

**STATE OF NEW MEXICO  
EMW GAS ASSOCIATION  
AUDITED FINANCIAL STATEMENTS  
AND ANNUAL FINANCIAL REPORT  
WITH INDEPENDENT AUDITORS'  
REPORT THEREON  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

**STATE OF NEW MEXICO  
EMW GAS ASSOCIATION**

**TABLE OF CONTENTS**

**JUNE 30, 2019**

**INTRODUCTORY SECTION:**

Official Roster ..... ii

**FINANCIAL SECTION**

Independent Auditors' Report ..... 1 – 2

**BASIC FINANCIAL STATEMENTS:**

Statement of Net Position..... 3

Statement of Activities ..... 4

Statement of Cash Flows ..... 5

NOTES TO FINANCIAL STATEMENTS ..... 6-24

REQUIRED SUPPLEMENTARY INFORMATION .....25-27

**SUPPLEMENTARY SCHEDULES**

Statement of Revenues and Expenditures – Budget (Non-GAAP Budgetary Basis) and Actual (Non-GAAP)  
Budgetary Basis) – Operating Fund..... 28

Schedule of Pledged Collateral..... 29

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.....30-31

Summary of Audit Results..... 32

Schedule of Findings and Responses .....33

Exit Conference..... 34

# OFFICIAL ROSTER

June 30, 2019

## 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
Arleen Mendez	Board Member
Fay Chavez	Board Member
Bobby Chavez	Board Member

## Administrative Employees

Edward O'Brien	General Manager
Brenda Padilla	Office Manager
Kay Brown	Procurement Officer
Maile Butler	AP Specialist/Payroll

## INDEPENDENT AUDITOR'S REPORT

Mr. Brian Colón, New Mexico 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 and the budgetary comparisons for the operating fund of EMW Gas Association (Association), as of and for the year ended June 30, 2019, 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.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, and the budgetary comparison for the operating fund of the Association, as of June 30, 2019 and the respective changes in financial position and cashflows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Management has omitted management's discussion and analysis. Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the Association's Proportionate Share of the Net Pension Liability on pages 26 the Schedule of the Association's Contributions on pages 27, and the notes to the required supplementary information, on pages 28 respectively, 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 and historical context. We have applied certain limited procedures to the Schedule of the Association's Proportionate Share of the Net Pension Liability in accordance with auditing standards general accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the Association's financial statements, the combining and individual fund financial statements, and the budgetary comparisons. The other schedules required by Section 2.2.2 NMAC are presented for purposes of additional analysis and are not a required part of the 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 combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated December 13, 2019 on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Association's internal control over financial reporting and compliance.

*Baldwin Accounting & Consulting, LLC*

**Baldwin Accounting & Consulting, LLC**

Albuquerque, New Mexico

December 13, 2019

## **BASIC FINANCIAL STATEMENTS**

**STATE OF NEW MEXICO  
EMW GAS ASSOCIATION  
PROPRIETARY FUND  
STATEMENT OF NET POSITION  
JUNE 30, 2019**

**ASSETS**

Current Assets:

Cash and cash equivalents	\$ 3,432,730
Investments	4,053,105
Accounts receivable, net	323,841
Property taxes receivable	14,725
Prepaid expenses	14,642
Inventory	<u>111,489</u>
<b>Total current assets</b>	<u>7,950,532</u>

Noncurrent Assets:

Cash and cash equivalents, restricted to customer deposits	345,126
Capital assets, not depreciated	412,597
Capital assets, net of accumulated depreciation	<u>12,900,546</u>
<b>Total non current assets</b>	<u>13,658,269</u>

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred outflows, pension related	<u>377,195</u>
<b>Total deferred outflows of resources</b>	<u>377,195</u>
<b>Total assets and deferred outflows of resources</b>	<u>\$ 21,985,996</u>

**LIABILITIES AND NET POSITION**

**LIABILITIES**

Current Liabilities

Accounts payable	\$ 82,619
Accrued compensation, related taxes, and benefits	20,843
Gross receipts tax payable	13,479
Unearned meter deposits payable	199,548
Compensated absences	<u>74,709</u>
<b>Total current liabilities</b>	<u>391,198</u>

Noncurrent Liabilities

Customer deposits	345,126
Net pension liability	<u>1,468,414</u>
<b>Total liabilities</b>	<u>1,813,540</u>

**DEFERRED INFLOWS OF RESOURCES**

Deferred inflows, pension related	<u>50,878</u>
<b>Total deferred inflows of resources</b>	<u>50,878</u>
<b>Total liabilities and deferred inflows of resources</b>	<u>\$ 2,255,616</u>

**NET POSITION**

Net investment in capital assets	13,313,143
Unrestricted	<u>6,417,237</u>
<b>Total net position</b>	<u>19,730,380</u>
<b>Total liabilities and net position</b>	<u>\$ 21,985,996</u>

