

The logo for atkinson, featuring the word in a lowercase serif font with a small green dot above the letter 'i'.

Precise.

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**STATE OF NEW MEXICO
PUBLIC REGULATION COMMISSION**

**FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

June 30, 2016

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State of New Mexico
Public Regulation Commission

OFFICIAL ROSTER

June 30, 2016

COMMISSIONERS

Valerie Espinoza	Chair
Karen L. Montoya	Vice-Chair
Lynda Lovejoy	Commissioner
Patrick H. Lyons	Commissioner
Sandy Jones	Commissioner

ADMINISTRATIVE OFFICIALS

Ernest D. Archuleta	Chief of Staff/Chief Financial Officer
John Standefer	State Fire Marshal
Cydney Beadles	Director, Legal
Michael C. Smith	Deputy Chief of Staff, Office of General Counsel
William Hermann	Director, Hearing Examiners
Bruno Carrara	Director, Utility

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Public Regulation Commissioners
State of New Mexico
Public Regulation Commission
and
Mr. Timothy Keller
New Mexico State Auditor
Santa Fe, New Mexico

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the budgetary comparisons for the General Fund and Major Special Revenue Funds of the State of New Mexico Public Regulation Commission (the Commission), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, as listed in the table of contents. We have also audited the financial statements of each of the Commission's non-major governmental and fiduciary funds, including the budgetary comparisons of the non-major funds and the components of the General Fund, presented as supplementary information, as defined by the Governmental Accounting Standards Board, in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2016, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 auditors' 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 governmental activities, each major fund, and the aggregate remaining fund information of the Commission, as of June 30, 2016, and the respective changes in financial position and the respective budgetary comparisons of the General Fund and Major Special Revenue Funds for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each non-major governmental and fiduciary fund of the Commission as of June 30, 2016, and the respective changes in the financial position and the respective budgetary comparisons for the non-major funds and components of the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note B1, the financial statements of the Commission are intended to present the financial position and changes in financial position, of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State of New Mexico that is attributable to the transactions of the Commission. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2016, and the changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note J, the State of New Mexico, as a single employer, has implemented GASB 68, *Accounting and Financial Report for Pensions*, in the June 30, 2016, Comprehensive Annual Financial Reports (CAFR). Accordingly, there is no allocation of the proportionate share of net pension liability to individual agencies or to the Commission's governmental funds. All other required footnotes and other disclosures required by Governmental Accounting Standards Board are included in the State of New Mexico CAFR for June 30, 2016. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 12 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements, combining and individual fund financial statements, and respective budgetary comparisons that collectively comprise the Commission's basic financial statements. The combining balance sheet – all agency funds, and combining schedule of changes in fiduciary assets and liabilities – all agency funds listed as other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

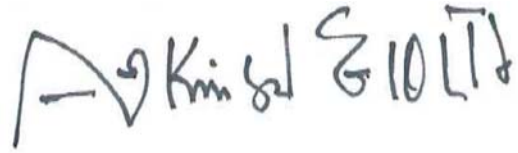
The combining balance sheet – all agency funds, combining schedule of changes in fiduciary assets and liabilities – all agency funds, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other 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 balance sheet – all agency funds, combining schedule of changes in fiduciary assets and liabilities – all agency funds, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The schedule of vendor information, required by 2.2.2 NMAC, has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2016, on our consideration of the Commission'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 Commission's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to read "Atkinson & Co., Ltd." with a stylized initial "A" and a checkmark-like flourish.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
December 16, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2016

The State of New Mexico Public Regulation Commission's (Commission or NMPRC) discussion and analysis provides the reader of the financial statements this narrative overview and analysis of the financial activities of the Commission for the fiscal year ended June 30, 2016. The financial statements have been prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and related GASB statements, which established financial reporting requirements for state and local governments throughout the United States. The requirements were developed by GASB to make annual reports more comprehensive and easier to understand and use.

Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current year activities, resulting changes and current facts, it should be read in conjunction with the Commission's financial statements.

The Basic Financial Statements

In compliance with requirements of accounting principles generally accepted in the U.S. (GAAP), the Commission's basic financial statements include the:

- Government-wide financial statements;
- Fund financial statements;
- Budget comparison statements;
- Notes to the financial statements.

In accordance with 2.2.2 New Mexico Administrative Code (NMAC) Section 2.2.2.10 A. (2)(d), the audit opinion also covers additional information consisting of:

- Combining fund financial statements.

The MD&A is included as required supplementary information (RSI).

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Commission's finances, in a corporate-like manner. These statements report information about the overall government without displaying individual funds or fund types. They distinguish between governmental activities and business-type activities. The Commission does not have any business-type activities.

The focus of the Statement of Net Position is designed to be similar to a bottom line for the Commission and its governmental activities. The statement combines and consolidates governmental funds' current financial resources (short-term available resources) with capital assets and long term liabilities.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

June 30, 2016

Government-Wide Financial Statements – Continued

The Statement of Activities is focused on activities that are provided by the Commission's general and other revenues. This is intended to summarize and simplify the users' analysis of the cost of services.

The Governmental Activities section reflects the Commission's basic service, including Policy and Regulations and Public Safety.

Fund Financial Statements

Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus is on major funds, rather than fund types.

The governmental Major Fund Financial Statements are presented on a sources and uses of liquid resource basis. This is the manner in which the financial plan (the budget) is typically developed. The flow and availability of liquid resources is a clear and appropriate focus of any analysis of a government. Funds are established for various purposes and the Financial Statement allows the demonstration of sources and uses and budgeting compliance associated therein.

The Fund Financial Statements also allow the government to address its Agency Funds. While these Funds represent trust responsibilities of government, these assets are held in a custodial purpose and do not represent discretionary assets of the government. These assets, therefore, are not presented as part of the Government-Wide Financial Statements.

Combining and Individual Fund Financial Statements

Consistent with the Commission's financial reports in prior years, combining and individual fund financial statements are also included in the report. These statements are presented on the same basis as fund financial statements, but are not grouped by fund type.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to gain a full understanding of the data provided in the government-wide financial statements. The notes to the financial statements can be found on pages 23 through 42 of this report.

Budgetary Comparisons

In addition to MD&A, GASB 34 requires budgetary comparison schedules for the General Fund and for each Major Special Revenue Fund that has a legally adopted annual budget to be presented. The budgetary comparison schedules present both the original and the final appropriated budgets for the reporting period as well as the actual inflows, outflows and balances, stated on the government's budgetary basis.

State of New Mexico
Public Regulation Commission

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

June 30, 2016

Budgetary Comparisons – Continued

As required by the Office of the State Auditor under 2.2.2 NMAC, the Statements of Revenues and Expenditures-Budget and Actual are also presented for the General and Major Special Revenue Funds that are part of the basic financial statements. The budget comparison information for all other funds is included as supplemental information. This information is provided at the approved budget level to demonstrate compliance with legal requirements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Commission's Net Position

<u>NET POSITION</u>	<u>June 30, 2016</u>	<u>As Restated June 30, 2015</u>	<u>Change</u>
ASSETS			
<i>Government activities</i>			
Current and other assets	\$ 15,011,911	\$ 10,660,424	\$ 4,351,487
Capital assets	2,235,639	2,145,449	90,190
Total assets	<u>\$ 17,247,550</u>	<u>\$ 12,805,873</u>	<u>\$ 4,441,677</u>
LIABILITIES			
Current liabilities	\$ 2,066,448	\$ 2,237,435	\$ (170,987)
Total liabilities	<u>2,066,448</u>	<u>2,237,435</u>	<u>(170,987)</u>
NET POSITION			
Net investment in capital assets	2,235,639	2,145,449	90,190
Restricted for special projects	13,766,223	9,057,400	4,708,823
Unrestricted	<u>(820,760)</u>	<u>(634,411)</u>	<u>(186,349)</u>
Total net position	<u>15,181,102</u>	<u>10,568,438</u>	<u>4,612,664</u>
Total liabilities and net position	<u>\$ 17,247,550</u>	<u>\$ 12,805,873</u>	<u>\$ 4,441,677</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

June 30, 2016

GOVERNMENT-WIDE FINANCIAL ANALYSIS – CONTINUED

Discussion of Statement of Net Position

Deducting total liabilities, deferred inflows and outflows from total assets derives the Net position. The overall Net position increased by \$4,612,664 over fiscal year 2015.

