

STATE OF NEW MEXICO
EMW GAS ASSOCIATION

FINANCIAL STATEMENTS
AND
SUPPLEMENTAL INFORMATION
YEAR ENDED JUNE 30, 2017
WITH
INDEPENDENT AUDITORS' REPORT



ACCOUNTING & FINANCIAL
SOLUTIONS
CERTIFIED PUBLIC ACCOUNTANTS

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INTRODUCTORY SECTION

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OFFICIAL ROSTER

June 30, 2017

Board of Directors

James Schwebach	Board Chairman
Bobby Ortiz	Board Vice Chairman
Nick Sedillo	Board Sec./Treasurer
George Martin	Board Member
Sylvia Chavez	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

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FINANCIAL SECTION

FISCAL YEAR 2017

JULY 1, 2016 THROUGH JUNE 30, 2017

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INDEPENDENT AUDITORS' REPORT

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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, 2017, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements 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.

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 financial statements that collectively comprise EMW Gas Association's basic financial statements. The other supplemental information such as the budgetary comparison of the proprietary fund and the 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 supplemental information such as the budgetary comparison of the proprietary fund and 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 supplemental information such as the budgetary comparison of the proprietary fund and schedules required by 2.2.2 NMAC are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued 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

BASIC FINANCIAL STATEMENTS

STATE OF NEW MEXICO
EMW GAS ASSOCIATION

PROPRIETARY FUND
Statement of Net Position
 June 30, 2017

Assets

Current assets:

Cash and cash equivalents	\$ 3,393,314
Investments	3,924,123
Accounts receivable (net of allowance of \$353,971.00)	313,693
Prepaid fees	11,101
Inventory	<u>119,237</u>
Total current assets	<u>7,761,468</u>

Noncurrent assets:

Restricted cash - customer deposits	308,968
Land	247,597
Buildings and improvements	570,320
Irrigation system	17,935,460
Equipment	1,741,778
Less: accumulated depreciation	<u>(8,778,404)</u>
Total noncurrent assets	<u>12,025,719</u>

Total Assets

19,787,187

Deferred Outflows of Resources

Contributions to pension subsequent to the measurement date	83,903
Difference between expected and actual experience	72,083
Net difference between projected and actual investment earnings on plan investments	265,452
Change in assumptions	84,597
Change in proportionate share of pension liability	<u>13,166</u>
Total Deferred Outflows of Resources	<u>519,201</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 20,306,388</u>

(cont'd; 1 of 2)

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, 2017

Liabilities

Current liabilities:

Accounts payable	\$ 110,681
Accrued payroll	14,493
Compensated absences	97,773
Unearned meter deposits	<u>26,304</u>

Total current liabilities 249,251

Noncurrent liabilities:

Customer deposits payable	308,968
Net pension liability	<u>1,442,690</u>

Total noncurrent liabilities 1,751,658

Total Liabilities 2,000,909

Deferred inflows of resources:

Deferred revenue	177,875
Difference between expected and actual experience	14,080
Change in assumptions	240
Change in proportionate share of pension liability	<u>3,160</u>

Total Deferred Inflows of Resources 195,355

Net Position

Net investment in capital assets	11,716,751
Unrestricted	<u>6,393,373</u>

Total Net Position 18,110,124

Total liabilities, deferred inflows of resources, and net position \$ 20,306,388

(2 of 2)

STATE OF NEW MEXICO
EMW GAS ASSOCIATION

PROPRIETARY FUND
Statement of Revenues, Expenses, and Changes in Net Position
Year ended June 30, 2017