*The accompanying notes are in integral part of these financial statements*

**STATE OF NEW MEXICO  
EMW GAS ASSOCIATION  
PROPRIETARY FUND  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
YEAR ENDED JUNE 30, 2019**

Operating Revenues:	
Gas sales	\$ 5,073,597
Installation fees	-
Connection fees	40,120
Other	87,013
	<hr/>
<b>Total operating revenues</b>	<b>5,200,730</b>
	<hr/>
Operating Expenses:	
Natural gas purchases	1,924,753
Salaries and benefits	836,942
Employee benefits	306,634
Payroll taxes	62,187
Office expense	120,194
Field expense	188,635
Advertising	-
Supplies	-
Automotive	-
Repairs and maintenance	14,982
Insurance	59,346
Utilities	-
Legal and professional	17,329
Miscellaneous	-
Depreciation	538,945
	<hr/>
<b>Total operating expenses</b>	<b>4,069,947</b>
	<hr/>
<b>Operating income</b>	<b>1,130,783</b>
	<hr/>
Nonoperating revenues (expenses)	
Interest income	-
Investment expense	(1,621)
Gain on sale of assets	1,412
	<hr/>
<b>Total non operating revenues (expenses)</b>	<b>(209)</b>
	<hr/>
Change in net position	1,130,574
	<hr/>
Net position, beginning of year	18,589,806
	<hr/>
<i>Restatement, footnote M.</i>	10,000
	<hr/>
<i>Net position, beginning as restated</i>	18,599,806
	<hr/>
<b>Net position, end of year</b>	<b>\$ 19,730,380</b>
	<hr/>



**STATE OF NEW MEXICO  
EMW GAS ASSOCIATION  
PROPRIETARY FUND  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2019**

Cash Flows from Operating Activities	
Cash received from customers	\$ 5,394,211
Cash payments to vendors and employees	<u>(3,866,262)</u>
<b>Net cash provided by operating activities</b>	<u>1,527,949</u>
Cash Flows From Capital and Related Financing Activities	
Purchase of capital assets	<u>(123,622)</u>
<b>Net cash used by capital and related financing activities</b>	<u>(123,622)</u>
Cash Flows from Investing Activities	
Purchase of investments	(159,611)
Income (loss) on investments	72,132
Deposits to restricted cash	(24,467)
Interest and dividends received	<u>616</u>
<b>Net cash used in investing activities</b>	<u>(111,330)</u>
<b>Net change in cash and cash equivalents</b>	1,292,997
Cash and cash equivalents, beginning of year	2,139,733
<b>Cash and cash equivalents, end of year</b>	<u>\$ 3,432,730</u>
 <b>Reconciliation of operating loss to net cash provided by operating activities:</b>	
Operating income	<u>\$ 1,130,783</u>
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	538,945
(Increase) decrease in:	
Customer receivables	169,662
Property taxes receivable	(648)
Prepaid expenses	(3,541)
Inventory	2,927
Increase (decrease) in:	
Accounts payable	4,432
Accrued liabilities	18,871
Unearned meter deposits	(357,949)
Change in customer deposits	<u>24,467</u>
<b>Total adjustments</b>	<u>397,166</u>
<b>Net cash provided by operating activities</b>	<u>\$ 1,527,949</u>

*The accompanying notes are in integral part of these financial statements*

**STATE OF NEW MEXICO  
EMW GAS ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**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 (G.ASB) 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 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.

**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.

**STATE OF NEW MEXICO  
EMW GAS ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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.

**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.

**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.

**STATE OF NEW MEXICO  
EMW GAS ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Assets, Liabilities, and Net Position or Equity (Continued)**

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: The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Software costs have been included with the cost of computer equipment and are capitalized with that equipment. The Association does not develop software for internal use or any other use.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest on construction projects has not been capitalized.

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful lives.

<b>Assets</b>	<b>Years</b>
Buildings and Improvements	10-20
Utility system, mains and lines	20-55
Land use permits	35
Utility meters	10-40
Equipment & vehicles	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.

<b>Years of Service</b>	<b>Hours</b>
6 months to 2 years	2.77
2 years to 11 years	4.32
Over 11 years	5.85

**STATE OF NEW MEXICO  
EMW GAS ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Assets, Liabilities, and Net Position or Equity (Continued)**

An employee's accumulated annual leave may not exceed the total hours of base annual leave. An employee who has completed **11** years of service may sell, at his current hourly rate, up to 40 hours of annual leave within a fiscal year. The Association's fiscal year is July 1 to June 30. An employee who terminates will be paid at his current hourly wage, for all accumulated annual leave hours at the time of his termination.

**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. Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

**7. Deferred Outflows/Inflows of & sources**

Both deferred inflows and outflows are reported in the Statement of Net Position but are not recognized in the financial statements as revenues, expenses, and reduction of liabilities or increase in assets until the period(s) to which they relate.