Current assets consist mostly of assets due from external parties-agency funds in the amount of \$11,330,127 (Due from the Fire Protection Fund) and investments with the State Treasurer of \$3,201,869; federal grants receivable of \$464,844 and receivables from other state agencies in the amount of \$15,071.

The Commission reports balances in three categories of net position; (1) invested in capital assets; (2) restricted for special purposes and (3) unrestricted. The invested in capital assets balance is positive, but the unrestricted balance is negative mostly due to compensated absences reported on the government-wide financial statements.

Restricted net position increased due to increases in investments held with the State Treasurer and increased amounts due from agency funds.

The unrestricted deficit balance was increased by \$186,349 mostly due to current year decrease in fund balance in the Pipeline Safety Fee Fund (37700) due to actual revenues falling short of budgeted revenues.

Capital Asset Administration

The increase in capital assets of \$90,190 is due to new purchases of machinery and equipment of \$381,268, partially offset by depreciation expense recorded in the current fiscal year.

Liabilities

Current liabilities of \$2,066,448 consists primarily of accounts payable of \$320,207, i.e., amounts that the Commission is obligated to pay; accrued salaries and benefits payable \$235,626; unearned federal revenue \$36,748; reversions due to the State General Fund \$429,763; and other liabilities of \$518,750. The estimated portion of compensated absence liabilities due in one year is \$524,552.

Long-Term Debt

The Commission has no long-term debt outstanding.

State of New Mexico
Public Regulation Commission

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

June 30, 2016

GOVERNMENT-WIDE FINANCIAL ANALYSIS – CONTINUED

Commission's Statement of Activities

STATEMENTS OF ACTIVITIES	June 30, 2016	As Restated June 30, 2015	Change
<i>Government activities</i>			
Operating grants and contributions	\$ 1,112,026	\$ 1,029,314	\$ 82,712
Investment income	11,118	1,570	9,548
Charges for services	16,899,570	712,245	16,187,325
General Fund appropriations	7,793,200	7,727,100	66,100
Other financing sources	-	12,470,709	(12,470,709)
Other	-	(167,441)	167,441
Total revenue	25,815,914	21,773,497	4,042,417
Program expenses	20,774,113	20,400,471	373,642
Other financing uses	429,137	1,029,167	(600,030)
Total expense	21,203,250	21,429,638	(226,388)
Change in net position	4,612,664	343,859	4,268,805
Net position, beginning of year	10,568,438	10,224,579	343,859
Net position, end of year	\$ 15,181,102	\$ 10,568,438	\$ 4,612,664

For more detailed information, see the Statement of Activities and the Statement of Net Position.

Discussion of Statement of Activities

This statement shows the components that increased, in the aggregate, the Commission's net position by \$4,612,664 during the year. In the government-wide financials, revenues from other financing sources consists of transfers into the General, Fire Protection Grant, and Pipeline Safety Funds from other governmental and agency funds. The decrease of \$12,470,709 in other financing sources is due to a change in how amounts received from the Fire Protection Agency Fund are classified. The decrease in other financing sources netted with the increase of \$16,187,325 in charges for services (a net increase in revenue of about \$3.7 million) is caused mainly by the statutory increase in the Fire Protection Grant Fund's share of Fire Protection Agency Fund receipts. The transfers in the General Fund served to reimburse the costs of Public Safety program expenses as well as administrative costs for Policy and Regulation and Program Support programs provided in the General Fund. Overall total revenues increased by \$4,042,417 and total expenses decreased by \$226,388 due to personnel vacancies.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

June 30, 2016

THE COMMISSION'S FUNDS

The Commission's Individual Governmental Funds

As of year-end, the governmental funds, as presented on the balance sheet, reported a combined fund balance of \$13,470,015, for a net increase over the prior fiscal period of \$4,541,350. This is primarily due to an increase in the Fire Protection Grant Fund – 59A-53-5.2(C).

The General Fund is the Commission's operating fund where all operational expenses reside. The General Fund revenues increased \$4,636,107, other financing sources decreased \$4,237,952 due to a change in classification of receipts from the Fire Protection Agency Fund. Expenditures decreased \$82,298 as compared to the previous year due to personnel vacancies offset by significant IT upgrades that do not meet the capitalization threshold.

The Fire Protection Grant Fund revenues are transferred from the Fire Protection Agency Fund and used to provide grants of up to \$100,000 to fire departments in need of fire service support equipment. This fund is due \$11,330,127 of Fire Insurance Tax fees from the Fire Protection Agency Fund. Expenses incurred in this fund total \$6,793,648 primarily from grant awards to fire departments.

The Pipeline Safety Fund is a fund that collects revenues used to support the Pipeline Safety Bureau by an assessment determined in May of each year to all gas consumers and pipeline distributors in the state. Revenues collected in fiscal year 2016 were \$534,198.

Non-major Governmental Funds at the PRC are the Fire Safer Cigarette Fund, Reproduction Fund, Transportation Network Company Fund, and the Firefighter Use Fee Fund. The Fire Safer Cigarette funds are used for State Fire Marshal staff equipment and training materials used at all elementary schools for fire training awareness; the Reproduction Funds are used in the NMPRC General Fund for general operations; the Transportation Network Company funds are available for use of the Commission to carry out its duties pursuant to the provisions of the Transportation Network Company Services Act; and Firefighter Use Fee funds can be budgeted for emergency maintenance expenses that may arise with live fire-training courses provided at the Firefighter Training Academy in Socorro, NM. Revenues collected in fiscal year 2016 were \$257,752 with other financing sources (uses) netting to \$(47,018), therefore increasing non-major fund balances by \$210,734.

General Fund Highlights

The Commission has continued to manage operations that were set upon by this Commission in spite of the increase in its case load and vacancy factors.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

June 30, 2016

Currently Known Facts

The New Mexico Public Regulation Commission continues to experience an increase in the number of utility case filings that are more voluminous, complex and contentious due to the new regulatory demands of the Federal Energy Regulatory Commission (FERC), North American Electric Reliability Corporation (NERC), Environmental Protection Agency (EPA) and legislatively-mandated renewable/energy efficiency programs in the state. The Commission finds that budgetary constraints limit its ability to hire and maintain highly qualified staff. In spite of its budgetary constraints in FY2016, the Commission achieved significant results in each of its practice areas. NMPRC Utility and Legal Divisions handled the adjudication of three major utility cases filed with the Commission. The Pipeline Safety Bureau, Fire Fighters Academy and State Fire Marshal's Office logged close to 10,000 inspection and audit hours in the field and over 130,000 contact training hours in FY2016.

The NMPRC has worked diligently to maintain its strong financial controls over the last eight years. This work includes the implementation of policies to reduce audit findings. The findings reported in the FY2016 financial audit are findings that are of a nature that should not be repeated.

Requests for Information

This financial report is designed to provide citizens, taxpayers, customers, legislators, investors, and creditors with a general overview of the Commission's finances and to demonstrate the Commission's accountability for the money it receives. If you have questions about this report or need additional information, contact the Administrative Services Division Director in Room 335 of the PERA Building, 1120 Paseo de Peralta, P. O. Box 1269, Santa Fe, New Mexico, 87501 or visit the Commission website at <http://nmprc.state.nm.us>.

