Sectors	5.00%	4.80
Real Estate	7.00%	5.30
Real Assets	3.00%	5.70
Absolute Return	5.00%	4.15
	100.00%	

<u>Sensitivity of the Net Pension Liability to Changes in the Discount Rate Assumption</u>

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 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 Association's net pension liability in each PERA Fund Division that the 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.

		1% Decrease 6.75%	Current Single Rate Assumption 7.75%	1% Increase 8.75%
ERB (All Employers)				
	2015	$ 6,534,375,512	$ 4,260,526,331	$ 2,371,407,413
	2014	$ 5,504,669,726	$ 3,319,394,159	$ 1,644,396,630
EMW Gas Association				
	2015	$ 1,574,508	$ 924,765	$ 384,548
	2014	$ 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 FY15 PERA financial report. The report is available at www.pera.state.nm.us.

IV. OTHER INFORMATION (cont'd)

C. Contingent Liabilities

The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the government's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the government.

D. Subsequent Events

Subsequent events were evaluated through September 30, 2016, which is the date the financial statements were available to be issued.

SCHEDULE OF THE ASSOCIATION'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Public Employee Retirement Association (PERA) Pension Plan
Last 10 Fiscal Years*

	2016	2015
Association's proportion of the net pension liability	0.907000%	0.088400%
Association's proportionate share of the net pension liability	$ 924,765	$ 689,615
Association's covered-employee payroll	$ 773,546	$ 782,000
Association's proportionate share of the net pension liability as a percentage of its covered-employee payroll	119.55%	88.19%
Plan fiduciary net position as a percentage of the total pension liability	66.54%	81.29%

* These schedules are intended to present 10 years of trending history. However, until a full 10-year trend is compiled, the Association will present information for those years for which information is available.

SCHEDULE OF ASSOCIATION'S CONTRIBUTIONS
Public Employee Retirement Association (PERA) Pension Plan
Last 10 Fiscal Years*

	2016	2015
Contractually required contribution	$ 73,874	$ 71,652
Contributions in relation to the contractually required	(73,874)	(71,652)
Contribution deficiency (excess)	$ -	$ -
Association's covered-employee payroll	$ 773,546	$ 782,000
Contribution as a percenatge of covered-employee payroll	9.55%	9.16%

* These schedules are intended to present 10 years of trending history. However, until a full 10-year trend is compiled, the Association will present information for those years for which information is available.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2016

Changes of benefit terms: The COLA and retirement eligibility benefits changes in recent years are described in the Benefits Provided subsection of the financial statement note disclosure General Information on the Pension Plan.

Changes of assumptions: The Public Employees Retirement Association (PERA) of New Mexico Annual Actuarial Valuation as of June 30, 2015 report is available at http://www.pera.state.nm.us/pfd/infestments/RetirementFundBaluationReports/6-30-2014%20PERA%20Valuation%20Report_Final.pdf.

THIS PAGE INTENTIONALLY LEFT BLANK

OTHER SUPPLEMENTAL INFORMATION

Supplemental schedules required by the State of
New Mexico to provide additional analysis.

STATE OF NEW MEXICO

EMW GAS ASSOCIATION

PROPRIETARY FUND

Schedule of Revenues, Expenses, and Changes in Fund Net Position - Budget and Actual (Non-GAAP Budgetary Basis)