In addition to assets, the Association reports a separate section for deferred outflows of resources. This separate financial statement element represents a use of net position/fund balance that applies to future periods and will not be recognized as an expenditure until that time.

The Association also reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position/ fund balance that applies to future periods and so will not be recognized as a revenue until that time. Revenue must be susceptible to accrual (measurable and available to finance expenditures of the current fiscal period) to be recognized. If assets are recognized in connection with a transaction, but those assets are not yet available to finance expenditures of the current fiscal period, then the assets must be offset by a corresponding liability for deferred inflows of resources.

**STATE OF NEW MEXICO  
EMW GAS ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Assets, Liabilities, and Net Position or Equity (Continued)**

The Association reports deferred outflows of resources for pension-related amounts for the Association's share of the difference between projected and actual earnings, for the Association's share of the difference between contributions to the individual plans and the proportionate share of the contributions, and for changes of assumptions or other inputs.

The Association reports deferred inflows of resources for pension-related amounts in the government wide financial statements or the Association's share of the difference between expected and actual experience and for the Association's share of the difference between contributions to the individual plans and the proportionate share of the contributions.

Under the modified accrual basis of accounting, revenue and other fund financial resources are recognized in the period in which they become both measurable and available. Assets recorded in the fund financial statements for which the revenues are not available are reported as a deferred inflow of resources. Deferred inflows of resources are also comprised of property tax and long-term receivables that are unavailable in the fund statements.

**8. *Net Position***

Net Position is presented on the Statement of Net Position and may be presented in any of three components.

**a. Net investment in capital assets**

This component of Net Position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. The portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. That portion of the debt is included in restricted for capital projects.

**b. Restricted Net Position**

Net Position is reported as being restricted when the restriction is either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.

**c. Unrestricted Net Position**

Unrestricted Net Position consists of Net Position that does not meet the definition of "net investment in capital assets" or "restricted."

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

**STATE OF NEW MEXICO  
EMW GAS ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Assets, Liabilities, and Net Position or Equity (Continued)**

In the governmental environment, Net Position often is designated to indicate that management does not consider them to be available for general operations. In contrast to restricted Net Position, these types of constraints on resources are internal and management can remove or modify them. However, enabling legislation established by the reporting government should not be construed as an internal constraint.

*9. 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**

**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.

**STATE OF NEW MEXICO  
EMW GAS ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

**II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)**

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 (GA.AP). Encumbrances are treated the same way for GA.AP 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, 2019 was properly amended by the Board through the year. These amendments resulted in the following changes:

	<b>Original</b>	<b>Final</b>
Major Funds:		
General Funds	\$ 5,363,251	\$ 5,363,251

**A. Cash and Temporary Investments**

Reconciliation of bank balance to the financial statements:

	<b>Balance</b>
Financial institution:	
US Bank	\$ 3,824,571
United Business Bank	302,335
Less customer deposits	(345,126)
Less net reconciling items	(4,424)
Cash on hand	500
Total cash and equivalents	\$ 3,777,856

At June 30, 2019, the carrying amount of the Association's deposits was \$2,459,892 and the bank balance was \$2,488,380 with the difference consisting of outstanding checks. Of this balance \$500,000 was covered by federal depository insurance and \$1,988,380 was covered by collateral held in joint safekeeping by a third party.



**STATE OF NEW MEXICO  
EMW GAS ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

**A. Cash and Temporary Investments (Continued)**

**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, 2019, none of the Association’s bank balance was exposed to custodial risk as follows:

	<b>Insured</b>	<b>Under Insured</b>	<b>Total</b>
Bank deposits:			
Uninsured and undercollateralized	\$ -	\$ -	\$ -
Uninsured and collateral held by pledging bank's trust dept not in the Association's name	3,772,926	-	3,772,926
Total uninsured	3,772,926	-	3,772,926
Insured (FDIC)	(500,000)	-	(500,000)
Total deposits	\$ 3,272,926	\$ -	\$ 3,272,926
State of New Mexico collateral requirement:			
50% of uninsured public fund bank deposits	\$ 1,636,463	\$ -	\$ 1,636,463
Pledged security	4,040,000	-	4,040,000
Over collateralization	2,403,537	-	2,403,537

The collateral pledged is listed on the Schedule of Pledged Collateral as listed in the Table of Contents 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.

**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

**STATE OF NEW MEXICO  
EMW GAS ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

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, 2018. 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:

<b>Maturities</b>	<b>Fair Value</b>	<b>Rating (S&amp;P)</b>
35 days (WAM-R)	\$3,282,483	AAAm

<b>Investments</b>	
Non-current investment	
State Investment Pool	\$ 3,282,483
US Bank CDARs	770,622
<b>Total</b>	<b>\$ 4,053,105</b>

**B. Receivables**

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

<b>Receivables</b>	
Accounts Receivable	\$ 361,094
Allowances for Doubtful Accounts	(37,253)
<b>Total</b>	<b>\$ 323,841</b>

Allowance for doubtful accounts has been estimated by management.