State of New Mexico
Public Regulation Commission

STATEMENT OF NET POSITION

June 30, 2016

	<u>Governmental Activities</u>
ASSETS	
Interest in State Treasurer Investment Pool	\$ 3,201,869
Due from external parties-agency funds	11,330,127
Due from Federal government	464,844
Due from other state agencies	<u>15,071</u>
Total current assets	15,011,911
Capital assets, net	<u>2,235,639</u>
Total assets	17,247,550
LIABILITIES	
Accounts payable	320,207
Accrued payroll	235,626
Unearned revenue	36,748
Other liabilities	518,750
Due to other state agencies	802
Due to State General Fund	429,763
Compensated absences due in one year	<u>524,552</u>
Total current liabilities	<u>2,066,448</u>
Total liabilities	2,066,448
NET POSITION	
Net investment in capital assets	2,235,639
Restricted for specified purposes	13,766,223
Unrestricted (deficit)	<u>(820,760)</u>
Total net position	<u><u>\$ 15,181,102</u></u>

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Public Regulation Commission

STATEMENT OF ACTIVITIES

For the year ended June 30, 2016

	Policy and Regulation	Public Safety	Agency Support	Total Governmental Activities
PROGRAM EXPENSES	\$ (7,166,311)	\$ (11,991,136)	\$ (1,616,666)	\$ (20,774,113)
PROGRAM REVENUES				
Operating grants	-	1,112,026	-	1,112,026
Charges for services	16,899,570	-	-	16,899,570
Net program revenue (expense)	\$ 9,733,259	\$ (10,879,110)	\$ (1,616,666)	(2,762,517)
GENERAL REVENUES				
Transfers - General Fund appropriations				7,793,200
Transfers - State General Fund reversions - 2016 FY				(429,137)
Transfers, net				-
Interest income				11,118
Total general revenues				7,375,181
Change in net position				4,612,664
Net position, beginning of year as previously stated				10,548,538
Restatement				19,900
Net position, beginning of year as restated				10,568,438
Net position, end of year				\$ 15,181,102

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Public Regulation Commission

**BALANCE SHEET
GOVERNMENTAL FUNDS**

June 30, 2016

	General Fund - 55000	Fire Protection Grant Fund - 56900	Pipeline Safety Fund - 37700	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Current Assets					
Interest in State Treasurer Investment Pool	\$ 7,033	\$ 1,024,334	\$ 91,877	\$ 2,078,625	\$ 3,201,869
Due from other funds	424,500	-	-	2,982	427,482
Due from external parties-agency funds	-	11,330,127	-	-	11,330,127
Due from federal government	464,844	-	-	-	464,844
Due from other state agencies	15,071	-	-	-	15,071
	<u>\$ 911,448</u>	<u>\$ 12,354,461</u>	<u>\$ 91,877</u>	<u>\$ 2,081,607</u>	<u>\$ 15,439,393</u>
LIABILITIES					
Current Liabilities					
Accounts payable	\$ 320,207	\$ -	\$ -	\$ -	\$ 320,207
Accrued payroll	235,626	-	-	-	235,626
Unearned revenue	36,748	-	-	-	36,748
Other liabilities	27,123	491,627	-	-	518,750
Due to other funds	2,982	-	424,500	-	427,482
Due to other state agencies	802	-	-	-	802
Due to State General Fund	429,763	-	-	-	429,763
	<u>1,053,251</u>	<u>491,627</u>	<u>424,500</u>	<u>-</u>	<u>1,969,378</u>
FUND BALANCES					
Spendable					
Restricted	-	11,862,834	-	1,903,389	13,766,223
Committed	-	-	-	178,218	178,218
Unassigned	(141,803)	-	(332,623)	-	(474,426)
	<u>(141,803)</u>	<u>11,862,834</u>	<u>(332,623)</u>	<u>2,081,607</u>	<u>13,470,015</u>
Total fund balances	<u>(141,803)</u>	<u>11,862,834</u>	<u>(332,623)</u>	<u>2,081,607</u>	<u>13,470,015</u>
Total liabilities and fund balances	<u>\$ 911,448</u>	<u>\$ 12,354,461</u>	<u>\$ 91,877</u>	<u>\$ 2,081,607</u>	<u>\$ 15,439,393</u>

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Public Regulation Commission

**RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS**

For the year ended June 30, 2016

Fund balance - total governmental funds		\$ 13,470,015
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Governmental capital assets	8,528,895	
Accumulated depreciation	<u>(6,293,256)</u>	
		2,235,639
Long-term liabilities are not due and payable in the current period and therefore are not reported in the government funds:		
Compensated absences		<u>(524,552)</u>
Net position of governmental activities (Statement of Net Position)		<u>\$ 15,181,102</u>

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Public Regulation Commission

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS**

For the year ended June 30, 2016

	General Fund - 55000	Fire Protection Grant Fund - 56900	Pipeline Safety Fund - 37700	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Other fees and taxes	\$ 4,787,497	\$ 11,330,127	\$ 534,198	\$ 247,748	\$ 16,899,570
Interest income	-	1,114	-	10,004	11,118
Federal grant revenue	1,112,026	-	-	-	1,112,026
Total revenues	5,899,523	11,331,241	534,198	257,752	18,022,714
EXPENDITURES					
Current:					
Personal services	11,334,646	-	-	-	11,334,646
Contractual services	584,623	20,000	-	-	604,623
Other costs	1,751,242	6,773,648	-	-	8,524,890
Capital outlay	381,268	-	-	-	381,268
Total expenditures	14,051,779	6,793,648	-	-	20,845,427
(Deficiency) excess of revenues over expenditures	(8,152,256)	4,537,593	534,198	257,752	(2,822,713)
OTHER FINANCING SOURCES (USES)					
General Fund appropriations	7,793,200	-	-	-	7,793,200
Reversions to the State General Fund	(429,137)	-	-	-	(429,137)
Transfers in	960,500	-	-	2,982	963,482
Transfers out	(2,982)	-	(910,500)	(50,000)	(963,482)
Total other financing sources (uses)	8,321,581	-	(910,500)	(47,018)	7,364,063
NET CHANGE IN FUND BALANCES	169,325	4,537,593	(376,302)	210,734	4,541,350
FUND BALANCES - beginning of year	(311,128)	7,325,241	43,679	1,870,873	8,928,665
FUND BALANCES - end of year	<u>\$ (141,803)</u>	<u>\$ 11,862,834</u>	<u>\$ (332,623)</u>	<u>\$ 2,081,607</u>	<u>\$ 13,470,015</u>

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Public Regulation Commission

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS**

For the year ended June 30, 2016

Net change in fund balances - total governmental funds		\$ 4,541,350
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Loss on disposal of capital assets	-	
Capital outlay	381,268	
Depreciation expense	<u>(291,078)</u>	
Change in capital assets		90,190
Change in compensated absences		<u>(18,876)</u>
Change in net position of governmental activities (Statement of Activities)		<u>\$ 4,612,664</u>

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Public Regulation Commission

**STATEMENT OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL
GENERAL FUND (SHARE 55000)**

For the year ended June 30, 2016

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
Revenues:				
General fund appropriations	\$ 7,840,200	\$ 7,793,200	\$ 7,793,200	\$ -
Other financing sources	5,949,400	6,060,635	960,500	(5,100,135)
Federal funds	953,000	1,201,008	1,112,026	(88,982)
Other Fees	-	21,757	4,787,497	4,765,740
	14,742,600	15,076,600	14,653,223	(423,377)
Total revenues				
Expenditures:				
Personal services	11,879,000	11,536,235	11,334,646	201,589
Contractual services	692,900	866,900	584,623	282,277
Operating costs	2,170,700	2,673,465	2,132,510	540,955
	14,742,600	15,076,600	14,051,779	1,024,821
Total expenditures				
Excess (deficiency) of revenues over expenditures	\$ -	\$ -	601,444	\$ 601,444
Reversions			(429,137)	
Transfer out			(2,982)	
Change in fund balance per GAAP			\$ 169,325	

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Public Regulation Commission

**STATEMENT OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL
FIRE PROTECTION GRANT FUND (SHARE 56900)**

For the year ended June 30, 2016

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
Revenues:				
Other fees and taxes	\$ -	\$ 6,800,000	\$ 11,330,127	\$ 4,530,127
Investment Income	-	-	1,114	1,114
Total revenues	-	6,800,000	11,331,241	4,531,241
Expenditures:				
Personal services	-	-	-	-
Contractual services	-	20,000	20,000	-
Other	-	6,780,000	6,773,648	6,352
Total expenditures	-	6,800,000	6,793,648	6,352
Excess (deficiency) of revenues over expenditures	-	-	<u>\$ 4,537,593</u>	<u>\$ 4,537,593</u>
Fund balance carryforward	<u>7,325,241</u>	<u>7,325,241</u>		
Total	<u>\$ 7,325,241</u>	<u>\$ 7,325,241</u>		

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Public Regulation Commission

**STATEMENT OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL
PIPELINE SAFETY FUND (SHARE 37700)**

For the year ended June 30, 2016

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
Revenues:				
Other fees	\$ 910,500	\$ 910,500	\$ 534,198	\$ (376,302)
Other financing sources	-	-	-	-
Total revenues	910,500	910,500	534,198	(376,302)
Expenditures:				
Other financing uses	910,500	910,500	910,500	-
Excess (deficiency) of revenues over expenditures	-	-	<u>\$ (376,302)</u>	<u>\$ (376,302)</u>
Fund balance carryforward	43,679	43,679		
Total	<u>\$ 43,679</u>	<u>\$ 43,679</u>		

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Public Regulation Commission

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES – AGENCY FUNDS

June 30, 2016

	<u>Agency Funds</u>
ASSETS	
Interest in State Treasurer Investment Pool	\$ 82,952,955
Due from other state agencies	18,797,002
Other receivables	<u>28,843</u>
 Total assets	 <u>\$ 101,778,800</u>
LIABILITIES	
Accounts payable	\$ 50,980,348
Due to State General Fund	15,069,220
Due to local governments	-
Due to Fire Protection Grant Fund	11,330,127
Due to other state agencies	-
Undistributed receipts	24,349,675
Other liabilities	<u>49,430</u>
 Total liabilities	 <u>\$ 101,778,800</u>

The accompanying notes are an integral part of this financial statement.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE A – HISTORY AND FUNCTION

The State of New Mexico Public Regulation Commission (Commission or NMPRC), created by Article XI of the State Constitution, is a five-member commission whose members are elected from districts provided by law for staggered four-year terms.