Year Ended June 30, 2016

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
Operating revenue:				
Gas sales	$ 5,318,412	$ 5,318,412	$ 4,924,822	$ (393,590)
Installation fees	115,000	115,000	103,511	(11,489)
Connection fees	25,000	25,000	22,540	(2,460)
Other	40,100	40,100	22,852	(17,248)
Total operating revenue	5,498,512	5,498,512	5,073,725	(424,787)
Operating expenses:				
Natural gas purchases	2,716,450	2,716,450	2,302,629	413,821
Salaries and benefits	914,130	914,130	790,976	123,154
Employee benefits	439,537	439,537	287,595	151,942
Office expense	122,400	122,400	112,110	10,290
Advertising	20,000	20,000	12,073	7,927
Supplies	172,500	172,500	247,356	(74,856)
Automotive	97,500	97,500	26,879	70,621
Repairs and maintenance	9,500	9,500	9,528	(28)
Insurance	67,700	67,700	59,539	8,161
Utilities	23,000	23,000	24,693	(1,693)
Legal and professional	43,036	43,036	12,928	30,108
Miscellaneous	2,496,600	2,496,600	635,939	1,860,661
Depreciation	420,000	420,000	447,986	(27,986)
Total operating expenses	7,542,353	7,542,353	4,970,231	2,572,122
Income from operations	(2,043,841)	(2,043,841)	103,494	2,147,335
Non-Operating income (expenses)				
Investment expense	(2,000)	(2,000)	(1,581)	419
Income (loss) on investments	10,000	10,000	10,516	516
Total nonoperating revenues (expenses)	8,000	8,000	8,935	935
Net income (loss)	(2,035,841)	(2,035,841)	112,429	2,148,270
Beginning cash balance budgeted	2,260,841	2,260,841	-	(2,260,841)
Net position beginning of the year	-	-	17,005,736	17,005,736
Net position end of the year	$ 225,000	$ 225,000	17,118,165	$ 16,893,165
RECONCILIATION TO GAAP BASIS:				
Change in property and equipment			540,555	
Change in receivables			59,693	
Change in payables			(81,300)	
Compensated absences			(80,321)	
Change in deferred revenue			27,266	
Depreciation			(19,071)	
Net position end of the year (GAAP basis)			$ 17,564,987	

STATE OF NEW MEXICO

EMW GAS ASSOCIATION

Schedule Of Pledged Collateral

June 30, 2016

	US Bank	My Bank	Total
Cash on deposit at June 30, 2016:			
Cash on deposit	$ 3,154,211	$ 298,210	$ 3,452,421
Less FDIC Coverage	(250,000)	(250,000)	(500,000)
Uninsured funds	2,904,211	48,210	-
Amount requiring pledged collateral:			
50% collateral requirement	1,452,106	24,105	1,476,211
Pledged collateral	3,100,000	25,080	3,125,080
Excess of pledged collateral	$ 1,647,894	$ 975	$ 1,648,869

Pledged collateral of financial institutions consist of the following:

	CUSIP #	Maturity Date	
US Bank			
FHLB Cincinnati Letter of Credit	N/A	N/A	$ 3,100,000

The above listed securities are held at the Federal Home Loan Bank in Cincommato, Ohio.

My Bank			
Luna Cnty SD #1	550340DL4	8/1/2016	$ 25,080

The above listed securities are held at the Federal Home Loan Bank in Dallas, Texas.

Account Name	Account Type	Bank Name	Bank Amount
Operating	Checking	US Bank	$ 3,154,211
Meter Deposits	CD	My Bank	298,210
			$ 3,452,421

Cash and cash equivalents	$ 3,160,037
Restricted cash - customer deposits	283,571
	$ 3,443,608

Adjustments to cash:	
Bank balance	$ 3,452,421
Cash on hand	500
Reconciling items	(9,313)
Total adjusted cash	$ 3,443,608

STATE OF NEW MEXICO

EMW GAS ASSOCIATION

SCHEDULE OF VENDOR INFORMATION

(Individual Purchases in Exceeding $60,000, Excluding Gross Receipts Tax)

Year ended June 30, 2016

Prepared by (Agency Staff Name): Kay Brown Title: Procurement officer Date: October 10, 2016

RFB/RFP #	Type of Procurement	Awarded To	Amount of Awarded Contract	Amount of Amended Contract	Name and Physical Address of All Respondents	In-State / Out-of-State Vendor	Veteran's Preference N/A for Federal Funds	Scope of Work
N/A		Arguijo Oilfield Services	$ 164,806	$ -		Y	N	