**STATE OF NEW MEXICO  
EMW GAS ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

**C. Prepays**

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, 2019.

**D. Capital Assets**

Capital assets activity for the year ended June 30, 2019 was as follows:

	Beginning Balance	Additions	Deletions	Adjustment	Ending Balance
Capital assets, not depreciated:					
Land	\$ 307,597	\$ -	\$ -	\$ 10,000	\$ 317,597
Construction in Process	-	95,000	-	-	95,000
<b>Total capital assets not being depreciated</b>	<b>307,597</b>	<b>95,000</b>	<b>-</b>	<b>10,000</b>	<b>412,597</b>
Capital assets, depreciated					
Mains, services and meters	\$ 19,416,915	75,591	-	-	19,492,506
Buildings and improvements	561,518	-	-	-	561,518
Land use permits	48,802	-	-	-	48,802
Equipment	1,779,536	48,031	(127,048)	-	1,700,519
<b>Total capital assets being depreciated</b>	<b>21,806,771</b>	<b>123,622</b>	<b>(127,048)</b>	<b>-</b>	<b>21,803,345</b>
Accumulated depreciation:					
Mains, services and meters	(6,591,292)	(459,048)	-	-	(7,050,340)
Buildings and improvements	(452,040)	(17,639)	-	-	(469,679)
Land use permits	(26,242)	(1,245)	-	-	(27,487)
Equipment	(1,421,330)	(61,011)	127,048	-	(1,355,293)
<b>Total accumulated depreciation</b>	<b>(8,490,904)</b>	<b>(538,943)</b>	<b>127,048</b>	<b>-</b>	<b>(8,902,799)</b>
<b>Total capital assets being depreciated, net</b>	<b>13,315,867</b>	<b>(415,321)</b>	<b>-</b>	<b>-</b>	<b>12,900,546</b>
<b>Total capital assets, net</b>	<b>\$ 13,623,464</b>	<b>\$ (320,321)</b>	<b>\$ -</b>	<b>\$ 10,000</b>	<b>\$ 13,313,143</b>

**E. Liabilities**

Changes in long term debt - During the year ended June 30, 2019 the following changes occurred in liabilities reported in the general obligation bonds account group:

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Compensated Absences					
Accrued Vacation	47,599	43,384	55,123	35,860	35,860
Accrued Sick	49,644	21,595	32,390	38,849	38,849
<b>Total</b>	<b>\$ 97,243</b>	<b>\$ 64,979</b>	<b>\$ 87,513</b>	<b>\$ 74,709</b>	<b>\$ 74,709</b>

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

**STATE OF NEW MEXICO  
EMW GAS ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

**F. 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.

**G. 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.***

*Public Employees Retirement 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 Officers, 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 Public Employees Retirement 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), each employee and elected official of every affiliated public employer is required to be a member in the Public Employees Retirement Fund, unless specifically excluded.

***Benefits Provided*** – Benefits are generally available at age 65 with five or Benefits are generally available at age 65 with five or more years of service or after 25 years of service regardless of age for TIER I members. Provisions also exist for retirement between ages 60 and 65, with varying amounts of service required. Certain police and fire members may retire at any age with 20 or more years of service for Tier I members. Generally, the amount of retirement pension is based on final average salary, which is defined under Tier I as the average of salary for the 36 consecutive months of credited service producing the largest average; credited service; and the pension factor of the applicable coverage plan. Monthly benefits vary depending upon the plan under which the member qualifies, ranging from 2% to 3.5% of the member's final average salary per year of service. The maximum benefit that can be paid to a retiree may not exceed a range of 60% to 90% of the final average salary, depending on the division. Benefits for duty and non-duty death and disability and for post-retirement survivors' annuities are also available.

**STATE OF NEW MEXICO  
EMW GAS ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

**G. Employee Retirement Plan (Continued)**

**TIER II**

The retirement age and service credit requirements for normal retirement for PERA state and municipal general members hired increased effective July 1, 2013 with the passage of Senate Bill 27 in the 2013 Legislative Session. Under the new requirements (Tier II), general members are eligible to retire at any age if the member has at least eight years of service credit and the sum of the member's age and service credit equals at least 85 or at age 67 with 8 or more years of service credit. General members hired on or before June 30, 2013 (Tier I) remain eligible to retire at any age with 25 or more years of service credit. Under Tier II, police and firefighters in Plans 3, 4 and 5 are eligible to retire at any age with 25 or more years of service credit. State police and adult correctional officers, peace officers and municipal juvenile detention officers will remain in 25-year retirement plans, however, service credit will no longer be enhanced by 20%. All public safety members in Tier II may retire at age 60 with 6 or more years of service credit. Generally, under Tier II pension factors were reduced by .5%, employee Contribution increased 1.5 percent and effective July 1, 2014 employer contributions were raised .05 percent. The computation of final average salary increased as the average of salary for 60 consecutive months.