The Commission has responsibility for regulating public utilities, including electric, natural gas and water companies; transportation companies, including common and contract carriers; transmission and pipeline companies, including telephone, telegraph and information transmission companies; and other public service companies in such a manner as the Legislature provides.

The Commission promotes public safety through the offices of State Fire Marshal, the Firefighter Training Academy, and Pipeline Safety Bureau.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Commission have been prepared in conformity with accounting principles generally accepted in the U.S. (GAAP) as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The most significant of the Commission's accounting policies are described below:

1. Reporting Entity

GAAP defines the financial reporting entity as consisting of the primary government, organizations for which the primary government is financially accountable and a financial benefit or burden relationship is present, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. This definition of the reporting entity is based primarily on the notion of financial accountability as the "cornerstone of all financial reporting in government."

A primary government is any state government or general purpose local government, consisting of all the organizations that make up its legal entity. All funds, organizations, institutions, agencies, departments, and offices that are not legally separate are, for financial reporting purposes, part of the primary government. The Commission, therefore, is part of the primary government of the State of New Mexico, and its financial data is included with the financial data of the State.

All of the programs that are administered and/or controlled by the Commission have been included. The Commission has no component units.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2016

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2. Basic Financial Statements

The basic financial statements include both government-wide (based on the Commission as a whole) and fund financial statements. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type. The Commission only has governmental activities. In the government-wide Statement of Net Position, the governmental activities are presented on a consolidated basis and are reflected on the full accrual, economic resource basis, which incorporates long-term assets and receivables, as well as long-term debt and obligations and excludes internal activity.

The government-wide Statement of Activities reflects both the gross and net cost per functional category, which are otherwise being supported by general government revenues. The Statement of Activities reduces gross expenses (including depreciation expense on capital assets) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function which consists of grants and fees.

The net cost by function is normally covered by general revenue. Historically, the previous model did not summarize or present net cost by function or activity. The Commission does not employ indirect cost allocation in the financial statements.

As to fund financial statements, emphasis is on the major funds of the governmental category. Nonmajor funds are summarized into a single column. The Commission's major funds are the General Fund, Fire Protection Grant Fund, and Pipeline Safety Fund.

The governmental funds in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is deemed more appropriate to demonstrate legal and covenant compliance, to demonstrate the source and use of liquid resources and to demonstrate how the Commission's actual experience conforms with the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements governmental column, a reconciliation is presented on the page following each statement, which briefly explains the adjustments necessary to transform the fund based financial statements into the governmental column of the government-wide presentation.

The Commission's fiduciary funds are agency funds and are presented in the Statement of Fiduciary Net Position. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the governmental or government-wide statements.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2016

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2. Basic Financial Statements – Continued

Any internal activity between funds is eliminated for government-wide financial statements.

The financial transactions of the Commission are recorded in individual funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, expenditures or expenses and other financing sources or uses. Government resources are allocated to, and accounted for, in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

The following fund types are used by the Commission:

Governmental Funds

General Fund. The General Fund is the general operating fund of the Commission. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds. Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes. Major Special Revenue Funds are described below:

Pipeline Safety Fund. This major fund accounts for fees collected pursuant to Subsection D of 70-3-21 NMSA 1978, appropriations, gifts, grants, donations, and earnings from investment of the fund. Balances in the fund at year-end do not revert to the General Fund. The purpose of the fund is for enhancing the staffing and training of Pipeline Safety Bureau for the inspection function of interstate and intrastate pipelines. (SHARE #37700)

Fire Protection Grant Fund. This major fund accounts for the collection of transfers, appropriations, gifts, grants, donations, and bequests to the Fire Protection Grant Fund. Money in the fund is appropriated to the Fire Protection Grant Council for the purpose of making distributions approved by the council for the critical needs of municipal and county fire districts. The fund was created by and is not reverting per Section 59A-53-18 NMSA 1978. (SHARE Fund #56900)

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2016

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2. Basic Financial Statements – Continued

Fiduciary Fund Types

Agency Funds. Agency Funds are used to account for assets held by the Commission as an agent for individuals, private organizations, other governments, and/or other funds. The Commission only has agency funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

3. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus that applies.

The Government-wide Financial Statements and the Fiduciary Financial Statements are presented on an accrual basis of accounting. Under the accrual method of accounting, revenues are recognized when earned and expenditures are recognized when incurred.

All governmental funds utilize the modified accrual basis of accounting. Under this method, revenues and other governmental fund financial resource increments are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the current fiscal period; available meaning collectible within the current period or soon enough thereafter (60 days) to be used to pay liabilities of the current period.

Revenues from grants that are restricted for specific uses are recognized as revenues and as receivables when the related costs are incurred and all other eligibility requirements are met.

Monies held by other state and local agencies are recorded as a receivable at the time the money is made available to the specific fund. Revenues collected for future periods are considered to be deferred inflows of resources until available. All other revenues are recognized when they are received and are not susceptible to accrual.

Program revenues consist of federal grants. Charges for services consist primarily of fees charged to regulated entities.

Expenditures are recorded as liabilities when incurred. Expenditures charged to federal programs are recorded utilizing the cost principles described by the various funding sources. The current portion of the compensated absences liability is not included in the fund financial statements because the State of New Mexico does not budget for compensated absences in the current year.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2016

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3. Basis of Accounting – Continued

In applying the “susceptible to accrual” concept to intergovernmental revenues, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenues when the applicable eligibility requirements including time requirements, are met. Resources transmitted before the eligibility requirements are met, under most circumstances, should be reported as advances by the provider and unearned revenue by the recipient.

4. Budgetary Accounting

The State Legislature makes annual appropriations to the Commission, which lapse at fiscal year-end. Legal compliance is monitored through the establishment of a budget (modified accrual-basis) and a financial control system, which permits a budget to actual expenditure comparison. Budgeted appropriation unit amounts may be amended upon approval from the Budget Division of the State of New Mexico Department of Finance and Administration within the limitations as specified in the General Appropriations Act. The budget amounts shown in the financial statements are the final authorized amounts as legally revised during the year.

The budget is adopted on a modified accrual basis of accounting except for accounts payable accrued at the end of the fiscal year that do not get paid by the statutory deadline that must be paid out of next year’s budget. A reconciliation of budgetary basis to GAAP basis will be necessary if any accounts payable at the end of the fiscal year are not paid by the statutory deadline. The Commission has not included such reconciliation for fiscal year 2016 as all payables were paid by the statutory deadline.

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

No later than September 1 of each year, the Commission submits to the State Budget Division (SBD) of the New Mexico Department of Finance and Administration (DFA) an appropriation request for the fiscal year commencing the following July 1. Copies are also sent to the Legislative Finance Committee (LFC). The report submitted by the Commission also details revenues and expenditures or expenses for the preceding year. The budget for the General Administrative Fund is adopted on the modified accrual basis of accounting except for accounts payable accrued at the end of the fiscal year that do not get paid by the statutory deadline (Section 6-10-4 NMSA 1978) that must be paid out of the next year’s budget.