COMPLIANCE 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

§

Schedule of Findings and Responses

§

Summary Schedule of Prior Year Audit Findings

§

Required Disclosures

THIS PAGE INTENTIONALLY LEFT BLANK

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 AUDITOR'S REPORT

Tim Keller, State Auditor and
The Board of Directors of
EMW Gas Association

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of EMW Gas Association as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise EMW Gas Association's basic financial statements, and related budgetary comparisons of EMW Gas Association presented as supplemental information, and have issued our report thereon dated September 30, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit, of the financial statements, we considered EMW Gas Associations 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 EMW Gas Associations internal control. Accordingly, we do not express an opinion on the effectiveness of EMW Gas 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. However, material weaknesses may exist that have not been identified. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether EMW Gas Association's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. We also noted certain other matters that are required to be reported pursuant to *Government Auditing Standards* paragraphs 5.14 and 5.16, and pursuant to Section 12-6-5, NMSA 1978, which are described in the accompanying schedule of findings and questioned costs as finding 2016-001.

4801 N Butler Ave. Ste 8101
Farmington, NM 87401
afs@afsolutions-cpa.com
Fax (505) 566-1911
Telephone (505) 566-1900

Tim Keller, State Auditor and
The Board of Directors of
EMW Gas Association

EMW Gas Association's Response to Findings

EMW Gas Association's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. EMW Gas 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 result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. This report is intended solely for the information and use of the Board of Directors, management, and the New Mexico State Auditor, and Department of Finance and Administration – Local Governments and is not intended to be and should not be used by anyone other than these specified parties.

Accounting & Financial Solutions, LLC
Farmington, New Mexico
September 30, 2016

4801 N Butler Ave. Ste 8101
Farmington, NM 87401
afs@afsolutions-cpa.com
Telephone (505) 566-1900
Fax (505) 566-1911

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2016

I. SUMMARY OF AUDIT RESULTS

	Yes	No	Occurrences
FINANCIAL STATEMENTS:			
Type of auditor's report issued: Unmodified			
Internal control over financial reporting:			
Material weakness(es) identified?		✓	-
Significant Deficiency(ies) identified?		✓	-
Noncompliance material to financial statements noted?		✓	-

II. FINDINGS RELATED TO FINANCIAL STATEMENTS

2016 – 001 PROCUREMENT REQUIREMENTS NOT FOLLOWED
Other noncompliance

Condition: The Association procured services for extension of gas line services. The improvement totaled $164,806. The Association did not have a procurement officer, and they did not advertise, or keep all the required documentation for a project that totaled $164,806, although they did receive 3 sealed bids. After the procurement was completed the Association hired a procurement officer.

Criteria: State Procurement statute requires that the Association have a Procurement officer, and that the Association Advertise for projects over $60,000. And give bidders 10 days to respond

Effect of condition: The Association is in violation of the state procurement statute and might have missed getting a better deal for the Association.

Cause: The Association was not aware that they were required to have a certified procurement officer.

Recommendation: The Association needs to update the internal control policies and procedures so that they agree with the state procurement requirements and state law.

Management's Response: EMW Gas Association is aware of and understands the finding. Proper steps have already been implemented to correct this practice as to be in compliance with state procurement requirements and state law. The office coordinator is now a certified Procurement Officer, and our office and board are more aware of the proper procedures to take for procurements in the future.

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2016

I. RESOLVED

There were no findings to be reported from the prior year.

II. NOT RESOLVED

There were no findings to be reported from the prior year.

REQUIRED DISCLOSURE

YEAR ENDED JUNE 30, 2016

The financial statements were prepared by the independent public accountants.

An exit conference was held October 12, 2016, during which the audit findings were discussed. The exit conference was attended by the following individuals:

EMW GAS ASSOCIATION

Mike Anaya	Board Member
Ronnie Reynolds	General Manager
Pam Lambert	Office Manager

ACCOUNTING & FINANCIAL SOLUTIONS, LLC

Terry Ogle, CPA	Partner