**STATE OF NEW MEXICO  
EMW GAS ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

**G. Employee Retirement Plan (Continued)**

**Contributions** – See PERA’s compressive annual financial report for Contribution provided description.

<b>PERA Contribution Rates and Pension Factors in effect during FY18</b>						
<b>Coverage Plan</b>	<b>Employee Contribution Percentage</b>		<b>Employer Contribution Percentage</b>	<b>Pension Factor per year of Service</b>		<b>Pension Maximum as a Percentage of the Final Average Salary</b>
	<b>Annual Salary less than \$20,000</b>	<b>Annual Salary greater than \$20,000</b>		<b>TIER 1</b>	<b>TIER 2</b>	
<b>STATE PLAN</b>						
State Plan 3	7.42%	8.92%	16.99%	3.0%	2.5%	90%
<b>MUNICIPAL PLANS 1 - 4</b>						
Municipal Plan 1 (plan open to new employers)	7.0%	8.5%	7.4%	2.0%	2.0%	90%
Municipal Plan 2 (plan open to new employers)	9.15%	10.65%	9.55%	2.5%	2.0%	90%
Municipal Plan 3 (plan closed to new employers 6/95)	13.15%	14.65%	9.55%	3.0%	2.5%	90%
Municipal Plan 4 (plan closed to new employers 6/00)	15.65%	17.15%	12.05%	3.0%	2.5%	90%
<b>MUNICIPAL POLICE PLANS 1 - 5</b>						
Municipal Police Plan 1	7.0%	8.5%	10.40%	2.0%	2.0%	90%
Municipal Police Plan 2	7.0%	8.5%	15.40%	2.5%	2.0%	90%
Municipal Police Plan 3	7.0%	8.5%	18.90%	2.5%	2.0%	90%
Municipal Police Plan 4	12.35%	13.85%	18.90%	3.0%	2.5%	90%
Municipal Police Plan 5	16.3%	17.8%	18.90%	3.5%	3.0%	90%
<b>MUNICIPAL FIRE PLANS 1 - 5</b>						
Municipal Fire Plan 1	8.0%	9.5%	11.40%	2.0%	2.0%	90%
Municipal Fire Plan 2	8.0%	9.5%	17.9%	2.5%	2.0%	90%
Municipal Fire Plan 3	8.0%	9.5%	21.65%	2.5%	2.0%	90%
Municipal Fire Plan 4	12.8%	14.3%	21.65%	3.0%	2.5%	90%
Municipal Fire Plan 5	16.2%	17.7%	21.65%	3.5%	3.0%	90%
<b>MUNICIPAL DETENTION OFFICER PLAN 1</b>						
Municipal Detention Officer Plan 1	16.65%	18.15%	17.05%	3.0%	3.0%	90%
<b>STATE POLICE AND ADULT CORRECTIONAL OFFICER PLANS, ETC.</b>						
State Police and Adult Correctional Officer Plan 1	7.6%	9.1%	25.50%	3.0%	3.0%	90%
State Plan 3 - Peace Officer	7.42%	8.92%	16.99%	3.0%	3.0%	90%
Juvenile Correctional Officer Plan 2	4.78%	6.28%	26.12%	3.0%	3.0%	90%

**STATE OF NEW MEXICO  
EMW GAS ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

**G. Employee Retirement Plan (Continued)**

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions –***

At June 30, 2019, the Association reported a liability of \$1,468,414 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017. The total pension liability was rolled-forward from the valuation date to the plan year ending June 30, 2018 using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date of June 30, 2018. There were no significant events or changes in benefit provision that required an adjustment to the roll-forward liabilities as of June 30, 2018. The Association's proportion of the net pension liability was based on a projection of the Association's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2018, the Association's proportion was 0.09210%, which was a decrease of 0.00180% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the Association recognized pension expense of \$113,901. At June 30, 2019, the Association reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b><u>Deferred Outflows of Resources</u></b>	<b><u>Deferred Inflows of Resources</u></b>
Difference between expected and actual experience	\$ 42,440	\$ 38,553
Changes of assumptions	133,133	8,443
Net difference between projected and actual earnings on pension plan investments	108,905	-
Changes in proportion and differences between contributions and proportionate share of contributions	22,568	3,882
Employer contributions subsequent to the measurement date	<u>70,149</u>	<u>-</u>
Total	<u>\$ 377,195</u>	<u>\$ 50,878</u>

**STATE OF NEW MEXICO  
EMW GAS ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

**G. Employee Retirement Plan (Continued)**

\$377,195 reported as deferred outflows of resources related to pensions 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended</u>	<u>Amount</u>
2020	\$ 161,934
2021	67,327
2022	21,374
2023	5,533
2024	-
Total	<u>\$ 256,168</u>