The appropriation request includes proposed expenditures and the means of financing them. It is reviewed by the SBD and additional information is obtained, if needed. Agency budgets are consolidated, with revisions, and submitted as a tentative budget to the Governor of the State. The Governor’s approved appropriation request is then submitted to the Legislature as the recommended appropriation request for the Commission.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2016

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

4. Budgetary Accounting – Continued

Budget hearings are scheduled before the New Mexico House Appropriations and Senate Finance Committees. The final outcome of these hearings is incorporated in the General Appropriations Act.

The Act is signed into law by the Governor of the State of New Mexico within the legally prescribed time limit.

The Commission submits no later than May 1 to DFA an annual operating budget by category and line item based upon the appropriations made by the Legislature. The SBD reviews and approves the operating budget, which becomes effective on July 1. All subsequent budget adjustments must be approved by the Director of the SBD and the Legislative Finance Committee. The budget for the current year was adjusted in a legal manner.

Legal budget control for expenditures is by category of appropriation program level. All of the Commission's governmental funds were budgeted that had significant activity. Agency funds are not budgeted.

Appropriations of the Commission's General Fund lapse at the end of the fiscal year.

The Commission's General Fund, Fire Protection Fund, and Special Corporations Fee Fund wholly or partially revert to the State General Fund; the other governmental and fiduciary funds are non-reverting funds.

5. Interest in the State General Fund Investment Pool

Interest in the pooled cash on deposit with the State Treasurer's Office (STO) is considered cash and cash equivalents.

6. Federal Grants Receivable

Various funding procedures are used for federal awards received by the Commission. Consequently, timing differences between expenditures and program reimbursements can exist at any time during the fiscal year. Grant revenue is recorded when all eligibility requirements have been met, including incurred program expenditures. Receivable balances at fiscal year-end represent an excess of modified accrual basis expenditures over cash reimbursements received to date. Conversely, unearned revenue balances represent draws of cash (advances) in excess of modified accrual basis expenditures.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2016

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

7. Capital Assets

Property, plant and equipment purchased or acquired at a value of \$5,000 or greater are capitalized per Section 12-6-10 NMSA 1978. Assets are carried at historical cost or estimated historical cost; software is capitalized with the related equipment. Contributed assets are recorded at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives with no salvage value:

	<u>Years</u>
Building improvements	50
Machinery and equipment	5-20
Land improvements	15-20
Buildings	25-45

8. Fund Balances

In the governmental fund financial statements, the Commission classifies fund balances into spendable and non-spendable classifications. The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact until expended for its restricted purpose. The Commission has no non-spendable fund balances as of June 30, 2016.

The spendable classifications are detailed below:

Restricted Fund Balances

In the governmental fund financial statements, *restrictions* of fund balance are reported when constraints placed on the use of resources are either: (1) Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation. Based on the criteria above, the Commission reports restricted funds totaling \$13,766,223 as of June 30, 2016.

Committed Fund Balances

In the governmental fund financial statements *committed* fund balances are reported when amounts can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority (both Legislative and Executive branches through formal action). The Commission reports committed funds totaling \$178,218 as of June 30, 2016.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2016

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

8. Fund Balances – Continued

Assigned Fund Balances

In the governmental fund financial statements, *assigned* fund balances are reported when amounts are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. Intent can be expressed by (a) the governing body itself or (b) a body (a budget or finance committee, for example) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes. The Commission had no assigned fund balance as of June 30, 2016.

Unassigned Fund Balances

In the governmental fund financial statements, *unassigned* fund balances are reported to reflect residual fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The Commission reports unassigned fund deficit totaling (\$141,803) in the General Fund and deficit of (\$332,623) in the Pipeline Safety Fee Fund as of June 30, 2016. Generally, the Commission would first apply restricted or committed resources when an expense is incurred for purposes for which either restricted, committed or unassigned fund balances are available.

The negative unassigned fund balance in the Pipeline Safety Fee Fund is due to revenues not materializing as expected.

9. Net Position

The government-wide fund financial statements utilize a net position presentation. Net position is defined by GAAP as the residual of all assets, liabilities, deferred outflows of resources, and deferred inflows of resources for the Commission. Deferred inflows of resources for the year ended June 30, 2016, consist of fees collected for the subsequent fiscal year's operations. The Commission had no deferred outflows of resources for the year ended June 30, 2016. Net position is categorized as net investment in capital assets, restricted, and unrestricted.

Net Investment in Capital Assets – is intended to reflect the portion of net position which is associated with non-liquid, capital assets less outstanding capital asset related debt. The Commission did not have any related debt during the year ended June 30, 2016.

Restricted Net Position – net position should be reported as restricted when constraints placed on net asset use are either:

- Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2016

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

9. Net Position – Continued

- Enabling legislation must be legally enforceable. Legal enforceability means that a government can be compelled by an external party – such as citizens, public interest groups or the judiciary – to use resources only for the purposes specified by the legislation.

The amount of net position restricted by enabling legislation is \$13,766,223 at June 30, 2016.

Unrestricted Deficit – consists of Net Position that does not meet the definition of “restricted” or “net investment in capital assets.”

The Commission allocates expenses to restricted or unrestricted resources based on the budgeted source of funds, which generally means restricted resources have been spent first.

10. Compensated Absences

Vested or accumulated vacation leave and vested sick leave are reported in the entity-wide financial statements, since they are not expected to be liquidated with expendable available financial resources. No current expenditures are reported in the General Fund financial statements for these amounts.

11. Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as due from other funds or due to other funds on the balance sheets of the fund financial statements. Internal activity is eliminated at the government-wide statement of activities.

12. Use of Estimates

The preparation of 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 revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2016

NOTE C – INTEREST IN THE STATE GENERAL FUND INVESTMENT POOL

State law (Section 8-6-3 NMSA 1978) requires the Department's cash be managed by the New Mexico State Treasurer's Office. At June 30, 2016, the Commission had \$86,154,824 invested in the State Treasurer's General Fund Investment Pool (SGFIP).

The Commission has adopted policies and procedures to mitigate the risk of misstatement in the Commission's interest in the State General Fund Investment Pool (see Note O). These include:

The Commission performs a batch process for all cash that is collected and deposited. These batches are generated by staff within each division that collects revenues. The batches are verified by the supervisors of each division and then sent down to Administrative Services Division (ASD) for deposit. The batches are then verified by ASD staff to ensure that the checks in each batch match the batch report. The ASD supervisor will then verify deposits entered into SHARE to ensure that the amount equals for each batch and are entered into correct fund and account documentation is retained for all transactions. Expenditure support is retained for all transactions. Due to these compensating controls, the Commission believes the value of its share of the SGFIP reported at June 30, 2016 is accurate.

Interest Rate Risk – The New Mexico State Treasurer's Office has an investment policy that limits investment maturities to five years or less on allowable investments. This policy is means of managing exposure to fair value losses arising from increasing interest rates. This policy is reviewed and approved annually by the New Mexico State Board of Finance.

Credit risk – The New Mexico State Treasurer pools are not rated.

For additional GASB 40 disclosure information regarding cash held by the New Mexico State Treasurer, the reader should see the separate audit report for the New Mexico State Treasurer's Office for the fiscal year ended June 30, 2016.

The following is a summary of the Commission's interest in the State Treasurer General Fund Investment Pool:

State of New Mexico
Public Regulation Commission

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2016

NOTE C – CASH AND INVESTMENTS – CONTINUED

	Book Balance	Treasurer Balance
General Fund		
Operating Account	\$ 7,033	\$ 7,033
Special Revenue Funds		
Fire Protection Grant Fund	1,024,334	1,024,334
Firefighters Use Fee Fund	1,172,122	1,172,122
Fire Safer Cigarette and Fire Protection Fund	721,263	721,263
Reproduction Fund	175,236	175,236
Pipeline Safety Fund	91,877	91,877
Transportation Network Fund	10,004	10,004
Total Special Revenue Funds	3,194,836	3,194,836
Agency Funds		
Firefighters Survivors Fund	255,025	255,025
Fire Protection Fund	82,726,748	82,726,748
Special Corporation Fees Fund	25	25
Motor Transportation Fund	(28,843)	(28,843)
Total Agency Funds	82,952,955	82,952,955
Total Investments, State Treasurer	\$ 86,154,824	\$ 86,154,824

NOTE D – DUE TO AND DUE FROM OTHER FUNDS

Due from and due to other funds represent interfund receivables and payables arising from interdepartmental transfers primarily due to statutory requirements for transferring funds collected by one fund and expended by another. These are routine transactions that occur monthly or annually. These amounts have been eliminated on the government-wide financial statements.