Operating revenue:	
Gas sales	\$ 4,588,254
Installation fees	51,091
Connection fees	21,867
Other	<u>31,826</u>
Total operating revenue	<u>4,693,038</u>
Operating expenses:	
Natural gas purchases	1,969,693
Salaries and benefits	886,888
Employee benefits	358,722
Office expense	124,063
Advertising	18,606
Supplies	53,380
Automotive	36,518
Repairs and maintenance	11,723
Insurance	36,998
Utilities	19,131
Legal and professional	12,674
Miscellaneous	149,680
Depreciation	<u>486,639</u>
Total operating expenses	<u>4,164,715</u>
<i>Operating income (loss)</i>	<u>528,323</u>
Non-Operating income (expenses):	
Income (loss) on investments	18,396
Investment expense	<u>(1,582)</u>
Total nonoperating revenues (expenses)	<u>16,814</u>
<i>Change in net position</i>	545,137
Net position - beginning	<u>17,564,987</u>
Net position - ending	<u><u>\$ 18,110,124</u></u>

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, 2017

Cash Flows From Operating Activities	
Cash received from customers	\$ 4,681,879
Cash payments to employees	(1,246,088)
Cash payments for supplies and maintenance	<u>(2,493,772)</u>
Net cash provided by operating activities	<u>942,019</u>
 Cash Flows From Capital And Related Financing Activities	
Purchases of capital assets	(14,774)
Contributions to pension subsequent to the measurement date	(10,029)
Change in proportionate share of pension liability	534
Net pension liability	517,925
Difference between expected and actual experience	(6,404)
Net difference between projected and actual investment earnings on plan investments	(2,925)
Change in assumptions	(120)
Change in proportionate share of pension liability	<u>3,160</u>
Net cash provided by (used in) capital and related financing activities	<u>65,235</u>
 Cash Flows From Investing Activities	
Purchase of investments	(765,391)
Income (loss) on investments	18,396
Investment expense	(1,585)
Deposits to restricted cash	<u>(308,968)</u>
Net cash used in investing activities	<u>(1,057,548)</u>
<i>Net increase (decrease) in cash and cash equivalents</i>	(50,294)
Cash and cash equivalents at beginning of the year	<u>3,443,608</u>
Cash and cash equivalents at end of the year	<u>\$ 3,393,314</u>
 Reconciliation Of Operating Income To Net Cash Provided (Used) By Operating Activities	
Operating income	<u>\$ 528,323</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	486,639
(Increase) decrease in:	
Customer receivables	(22,368)
Inventory	(1,024)
Increase (decrease) in:	
Accounts payable	(60,282)
Accrued liabilities	1,082
Compensated absences	(1,560)
Deferred revenue	(40,492)
Unearned meter deposits	26,304
Change in customer deposits	<u>25,397</u>
Total adjustments	<u>413,696</u>
Net cash provided by operating activities	<u>\$ 942,019</u>

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NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

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NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

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 2017, EMW Gas Association adopted the following GASB Statements:

- **GASB Statement No. 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.
- **GASB Statement No. 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.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

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

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

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

- o 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
- o The gross dollar amount of taxes abated during the period
- o 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:

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

- **GASB Statement No. 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.

- **GASB Statement No. 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.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

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

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

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

- **GASB Statement No. 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 Statement No. 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.

- **GASB Statement No. 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.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

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

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

- **GASB Statement No. 83, *Certain Asset Retirement Obligations*** - This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

This Statement requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. The best estimate should include probability weighting of all potential outcomes, when such information is available or can be obtained at reasonable cost. If probability weighting is not feasible at reasonable cost, the most likely amount should be used. This Statement requires that a deferred outflow of resources associated with an ARO be measured at the amount of the corresponding liability upon initial measurement.

This Statement requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually. In addition, it requires a government to evaluate all relevant factors at least annually to determine whether the effects of one or more of the factors are expected to significantly change the estimated asset retirement outlays. A government should remeasure an ARO only when the result of the evaluation indicates there is a significant change in the estimated outlays. The deferred outflows of resources should be reduced and recognized as outflows of resources (for example, as an expense) in a systematic and rational manner over the estimated useful life of the tangible capital asset.