*Actuarial assumptions.* The total pension liability in the June 30, 2018 actuarial valuation was determined using the following significant actuarial assumptions, applied to all periods included in the measurement:

<b>PERA FUND</b>	
<b>Actuarial valuation date</b>	June 30, 2017
<b>Actuarial cost method</b>	Entry Age Normal
<b>Amortization method</b>	Level Percentage of Pay
<b>Amortization period</b>	Solved for based on statutory rates
<b>Asset valuation method</b>	
<b>Actuarial Assumptions:</b>	
Investment rate of return	7.25% annual rate, net of investment expense
Projected benefit payment	100 years
Payroll Growth	3.00%
Projected salary increases	3.25% to 13.50% annual rate
Includes inflation at	2.50%
	2.75 % all other years
Mortality Assumption	The mortality assumptions are based on the RPH-2014 Blue Collar mortality table with female ages set forward one year. Future improvement in mortality rates is assumed using 60% of the MP-2017 projection scale generationally. For non-public safety groups, 25% of in-service deaths are assumed to be duty related and 35% are assumed to be duty-related for public safety groups.
Experience Study Dates	July 1, 2008 to June 30, 2017 (demographic) and July 1, 2010 through June 30, 2018 (economic)



**STATE OF NEW MEXICO  
EMW GAS ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

**G. Employee Retirement Plan (Continued)**

The total pension liability, net pension liability, and certain sensitivity information are based on an actuarial valuation performed as of June 30, 2017. The total pension liability was rolled-forward from the valuation date to the plan year ended June 30, 2018. These assumptions were adopted by the Board use in the June 30, 2017 actuarial valuation.

The long-term expected rate of return on pension plan investments was determined using a building-block method 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 allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-term Expected Real Rate of Return</b>
Global Equity	43.50%	7.48%
Risk Reduction & Mitigation	21.50%	2.37%
Credit Oriented Fixed Income	15.00%	5.47%
Real Assets to include Real Estate Equity	<u>20.00%</u>	6.48%
Total	100.00%	

*Discount rate.* A single discount rate of 7.25% was used to measure the total pension liability as of June 30, 2018. This single discount rate was based on a long-term expected rate of return on pension plan investments of 7.25%, compounded annually, net of expense. Based on the stated assumptions and the projection of cash flows, the plan's fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability.

The projections of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels.

**STATE OF NEW MEXICO  
EMW GAS ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

**G. Employee Retirement Plan (Continued)**

*Sensitivity of the Association's proportionate share of the net pension liability to changes in the discount rate.* The following presents the *Association's* proportionate share of the net pension liability calculated using the discount rate of 7.25 percent, as well as what the *Association's* proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1- percentage-point higher (8.25 percent) than the current rate:

	<b>1% Decrease (6.25%)</b>	<b>Current Discount Rate (7.25%)</b>	<b>1% Increase (8.25%)</b>
Association's proportionate share of the net pension liability	<u>\$ 2,262,728</u>	<u>\$ 1,468,414</u>	<u>\$ 811,787</u>

*Pension plan fiduciary net position.* Detailed information about the pension plan's fiduciary net position is available in separately issued PERA'S financial reports.

**H. Contingent Liabilities**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

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.

**I. Cash Flows**

The Association's federal and state grants operate on a reimbursement basis. The Association must support the expenditures of these grants with monies from the unrestricted operating monies. Operating on a reimbursement basis for these grants in itself does not adversely affect the Association's ability to operate effectively. However, the time it takes to receive reimbursement, if extensive, does significantly affect the Association's cash flows and the ability to deliver educational services to the community in an effective manner. This could affect the Association's financial operations in subsequent years.

**STATE OF NEW MEXICO  
EMW GAS ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

**J. Subsequent Events**

Subsequent events were evaluated through December 13, 2019 which is the date the financial statements were available to be issued.

**K. Recent GASB Pronouncements**

In May 2019, the GASB issued Statement No. 91, Conduit Debt Obligations. The requirements of this statement are effective for periods beginning after December 15, 2020. Earlier application is encouraged. This statement is not applicable for the Association.

In August 2018, the GASB issued Statement No. 90, Majority Interests in an amendment of GASB Statements No. 14 and No. 6. The requirements of this statement are effective for periods beginning after December 15, 2018. Earlier application is encouraged. This statement is not applicable to the Association.

In June 2018, the GASB issued Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. This statement is not applicable to the Association.

In March 2018, the GASB issued Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. This Statement applies to notes to financial statements of all periods presented. This statement is not applicable to the Association.

In June 2017, the GASB issued Statement No. 87, Leases. The provisions of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. This standard will be implemented in a subsequent period.

In May 2017, the GASB issued Statement No. 86, Certain Debt Extinguishment Issues. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. This statement is not applicable to the Association.