	55000 General Fund	37700 Pipeline Safety Fund
<u>Due From Other Funds</u>		
55000 General Fund	\$ -	\$ 424,500
47700 Reproduction Fund	2,982	-
Total	\$ 2,982	\$ 424,500

State of New Mexico
Public Regulation Commission

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2016

NOTE D – DUE TO AND DUE FROM OTHER FUNDS – CONTINUED

Amounts reported as due to and from external parties represent internal balances between governmental funds and agency funds. Agency funds are excluded from governmental funds and governmental-wide financial statements.

	Due to External Parties
<u>Due From Agency Funds</u>	57800 Protection Agency Fund
56900 Fire Protection Grant Fund	\$ 11,330,127
Total	\$ 11,330,127

NOTE E – DUE TO AND DUE FROM OTHER STATE AGENCIES

The following are short-term amounts owed between other state agencies and are classified as due to other state agencies:

	Agency		
<u>Due from Other State Agencies</u>			
<u>Agency Funds</u>			
Firefighters Survivors Fund (56400)			
NM Taxation & Revenue Department	333		645
Fire Protection Fund (57800)			
Office of the Superintendent of Insurance	440		\$ 18,796,357
Total Due From Other State Agencies			\$ 18,797,002
 <u>Due to Other State Agencies</u>			
<u>Agency Funds</u>			
Motor Transportation Fund (19000)			
Department of Transportation	805		\$ -
Total Due To Other State Agencies			\$ -

Public Regulation Commission

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2016

NOTE F – REVERSIONS

Unexpended and unencumbered cash balances of certain funds and the unexpended portion of special appropriations received during the fiscal year revert to the State General Fund at year end. Also, cash recoveries during the fiscal year from stale dated warrants are due to the State General Fund. Reversions due from State General and Insurance Operations Funds are comprised of the following at June 30, 2016:

	General Fund 430-55000
	<u> </u>
Budget year 2016 reversions	<u>\$ 429,137</u>

NOTE G – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016, is as follows:

	Balance June 30, 2015 As Previously Stated	Restatement	Balance June 30, 2015 Restated	Additions	Deletions	Balance June 30, 2016
Governmental Activities						
Depreciable Assets						
Land improvements	\$ 901,172	\$ -	\$ 901,172	\$ -	\$ -	\$ 901,172
Buildings	2,118,787	-	2,118,787	-	-	2,118,787
Machinery and equipment	5,440,099	45,000	5,485,099	381,268	(498,632)	5,367,735
Building improvements	<u>141,200</u>	<u>-</u>	<u>141,200</u>	<u>-</u>	<u>-</u>	<u>141,200</u>
Total at historical cost	8,601,258	45,000	8,646,258	381,268	(498,632)	8,528,894
Accumulated depreciation						
Land improvements	891,682	-	891,682	1,224	-	892,906
Buildings	1,005,597	-	1,005,597	46,000	-	1,051,597
Machinery and equipment	4,497,946	25,100	4,523,046	241,030	(498,632)	4,265,444
Building improvements	<u>80,484</u>	<u>-</u>	<u>80,484</u>	<u>2,824</u>	<u>-</u>	<u>83,308</u>
Total accumulated depreciation	<u>6,475,709</u>	<u>25,100</u>	<u>6,500,809</u>	<u>291,078</u>	<u>(498,632)</u>	<u>6,293,255</u>
Capital assets, net	<u>\$ 2,125,549</u>	<u>\$ 19,900</u>	<u>\$ 2,145,449</u>	<u>\$ 90,190</u>	<u>\$ -</u>	<u>\$ 2,235,639</u>

Depreciation expense for the current year was \$291,078 and was related to the Public Safety Program.

State of New Mexico
Public Regulation Commission

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2016

NOTE H – COMPENSATED ABSENCES LIABILITY

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016	Payable Within 1 Year
Annual leave	\$ 489,097	\$ 479,357	\$ (469,418)	\$ 499,036	\$ 499,036
Sick leave	16,579	10,774	(1,837)	25,516	25,516
Total	<u>\$ 505,676</u>	<u>\$ 490,131</u>	<u>\$ (471,255)</u>	<u>\$ 524,552</u>	<u>\$ 524,552</u>

The Commission estimates that all compensated absences will be paid within one year. Substantially all of the compensated absence balances have been paid by the General Fund in prior years. The amount of compensated absences is calculated by multiplying the vested hours by the pay rate at year end, plus applicable payroll taxes.

The Commission's policy is to permit employees to accumulate earned but unused vacation and sick pay benefits.

Qualified employees accumulate maximum annual leave as follows:

Years of Service	Hours Earned Per Pay Period	Days of Maximum Accrual
Up to 3 years	3.08	30
Over 3-7 years	3.69	30
Over 7-11 years	4.61	30
Over 11-15 years	5.54	30
Over 15 years	6.15	30

The maximum accrued annual leave may be carried forward into the beginning of the next calendar year and any excess is lost. When employees terminate, they are compensated for accumulated unpaid annual leave as of the date of termination, up to the above maximums.

Accrued Sick Leave. Employees who have over 600 hours of accumulated sick leave can receive payment for the hours over 600 up to 120 hours, on July 1 and January 1 of each year. However, the sick leave will be paid at 50% of the employee's regular hourly wage.

At retirement, employees may receive 50% payment for up to 400 hours for the hours over 600 of accumulated sick leave. Therefore, the only sick leave which has been accrued represents the hours earned at June 30, 2016, over 600. Expenditures for accumulated sick pay for hours under 600 will be recognized as employees take such absences.

State of New Mexico
Public Regulation Commission

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2016

NOTE I – OTHER FINANCING SOURCES AND USES

Other financing sources and uses consist of the following:

	Transfers	
	In	Out
General Fund (#55000)	\$ 960,500	\$ 2,982
Pipeline Safety Fund (#37700)	-	910,500
Reproduction Fund (#47700)	2,982	50,000
	<u>\$ 963,482</u>	<u>\$ 963,482</u>
Grand Total	<u>\$ 963,482</u>	<u>\$ 963,482</u>

The purpose of transfers from Agency Funds to the General Fund is to support policy and regulation, program support, and public safety programs pursuant to the General Appropriation Act.

The purpose of transfers into the Reproduction Fund is to account for the excess of revenues over expenditures for the fiscal year that is to remain in these non-reverting funds. Transfers out of these funds are for the transfer of state appropriations to the General Fund to support the operation of the Funds' programs pursuant to the General Appropriation Act.

NOTE J – PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

Plan Description. Substantially all of the Commission's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, New Mexico 87504-2123. That report is also available on PERA's website at www.pera.state.nm.us.

Financial Reporting and Disclosure for Multiple-Employer Cost Sharing Pension Plans by Employers. Compliant with the requirements of Government Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions, the State of New Mexico (the State) has implemented the standard for the fiscal year ending June 30, 2016.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2016

**NOTE J – PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION –
CONTINUED**

The Commission, as part of the primary government of the State of New Mexico, is a contributing employer to a cost-sharing multiple employer defined benefit pension plan administered by the Public Employees Retirement Association (PERA). Overall, total pension liability exceeds plan net position resulting in a net pension liability. The State has determined the State's share of the net pension liability to be a liability of the State as a whole, rather than any agency or department of the State, and will not be reported in the department or agency level financial statements of the State. All required disclosures will be presented in the Comprehensive Annual Financial Report (CAFR) of the State of New Mexico.

Information concerning the net position liability, pension expense, and pension-related deferred inflows and outflows of resources of the primary government will be contained in the General Fund of the CAFR and will be available, when issued, from the Office of State Controller, Room 166, Bataan Memorial Building, 407 Galisteo Street, Santa Fe, New Mexico, 87501.

Funding Policy. Plan members are required to contribute 7.42%-8.92% of their gross salary. The Commission is required to contribute 16.99% of the gross covered salary. The contribution requirements of the plan members and the Commission are established under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Commission's employer contributions to PERA for the years ending June 30, 2016, 2015, and 2014, were \$1,260,565, \$1,322,259, and \$1,217,167, respectively, which equal the amount of the required contributions for each fiscal year.