A government may have a minority share (less than 50 percent) of ownership interest in a jointly owned tangible capital asset in which a nongovernmental entity is the majority owner and reports its ARO in accordance with the guidance of another recognized accounting standards setter. Additionally, a government may have a minority share of ownership interest in a jointly owned tangible capital asset in which no joint owner has a majority ownership, and a nongovernmental joint owner that has operational responsibility for the jointly owned tangible capital asset reports the associated ARO in accordance with the guidance of another recognized accounting standards setter. In both situations, the government's minority share of an ARO should be reported using the measurement produced by the nongovernmental majority owner or the nongovernmental minority owner that has operational responsibility, without adjustment to conform to the liability measurement and recognition requirements of this Statement.

In some cases, governments are legally required to provide funding or other financial assurance for their performance of asset retirement activities. This Statement requires disclosure of how those funding and assurance requirements are being met by a government, as well as the amount of any assets restricted for payment of the government's AROs, if not separately displayed in the financial statements. This Statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. If an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government is required to disclose that fact and the reasons therefor. This Statement requires similar disclosures for a government's minority shares of AROs.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018 (FYE June 30, 2019). Earlier application is encouraged.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

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

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

- **GASB Statement No. 84, *Fiduciary Activities*** – This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. A fiduciary component unit, when reported in the fiduciary fund financial statements of a primary government, should combine its information with its component units that are fiduciary component units and aggregate that combined information with the primary government's fiduciary funds. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018 (FYE June 30, 2020). Earlier application is encouraged. Changes adopted to conform to the provisions of this Statement should be applied retroactively by restating financial statements, if practicable, for all prior periods presented. If restatement for prior periods is not practicable, the cumulative effect, if any, of applying this Statement should be reported as a restatement of beginning net position (or fund balance or fund net position, as applicable) for the earliest period restated. In the first period that this Statement is applied, the notes to the financial statements should disclose the nature of the restatement and its effect. Also, the reason for not restating prior periods presented should be disclosed.

- **GASB Statement No. 85, Omnibus 2017** – The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).

Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation
- Reporting amounts previously reported as goodwill and “negative” goodwill • Classifying real estate held by insurance entities
- Measuring certain money market investments and participating interest earning investment contracts at amortized cost
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
- Classifying employer-paid member contributions for OPEB
- Simplifying certain aspects of the alternative measurement method for OPEB
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017 (FYE June 30, 2018). Earlier application is encouraged.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

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

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

- **GASB Statement No. 86, Certain Debt Extinguishment Issues** – The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

In-Substance Defeasance of Debt Using Only Existing Resources Statement No. 7, Advance Refundings Resulting in Defeasance of Debt, requires that debt be considered defeased in substance when the debtor irrevocably places cash or other monetary assets acquired with refunding debt proceeds in a trust to be used solely for satisfying scheduled payments of both principal and interest of the defeased debt. The trust also is required to meet certain conditions for the transaction to qualify as an in-substance defeasance. This Statement establishes essentially the same requirements for when a government places cash and other monetary assets acquired with only existing resources in an irrevocable trust to extinguish the debt. However, in financial statements using the economic resources measurement focus, governments should recognize any difference between the reacquisition price (the amount required to be placed in the trust) and the net carrying amount of the debt defeased in substance using only existing resources as a separately identified gain or loss in the period of the defeasance. Governments that defease debt using only existing resources should provide a general description of the transaction in the notes to financial statements in the period of the defeasance. In all periods following an in-substance defeasance of debt using only existing resources, the amount of that debt that remains outstanding at period-end should be disclosed.

Prepaid Insurance Related to Extinguished Debt – For governments that extinguish debt, whether through a legal extinguishment or through an in-substance defeasance, this Statement requires that any remaining prepaid insurance related to the extinguished debt be included in the net carrying amount of that debt for the purpose of calculating the difference between the reacquisition price and the net carrying amount of the debt.