In January 2017, the GASB issued Statement No. 84, Fiduciary Activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. This statement is not applicable to the Association.

**L. Tax Abatement**

The Association is not aware of any tax abatement disclosures that existed as of June 30, 2019 that would require disclosure under GASB 77.

**STATE OF NEW MEXICO  
EMW GAS ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

**M. Restatement**

A restatement of \$10,000 is reported in the Statement of Activities due to land being purchased during 2018, but not being recorded until 2019.

**REQUIRED SUPPLEMENTARY  
INFORMATION**

**STATE OF NEW MEXICO  
EMW GAS ASSOCIATION  
SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE EMW GAS ASSOCIATION'S  
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
PUBLIC EMPLOYEE RETIREMENT ASSOCIATION  
LAST 10 FISCAL YEARS**

	<b>2019*</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Association's proportion of the net pension liability	0.09210%	0.09030%	0.90300%	0.90700%	0.88400%
Association's proportionate share of the net pension liability	\$ 1,468,414	\$ 1,233,928	\$ 1,442,690	\$ 924,765	\$ 689,615
Association's covered payroll	\$ 734,545	\$ 776,764	\$ 788,849	\$ 773,546	\$ 782,000
Association's proportionate share of the net pension liability as a percentage of its covered-employee payroll	199.91%	158.85%	182.89%	119.55%	88.19%
Plan fiduciary net position as a percentage of the total pension liability	71.13%	61.58%	61.58%	63.97%	66.54%

\* Governmental Accounting Standards Board Statement No. 68 requires ten years of historical information be presented; however, until a full 10-year trend is compiled, the statement only requires presentation of information in those years that information is available. Complete information for the Association is not available prior to fiscal year 2015, the statement's requirements became effective.

**STATE OF NEW MEXICO  
EMW GAS ASSOCIATION  
SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE EMW GAS ASSOCIATION'S  
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
PUBLIC EMPLOYEE RETIREMENT ASSOCIATION  
LAST 10 FISCAL YEARS**

	<u>2019*</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutory required contributions	70,149	74,180	75,335	73,873	74,681
Contribution in relations to the statutorily required contributions	(70,149)	(74,181)	(83,903)	(73,874)	(71,652)
Annual contribution deficiency (excess)	<u>-</u>	<u>(1)</u>	<u>(8,568)</u>	<u>(1)</u>	<u>3,029</u>
Association's covered-employee payroll	734,545	776,764	788,849	773,546	782,000
Contribution as a percentage of covered-employee payroll	9.55%	9.55%	9.55%	9.55%	9.55%

\* Governmental Accounting Standards Board Statement No. 68 requires ten years of historical information be presented; however, until a full 10-year trend is compiled, the statement only requires presentation of information in those years that information is available. Complete information for the Association is not available prior to fiscal year 2015, the statement's requirements became effective.

**STATE OF NEW MEXICO  
EMW GAS ASSOCIATION  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE EMW GAS ASSOCIATION'S  
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
PUBLIC EMPLOYEE RETIREMENT ASSOCIATION  
FOR THE YEAR ENDED JUNE 30, 2019**

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

*Changes of assumptions:* The Public Employee Retirement Association (PERA) of New Mexico Annual Valuation as of June 30, 2018 is available at <http://www.nmpera.org/financial-overview/comprehensive-annual-financial-report>.



## **OTHER SUPPLEMENTAL INFORMATION**

**STATE OF NEW MEXICO  
EMW GAS ASSOCIATION  
PROPRIETARY FUND  
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
YEAR ENDED JUNE 30, 2019**

	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues				
Gas sales	\$ 4,887,322	4,887,322	5,073,597	186,275
Installation fees	-	-	-	-
Connection fees	45,000	45,000	40,120	(4,880)
Other	30,000	30,000	87,013	57,013
<b>Total revenues</b>	<u>4,962,322</u>	<u>4,962,322</u>	<u>5,200,730</u>	<u>238,408</u>
Expenses				
Natural gas purchases	2,177,931	2,175,731	1,924,753	250,978
Salaries and benefits	940,416	940,416	836,942	103,474
Employee benefits	235,365	235,365	306,634	(71,269)
Office expense	128,100	160,832	120,194	40,638
Field expense	1,276,400	1,250,323	188,635	1,061,688
Supplies	-	-	-	-
Automotive	-	-	-	-
Repairs and maintenance	29,000	25,000	14,982	10,018
Insurance	48,400	48,445	59,346	(10,901)
Utilities	-	-	-	-
Legal and professional	41,000	40,500	17,329	23,171
Miscellaneous	-	-	-	-
Depreciation	486,639	486,639	538,945	(52,306)
Operating expenses	<u>5,363,251</u>	<u>5,363,251</u>	<u>4,007,760</u>	<u>1,355,491</u>
<b>Operating income (loss)</b>	<u>(400,929)</u>	<u>(400,929)</u>	<u>1,192,970</u>	<u>(1,117,082)</u>
Nonoperating revenues (expenses)				
Gains/losses	2,000	2,000	-	2,000
Grant revenue				-
Bad debt				-
Interest expense	(1,500)	(1,500)	(1,621)	(121)
<b>Total nonoperating revenues (expenses)</b>	<u>500</u>	<u>500</u>	<u>(1,621)</u>	<u>1,879</u>
Change in net position	(400,429)	(400,429)	1,191,349	790,920
Beginning cash balance budgeted	400,429	400,429		(400,429)
	<u>\$ -</u>	<u>-</u>		<u>-</u>
RECONCILIATION TO GAAP BASIS:				
Customer deposits			<u>(60,775)</u>	
<b>Net position end of the year (GAAP basis)</b>			<u>\$ 1,130,574</u>	