NOTE K – POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN

Plan Description. The Commission contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf, unless that person retires before the employer's RHCA effective date, in which event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by the Retiree Health Care Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2016

NOTE K – POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN – CONTINUED

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the postemployment healthcare plan. That report and further information can be obtained by writing to the Retiree Health Care Authority at 4308 Carlisle NE, Suite 104, Albuquerque, NM 87107.

Funding Policy. The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan, plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at www.nmrhca.state.nm.us.

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. During the fiscal year ended June 30, 2016, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0 % of their salary.

Also, employers joining the program after January 1, 1998, are required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

The RHCA plan is financed on a pay-as-you-go basis. The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the contributions can be changed by the New Mexico State Legislature.

The Commission's contributions to the RHCA for the years ended June 30, 2016, 2015 and 2014, were \$148,374, \$155,733, and \$146,988, respectively, which equal the required contributions for each year.

NOTE L – RISK MANAGEMENT

The Commission, as a "State Agency" defined in the New Mexico Tort Claims Act, is insured through the Risk Management Division of the State of New Mexico. The Commission pays annual premiums to the Risk Management Division for coverage provided in the following areas:

State of New Mexico
Public Regulation Commission

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2016

NOTE L – RISK MANAGEMENT – CONTINUED

1. Liability and civil rights protection for claims made by others against the State of New Mexico;
2. Coverage to protect the State of New Mexico’s property and assets; and
3. Fringe benefit coverage for State of New Mexico employees.

At June 30, 2016, the Commission had no claims exceeding policy coverage.

NOTE M – JOINT POWERS AGREEMENT AND MEMORANDUM OF UNDERSTANDING

The Office of the State Fire Marshal entered into an agreement with the New Mexico Energy, Minerals and Natural Resources Department (the financially accountable and audit responsible agency) for Waste Isolation Pilot Plant (WIPP) program activities on July 7, 1988. The agreement is to remain in effect perpetually, unless otherwise noted by either party or the Department of Energy.

The Office of the State Fire Marshal ensures local governments implement activities and address emergency response preparedness as it pertains to the transport of hazardous materials under the Waste Isolation Pilot Plant (WIPP) project. The costs of the projects are 100% funded by the Commission with the funds received by the Energy, Minerals, and Natural Resources Department. Each local government is the fiscal agent and has audit responsibility.

<u>Government</u>	<u>Local Contributions</u>	<u>Commission Description</u>
City of Artesia	\$ 7,000	Support regional response haz mat team
City of Albuquerque	7,000	Support regional response haz mat team
City of Carlsbad	7,000	Support regional response haz mat team
City of Hobbs	7,000	Support regional response haz mat team
City of Las Vegas	6,000	Support regional response haz mat team
City of Raton	7,000	Support regional response haz mat team
City of Roswell	7,000	Support regional response haz mat team
City of Santa Fe	7,000	Support regional response haz mat team
City of Vaughn	5,000	Support regional response haz mat team
Chaves County	11,000	Support first responder training
Colfax County	7,000	Support first responder training
Eddy County	5,000	Support first responder training
San Miguel County	7,000	Support first responder training
Santa Fe County	15,000	Support first responder training
Torrance County	7,000	Support first responder training
Total	\$ 112,000	

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2016

NOTE N – CONTINGENT LIABILITIES

The Commission is a defendant in various lawsuits regarding regulatory matters and former employees. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Commission's attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the Commission.

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

NOTE O – STATE GENERAL FUND INVESTMENT POOL NOT RECONCILED

For cash management and investment purposes, funds of various state agencies are deposited in the State General Fund Investment Pool (the Pool), which is managed by the Office of the New Mexico State Treasurer. Claims on the Pool are reported as assets by the various agencies investing in the Pool.

Agency claims against the SGFIP and fiduciary resources held at STO to fulfill those claims were not reconciled from the inception of SHARE (the State's centralized accounting system), in July 2006, through January 2013, which caused uncertainty as to the validity of the claims and the ability of fiduciary resources to fulfill those claims. As communicated last year, the Financial Control Division (FCD) in collaboration with the State Treasurer's Office, implemented a comprehensive reconciliation model that compared aggregated agency claims on the State General Fund Investment Pool to the associated resources held by the State Treasurer's Office. This process now has been reviewed by the IPAs performing audits of the General Fund, the Department of Finance and Administration and the State of New Mexico's Comprehensive Annual Financial Report for fiscal year 2015. Each review of the process deemed it to be adequate and the findings related to Cash Reconciliation were significantly reduced or eliminated. Successfully addressing this issue allowed the Department to reinstate \$100M that had been reserved as a loss contingency.

For FY 2016 the following assertions are provided:

1. The calculated difference between resources maintained by STO and the agency claims has remained stable and within a narrow and acceptable range (\$200k standard deviation) over the last twelve months;
2. Resources are sufficient to cover claims and there is no need to adjust any specific business unit claim on the SGFIP;
3. All claims will be honored at face value.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2016

NOTE P – NEW ACCOUNTING STANDARDS

GASB 75 - Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

This Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. 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. This Statement requires the liability of employers to employees for defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position. The total OPEB liability generally is required to be determined through an actuarial valuation. Similar to the provisions of GASB 68, the employer is required to recognize a liability equal to the net OPEB liability, changes in the net OPEB liability that have not been included in OPEB expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to OPEB, and employer contributions subsequent to the measurement date of the net OPEB liability are required to be reported as deferred outflows of resources. Additional note disclosures and supplementary information will be required to be presented in the financial statements of the employer. GASB 75 is effective for FY 2018. Similar to the implementation of GASB 68 described in Note J, disclosure of relevant provisions will be made, but the liability will be carried at the State level.

NOTE Q – RESTATEMENT

A restatement of the beginning balance of capital assets was made to increase machinery and equipment by \$19,900 for an asset not previously recorded.

NOTE R – SUBSEQUENT EVENTS

Events subsequent to June 30, 2016, have been evaluated by management through December 16, 2016, the date of the auditors' report. In the opinion of management, no events occurring after June 30, 2016, require adjustment to or disclosure in the financial statements.

State of New Mexico
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GENERAL FUND – PROGRAMS AND PROJECTS

June 30, 2016

General Fund: The General Fund is used to account for all financial resources, except those required to be accounted for in another fund. (SHARE Fund #55000)

For budget purposes, the General Fund is divided into the following programs and project:

Programs:

- Policy and Regulation
- Public Safety
- Agency Support

State of New Mexico
Public Regulation Commission

**STATEMENT OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL
GENERAL FUND (SHARE 55000) –
POLICY AND REGULATION (P611)**

For the year ended June 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
General fund appropriations	\$ 6,560,900	\$ 6,521,900	\$ 6,521,900	\$ -
Other financing sources	718,500	884,425	282,291	(602,134)
Federal funds	-	-	-	-
Other fees	-	-	435,473	435,473
Total revenues	<u>7,279,400</u>	<u>7,406,325</u>	<u>7,239,664</u>	<u>(166,661)</u>
Expenditures:				
Personal services	6,723,500	6,486,425	6,386,270	100,155
Contractual services	63,900	252,900	167,932	84,968
Operating costs	492,000	667,000	612,109	54,891
Total expenditures	<u>7,279,400</u>	<u>7,406,325</u>	<u>7,166,311</u>	<u>240,014</u>
Excess (deficiency) of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	73,353	<u>\$ 73,353</u>
Reversions			<u>(71,909)</u>	
Change in fund balance per GAAP			<u>\$ 1,444</u>	

State of New Mexico
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**STATEMENT OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL
GENERAL FUND (SHARE 55000) –
PUBLIC SAFETY (P612)**

For the year ended June 30, 2016

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
Revenues:				
General fund appropriations	\$ -	\$ -	\$ -	\$ -
Other financing sources	4,749,200	4,545,725	578,580	(3,967,145)
Federal funds	953,000	1,425,708	1,112,026	(313,682)
Other fees	-	21,757	3,972,818	3,951,061
Total revenues	<u>5,702,200</u>	<u>5,993,190</u>	<u>5,663,424</u>	<u>(329,766)</u>
Expenditures:				
Personal services	3,606,400	3,597,625	3,533,504	64,121
Contractual services	574,600	559,600	380,822	178,778
Operating costs	1,521,200	1,835,965	1,373,351	462,614
Total expenditures	<u>5,702,200</u>	<u>5,993,190</u>	<u>5,287,677</u>	<u>705,513</u>
Excess (deficiency) of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	375,747	<u>\$ 375,747</u>
Reversions			(208,550)	
Transfer out			<u>(2,982)</u>	
Change in fund balance per GAAP			<u>\$ 164,215</u>	