Additional Disclosure for All In-Substance Defeasance Transactions – One of the criteria for determining an in-substance defeasance is that the trust hold only monetary assets that are essentially risk-free. If the substitution of essentially risk-free monetary assets with monetary assets that are not essentially risk-free is not prohibited, governments should disclose that fact in the period in which the debt is defeased in substance. In subsequent periods, governments should disclose the amount of debt defeased in substance that remains outstanding for which that risk of substitution exists.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017 (FYE June 30, 2018). Earlier application is encouraged.

- **GASB Statement No. 87, Leases** - The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

Definition of a Lease - A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this Statement.

The provisions of this Statement are effective for reporting periods beginning after December 15, 2019 (FYE June 30, 2021).

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

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

C. Proprietary Financial Statement Presentation

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.

D. 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.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

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

D. 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:

ASSETS	YEARS
Buildings and Improvements	10 - 20
Utility System mains and lines	20 - 55
Land use permits	35
Utility meters	10 - 40
Equipment, vehicles, computers & 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.

YEARS OF SERVICE	HOURS
6 months to 2 yrs	2.77
2 yrs to 11 yrs	4.32
Over 11 yrs	5.85

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.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

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, 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, 2017 was properly amended by the Board through the year. These amendments resulted in the following changes:

ORIGINAL	FINAL
<u>\$ 7,709,085</u>	<u>\$ 7,709,085</u>

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

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	\$ 4,163,351
My Bank	299,632
Less net reconciling items	(11,201)
Cash on hand	500
Less Investment CDs	(750,000)
Less Restricted Cash	(308,968)
Total Cash & Equivalents	\$ 3,393,314

At June 30, 2017, the carrying amount of the Association's deposits was \$4,451,782 and the bank balance was \$4,462,983 with the difference consisting of outstanding checks. Of this balance \$1,250,000 was covered by federal depository insurance and \$3,125,080 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, 2017, \$23,130 of the Association's bank balance of \$86,481 was exposed to custodial risk as follows:

	US BANK	MY BANK	TOTAL
Bank deposits:			
Uninsured and uncollateralized	\$ 63,351	\$ 23,130	\$ 86,481
Uninsured and collateral held by pledging bank's trust dept not in the District's name	3,100,000	25,080	3,125,080
Total uninsured	3,163,351	48,210	3,211,561
Insured (FDIC)	1,000,000	250,000	1,250,000
Total deposits	\$ 4,163,351	\$ 298,210	\$ 4,461,561
State of New Mexico collateral requirement:			
50% of uninsured public fund bank deposits	\$ 1,581,676	\$ 24,105	\$ 1,605,781
Pledged security	3,100,000	25,080	3,125,080
Over collateralization	\$ 1,518,324	\$ 975	\$ 1,519,299

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.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

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, 2017. 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)	\$3,174,123	AAAm

INVESTMENTS	
Non-current investment	
State Investment Pool	\$ 3,174,123
US Bank CDARs	<u>750,000</u>
Total	<u>\$ 3,924,123</u>

B. Receivables

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

RECEIVABLES:	
Accounts Receivable	\$ 351,485
Allowances for Doubtful	<u>(37,792)</u>
Total	<u>\$ 313,693</u>

Allowance for doubtful accounts has been estimated by management.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

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

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.

D. Capital Assets

Capital assets activity for the year ended June 30, 2017 was as follows:

	BALANCE	INCREASES	DECREASES	BALANCE
Business type activities:				
Capital assets not being depreciated:				
Land	\$ 247,597	\$ -	\$ -	\$ 247,597
Capital assets being depreciated:				
Mains, services and meters	17,920,684	14,776	-	17,935,460
Buildings and improvements	521,518	-	-	521,518
Land use permits	48,802	-	-	48,802
Equipment	1,722,126	19,652	-	1,741,778
Total capital assets being depreciated	<u>20,213,130</u>	<u>34,428</u>	<u>-</u>	<u>20,247,558</u>
Less accumulated depreciation for:				
Mains, services and meters	(6,375,068)	(428,240)	-	(6,803,308)
Buildings and improvements	(419,096)	(15,639)	-	(434,735)
Land use permits	(23,752)	(1,245)	-	(24,997)
Equipment	(1,454,198)	(61,166)	-	(1,515,364)
Total accumulated depreciation	<u>(8,272,114)</u>	<u>(506,290)</u>	<u>-</u>	<u>(8,778,404)</u>
Total capital assets being depreciated, net	<u>11,941,016</u>	<u>(471,862)</u>	<u>-</u>	<u>11,469,154</u>
Total capital assets, net	<u>\$ 12,188,613</u>	<u>\$ (471,862)</u>	<u>\$ -</u>	<u>\$ 11,716,751</u>