**STATE OF NEW MEXICO  
EMW GAS ASSOCIATION  
SCHEDULE OF PLEDGED COLLATERAL  
JUNE 30, 2019**

	<u>US Bank</u>	<u>United Business</u>	<u>Total</u>
<b>Cash on deposit at 6/30/19</b>			
Cash on deposit	\$ 3,470,591	\$ 302,335	\$ 3,772,926
Less FDIC Coverage	<u>(250,000)</u>	<u>(250,000)</u>	<u>(500,000)</u>
Uninsured funds	<u>3,220,591</u>	<u>52,335</u>	<u>3,272,926</u>
<b>Amount requiring pledged collateral:</b>			
50% collateral requirement	1,610,296	26,168	1,636,463
Pledged collateral	<u>4,000,000</u>	<u>40,000</u>	<u>4,040,000</u>
Excess of pledged collateral	<u>2,389,705</u>	<u>13,833</u>	<u>2,403,537</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>4,000,000</u>
The above listed securities are held at the Federal Home Loan Bank in Cincinnati, Ohio.			

<u>United Business Bank</u>			
Letter of Credit	N/A	N/A	\$ <u>40,000</u>

<u>Account Name</u>	<u>Account Type</u>	<u>Bank Name</u>	<u>Bank Amount</u>
Operating	Checking	US Bank	\$ 3,781,780
CDARS	CD	US Bank	770,622
Meter Deposits	CD	My Bank	-
			<u>\$ 4,552,402</u>
		Cash and cash equivalents	\$ 3,432,730
		Restricted cash - customer deposits	<u>345,126</u>
			<u>\$ 3,777,856</u>
		Adjustments to cash:	\$
		Bank balance	4,552,402
		Less the investment CDs	(770,622)
		Cash on hand	500
		Reconciling items	<u>(4,424)</u>
		Total adjusted cash	<u>\$ 3,777,856</u>

-

**Independent Auditor's 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***

Mr. Brian Colón, New Mexico 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, financial statements of the business-type activities, and the budgetary comparison of the operating fund of the EMW Gas Association (Association) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements, and the related budgetary comparison of the Association, presented as supplemental information, and have issued our report thereon dated December 13, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Association's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 have not identified. However, as described in the accompany Schedule of Findings and Responses, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. The results of our tests disclosed no instances to be material weaknesses that are required to be reported under *Government Auditing Standards*.

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. The results of our tests disclosed no instances to be significant deficiencies that are required to be reported under *Government Auditing Standards*.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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. There were not findings that we consider to be an other noncompliance matter.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Association'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.

*Baldwin Accounting & Consulting, LLC*

**Baldwin Accounting & Consulting, LLC**

Albuquerque, New Mexico

December 13, 2019

**STATE OF NEW MEXICO  
EMW GAS ASSOCIATION  
SUMMARY OF AUDIT RESULTS  
YEAR ENDED JUNE 30, 2019**

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?	X		-
Significant deficiency(ies) identified?	X		-
Noncompliance material to financial statements noted?	X		-

**STATE OF NEW MEXICO  
EMW GAS ASSOCIATION  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2019**

**Summary of Prior Year Audit Findings**

**Current Status:**

**2018-001 Procurement Requirements Not Followed**

**Other Matter (Does not rise to the level of significant deficiency)**

**Resolved**

**STATE OF NEW MEXICO  
EMW GAS ASSOCIATION  
EXIT CONFERENCE  
YEAR ENDED JUNE 30, 2019**

The contents of this report were discussed at an exit conference held December 13, 2019. The Association was represented by:

James Schwebach – Board Chairman

Mike Anaya – Board Member

Edward O'Brien – General Manager

The firm of Baldwin Accounting & Consulting, LLC was represented by:

Lee Baldwin, CPA, CFE, CGFM – Accounting Director

Preparation of Financial Statements

The financial statements in this report were prepared substantially by the Independent Audit firm of Baldwin Accounting & Consulting, LLC, with the assistance of the Association's management.