E. Liabilities

Changes in long term debt – During the year ended June 30, 2017 the following changes occurred in liabilities reported in the general obligation bonds account group:

	BEGINNING	ADDITIONS	RETIREMENTS	ENDING	CURRENT
Compensated Absences:					
Compensated Vacation	\$ 41,630	\$ 58,054	\$ 61,424	\$ 38,260	\$ 38,260
Compensated Sick Leave	57,703	33,789	31,979	59,513	59,513
Total Compensated absences	<u>\$ 99,333</u>	<u>\$ 91,843</u>	<u>\$ 93,403</u>	<u>\$ 97,773</u>	<u>\$ 97,773</u>

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

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

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, 2016 available at http://www.nmpera.org/assets/uploads/downloads/comprehensive-annual-financial-reports/2016-CAFR_12.22.2016_FINAL-with-corrections.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 FY16 for the various PERA coverage options, for both Tier I and Tier II, see the table available in the note disclosures on page 43 of the PERA FY16 annual audit report at https://www.saonm.org/media/audits/366_Public_Employees_Retirement_Association_FY2016.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, 2016.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

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, 2015. The PERA pension liability amounts for each division were rolled forward from the valuation date to the Plan year ending June 30, 2016, using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date June 30, 2016. 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, 2016. Only employer contributions for the pay period end dates that fell within the period of July 1, 2015 to June 30, 2016 were included in the total contributions for a specific employer. Regular and any adjustment contributions that applied to FY 2016 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, 2016, the Association reported a liability of \$1,442,690 for its proportionate share of the net pension liability. At June 30, 2016, the Association's proportion was .08603 percent, which was a decrease of .00004% from its proportion measured as of June 30, 2015, due to the insignificance of the difference.

For the year ended June 30, 2016, the Association recognized PERA Fund Municipal General Division pension expense of \$163,912

PENSION EXPENSE CALCULATION	
Net pension liability - end of the year	\$ 1,442,690
Net pension liability - beginning of the year	(924,765)
Deferred outflows of resources during the year	(421,598)
Deferred inflows of resources during the year	(6,289)
Reductions to ending net pension liability due contributions paid	73,874
Total Pension Expense	\$ 163,912

At June 30, 2016, 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:

	OUTFLOWS	INFLOWS
Difference between expected and actual experience	\$ 72,083	\$ 14,080
Change of assumptions	84,597	240
Net difference between projected and actual earnings on pension plan investments	265,452	-
Changes in proportion and differences between District contributions and proportionate share of contributions	13,166	3,160
Association contributions subsequent to the measurement date	83,903	-
Total	\$ 519,201	\$ 17,480

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

IV. OTHER INFORMATION (cont'd)

B. Employee Retirement Plan (cont'd)

Deferred outflows of resources related to PERA Fund Division General Fund in the amount of \$83,903 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, 2018.

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:

JUNE 30,	AMORTIZATION
2018	\$ (93,804)
2019	(93,804)
2020	(163,135)
2021	(67,075)
2022	-
Thereafter	-
Total	\$ (417,818)

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, 2015 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, 2016 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, 2016. These actuarial methods and assumptions were adopted by the Board for use in the June 30, 2016 actuarial valuation.

Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay, Open
Amortization period	Solved for based on statutory rates
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	7.48% annual rate, net of investment expense
Projected benefit payment	100 years
Payroll growth	2.75% for first 10 years, then 3.25% annual rate
Projected salary increases	2.75% to 14.00% annual rate
Includes inflation at	2.25% annual rate first 10 years, 2.75% all other years
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 (demographic) and July 1, 2010 through June 20, 2015 (economic)

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

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 %
Global Equity	43.50%	7.39
Risk Reduction & Mitigation	21.50%	1.79
Credit Oriented Fixed Income	15.00%	5.77
Real Assets	20.00%	7.35
	100.00%	

Sensitivity of the Net Pension Liability to Changes in the Discount Rate Assumption

The discount rate used to measure the total pension liability was 7.48 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 7.48% 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 (6.48%) or one percentage point higher (8.48%) than the single discount rate.

		CURRENT SINGLE RATE			
		1% Decrease 6.48%	Assumption 7.48%	1% Increase 8.48%	
PERA (All Employers)					
2016	\$	8,658,021,582	\$	6,159,380,375	\$ 4,089,319,751
EMW Gas Association					
2016	\$	2,150,922	\$	1,442,690	\$ 855,246

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued FY16 PERA financial report. The report is available at www.pera.state.nm.us.

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 8, 2017 which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2017

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Association's proportion of the net pension liability	0.090300%	0.090700%	0.088400%
Association's proportionate share of the net pension liability	\$ 1,442,690	\$ 924,765	\$ 689,615
Association's covered-employee payroll	\$ 788,849	\$ 773,546	\$ 782,000
Association's proportionate share of the net pension liability as a percentage of its covered-employee payroll	182.89%	119.55%	88.19%
Plan fiduciary net position as a percentage of the total pension liability	69.18%	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*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 83,903	\$ 73,874	\$ 71,652
Contributions in relation to the contractually required	<u>(83,903)</u>	<u>(73,874)</u>	<u>(71,652)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Association's Covered-employee Payroll	\$ 788,849	\$ 773,546	\$ 782,000
Contribution as a percentage of covered-employee payroll	10.64%	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, 2017

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.nmpera.org/assets/uploads/downloads/comprehensive-annual-financial-reports/2016-CAFR_12.22.2016_FINAL-with-corrections.pdf.

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, 2017

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		(Negative)
Operating revenue:				
Gas sales	\$ 5,499,262	\$ 5,499,262	\$ 4,588,254	\$ (911,008)
Installation fees	-	-	58,808	58,808
Connection fees	-	-	21,867	21,867
Other	-	-	333,077	333,077
	5,499,262	5,499,262	5,002,006	(497,256)
Total operating revenue				
Operating expenses:				
Natural gas purchases	5,850,650	5,850,650	1,969,693	3,880,957
Salaries and benefits	1,296,399	1,296,399	886,888	409,511
Employee benefits	-	-	358,722	(358,722)
Office expense	12,600	12,600	124,063	(111,463)
Advertising	-	-	18,606	(18,606)
Supplies	-	-	53,380	(53,380)
Automotive	340,500	340,500	36,518	303,982
Repairs and maintenance	-	-	11,723	(11,723)
Insurance	67,700	67,700	36,998	30,702
Utilities	23,000	23,000	19,131	3,869
Legal and professional	50,536	50,536	12,674	37,862
Miscellaneous	67,700	67,700	149,680	(81,980)
Depreciation	-	-	486,639	(486,639)
	7,709,085	7,709,085	4,164,715	3,544,370
Total operating expenses				
<i>Income from operations</i>	(2,209,823)	(2,209,823)	837,291	3,047,114
Non-Operating income (expenses)				
Income (loss) on investments	10,000	10,000	18,396	8,396
Investment expense	-	-	(1,582)	(1,582)
	10,000	10,000	16,814	6,814
Total nonoperating revenues (expenses)				
<i>Net income (loss)</i>	(2,199,823)	(2,199,823)	854,105	3,053,928
Beginning cash balance budgeted	2,199,823	2,199,823	-	(2,199,823)
Net position beginning of the year	-	-	17,564,987	17,564,987
Net position end of the year	\$ -	\$ -	18,419,092	\$ 18,419,092
RECONCILIATION TO GAAP BASIS:				
Change in payables			(308,968)	
Net position end of the year (GAAP basis)			\$ 18,110,124	

STATE OF NEW MEXICO
EMW GAS ASSOCIATION

Schedule Of Pledged Collateral

June 30, 2017

	<u>US Bank</u>	<u>My Bank</u>	<u>Total</u>
Cash on deposit at 42916:			
Cash on deposit	\$ 4,163,351	\$ 299,632	\$ 4,462,983
Less FDIC Coverage	<u>(1,000,000)</u>	<u>(250,000)</u>	<u>(1,250,000)</u>
Uninsured funds	<u>\$ 3,163,351</u>	<u>\$ 49,632</u>	<u>\$ (1,250,000)</u>
 Amount requiring pledged collateral:			
50% collateral requirement	1,581,675	24,816	1,606,491
Pledged collateral	<u>3,100,000</u>	<u>25,080</u>	<u>3,125,080</u>
Excess of pledged collateral	<u>\$ 1,518,325</u>	<u>\$ 264</u>	<u>\$ 1,518,589</u>

Pledged collateral of financial institutions consist of the following:

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

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

	<u>CUSIP #</u>	<u>Maturity Date</u>	
<u>My Bank</u>			
Luna Cnty SD #1	550340DL4	8/1/2016	<u>\$ 25,080</u>

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

<u>Account Name</u>	<u>Account Type</u>	<u>Bank Name</u>	<u>Bank Amount</u>
Operating	Checking	US Bank	\$ 3,413,351
CDARS - Legacy Texas Bank	CD	US Bank	19,500
CDARS - Seaside National Bank & Trust	CD	US Bank	243,500
CDARS - Signature Bank	CD	US Bank	243,500
CDARS - TriState Capital Bank	CD	US Bank	243,500
Meter Deposits	CD	My Bank	<u>299,632</u>
			<u>\$ 4,462,983</u>
		Cash and cash equivalents	\$ 3,393,314
		Restricted cash - customer deposits	<u>308,968</u>
			<u>\$ 3,702,282</u>
		Adjustments to cash:	
		Bank balance	\$ 4,462,983
		Cash on hand	500
		Less the investment CDs	(750,000)
		Reconciling items	<u>(11,201)</u>
		Total adjusted cash	<u>\$ 3,702,282</u>

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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

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Schedule of Findings and Responses

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Summary Schedule of Prior Year Audit Findings

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Required Disclosures

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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, 2017, 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 8, 2017

Internal Control Over Financial Reporting

In planning and performing our audit, of the financial statements, we considered EMW Gas 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 EMW Gas Association's 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 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.

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

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 8, 2017



SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2017

I. SUMMARY OF AUDIT RESULTS

	<u>Yes</u>	<u>No</u>	<u>Occurrences</u>
FINANCIAL STATEMENTS:			
Type of auditor's report issued: <u>Unmodified</u>			
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

There were no findings to be reported for the current year.

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2017

I. RESOLVED

2017 – 001 PROCUREMENT REQUIREMENTS NOT FOLLOWED

Current Status: Resolved – Not repeated in the current year

II. NOT RESOLVED

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

REQUIRED DISCLOSURES

Year Ended June 30, 2017

The financial statements were prepared by the independent public accountants.

An exit conference was held September 11, 2017 during which the audit findings were discussed. The exit conference was attended by the following individuals:

EMW GAS ASSOCIATION

Bobby Ortiz	Board Member
James P Schwebach	Board Member
Ronnie Reynolds	General Manager
Brenda S. Padilla	Office Manager Assistant
Pam Lambert	Office Manager

ACCOUNTING & FINANCIAL SOLUTIONS, LLC

Terry Ogle, CPA	Partner
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