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Public Regulation Commission

**STATEMENT OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL
GENERAL FUND (SHARE 55000) –
AGENCY SUPPORT (P613)**

For the year ended June 30, 2016

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
Revenues:				
General fund appropriations	\$ 1,279,300	\$ 1,271,300	\$ 1,271,300	\$ -
Other financing sources	481,700	405,785	99,629	(306,156)
Federal funds	-	-	-	-
Other fees	-	-	379,206	379,206
	<u>1,761,000</u>	<u>1,677,085</u>	<u>1,750,135</u>	<u>73,050</u>
Total revenues				
Expenditures:				
Personal services	1,549,100	1,452,185	1,414,872	37,313
Contractual services	54,400	54,400	35,869	18,531
Operating costs	157,500	170,500	147,050	23,450
	<u>1,761,000</u>	<u>1,677,085</u>	<u>1,597,791</u>	<u>79,294</u>
Total expenditures				
Excess (deficiency) of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	152,344	<u>\$ 152,344</u>
Reversion to the State General Fund			<u>(148,678)</u>	
Change in fund balance per GAAP			<u>\$ 3,666</u>	

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NONMAJOR FUNDS

June 30, 2016

Fire Safer Cigarette and Fire Protection Fund. To account for revenue and other fees paid under Section 4 (57-2B-4 NMSA 1978) of the Fire-Safer Cigarette and Firefighter Protection Act and money recovered as penalties under Section 6 (57-2B-6 NMSA 1978) of that act. The money in the fund is appropriated to the state fire marshal to enforce the Fire-Safer Cigarette and Firefighter Protection Act (57-2B-1 NMSA 1978) and to support fire safety and prevention programs. This fund is non-reverting. (SHARE Fund #10890)

Reproduction Fee Fund. To account for the revenue and related expenses of providing copying services to other state agencies, to the general public and to other divisions within the Public Regulation Commission. This fund is non-reverting. (SHARE Fund #47700)

Transportation Network Company Fund. This fund accounts for fees collected pursuant to the Transportation Network Company Services Act. Funds may be used for the Commission to carry out its duties pursuant to the provisions of the Transportation Network Company Services Act. This fund is non-reverting. (SHARE Fund #43150)

Firefighters Use Fee Fund. This fund accounts for fees paid by non-state fire fighters that are used for the fire fighters Training Academy. Funds can be budgeted for emergency maintenance expenses that may arise with live fire-training courses provided at this facility. This fund is non-reverting. (SHARE Fund #09300)

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COMBINING BALANCE SHEET – ALL NONMAJOR FUNDS

June 30, 2016

	Fire Safer Cigarette and Fire Protection - 10890	Reproduction Fund - 47700	Transportation Network Fund - 43150	Firefighters Use Fee Fund - 09300	Total
ASSETS					
Investments, State Treasurer Investment Pool	\$ 721,263	\$ 175,236	\$ 10,004	\$ 1,172,122	\$ 2,078,625
Due from other funds	-	2,982	-	-	2,982
Total assets	<u>\$ 721,263</u>	<u>\$ 178,218</u>	<u>\$ 10,004</u>	<u>\$ 1,172,122</u>	<u>\$ 2,081,607</u>
FUND BALANCES					
Restricted	\$ 721,263	\$ -	\$ 10,004	\$ 1,172,122	\$ 1,903,389
Committed	-	178,218	-	-	178,218
Total fund balances	<u>\$ 721,263</u>	<u>\$ 178,218</u>	<u>\$ 10,004</u>	<u>\$ 1,172,122</u>	<u>\$ 2,081,607</u>

State of New Mexico
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**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES – ALL NONMAJOR FUNDS**

June 30, 2016

	Fire Safer Cigarette and Fire Protection Fund - 10890	Reproduction Fund - 47700	Transportation Network Fund - 43150	Firefighters Use Fee Fund - 09300	Total
REVENUES					
Other fees and taxes	\$ 186,250	\$ 42,843	\$ -	\$ 18,655	\$ 247,748
Interest income	-	-	10,004	-	10,004
Total revenues	186,250	42,843	10,004	18,655	257,752
EXPENDITURES					
Personal services	-	-	-	-	-
Contractual services	-	-	-	-	-
Other costs	-	-	-	-	-
Total expenditures	-	-	-	-	-
Excess (deficiency) of revenues over expenditures	186,250	42,843	10,004	18,655	257,752
OTHER FINANCING SOURCES AND (USES)					
Grants to local governments	-	-	-	-	-
Transfers in	-	2,982	-	-	2,982
Transfers out	-	(50,000)	-	-	(50,000)
Total other financing sources and (uses)	-	(47,018)	-	-	(47,018)
NET CHANGES IN FUND BALANCES	186,250	(4,175)	10,004	18,655	210,734
FUND BALANCES, beginning of year	535,013	182,393	-	1,153,467	1,870,873
FUND BALANCES, end of year	<u>\$ 721,263</u>	<u>\$ 178,218</u>	<u>\$ 10,004</u>	<u>\$ 1,172,122</u>	<u>\$ 2,081,607</u>

State of New Mexico
Public Regulation Commission

**STATEMENT OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL
FIRE SAFER CIGARETTE AND FIRE PROTECTION FUND (SHARE 10890)**

For the year ended June 30, 2016

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
Revenues:				
Other Fees	\$ -	\$ -	\$ 186,250	\$ 186,250
Expenditures:				
Other financing uses	-	-	-	-
Excess (deficiency) of revenues over expenditures (prior year fund balance required to balance budget)	-	-	\$ 186,250	\$ 186,250
Fund balance carryforward	535,013	535,013		
Total	\$ 535,013	\$ 535,013		

There was no budget established for this fund in FY16 due to minimal activity.

State of New Mexico
Public Regulation Commission

**STATEMENT OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL
REPRODUCTION FUND (SHARE 47700)**

For the year ended June 30, 2016

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
Revenues:				
Other fees - printing and reproduction	\$ 50,000	\$ 50,000	\$ 42,843	\$ (7,157)
Other financing sources	-	-	2,982	2,982
Total revenues	50,000	50,000	45,825	(4,175)
Expenditures:				
Other financing uses	50,000	50,000	50,000	-
Excess (deficiency) of revenues over expenditures	-	-	<u>\$ (4,175)</u>	<u>\$ (4,175)</u>
Fund balance carryforward	182,393	182,393		
Total	<u>\$ 182,393</u>	<u>\$ 182,393</u>		

State of New Mexico
Public Regulation Commission

**STATEMENT OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL
TRANSPORTATION NETWORK COMPANY FUND (SHARE 43150)**

For the year ended June 30, 2016

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
Revenues:				
Other fees	\$ -	\$ -	\$ 10,004	\$ 10,004
Other financing sources	-	-	-	-
Total revenues	-	-	10,004	10,004
Expenditures:				
Other financing uses	-	-	-	-
Excess (deficiency) of revenues over expenditures	-	-	<u>\$ 10,004</u>	<u>\$ 10,004</u>
Fund balance carryforward	-	-		
Total	<u>\$ -</u>	<u>\$ -</u>		

There was no budget established for this fund in FY16 due to minimal activity.

State of New Mexico
Public Regulation Commission

**STATEMENT OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL
FIREFIGHTERS USE FEE FUND (SHARE 09300)**

For the year ended June 30, 2016

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
Revenues:				
Other financing sources	\$ -	\$ -	\$ 18,655	\$ 18,655
Expenditures:				
Other financing uses	-	45,000	-	45,000
Excess (deficiency) of revenues over expenditures	-	(45,000)	\$ 18,655	\$ (26,345)
Fund balance carryforward	1,153,467	1,153,467		
Total	\$ 1,153,467	\$ 1,108,467		

State of New Mexico
Public Regulation Commission

AGENCY FUNDS

June 30, 2016

Agency funds are used to account for assets held as an agent for other governmental units, for claimants and for other funds. The agency funds of the Commission are as follows:

Motor Transportation Fund. To account for the collection and payment to the State Road Fund of monies received from both interstate and intrastate motor carriers. Collections are from permits, filing fees, and leases. (SHARE Fund #430-19000)

Fire Protection Fund. To account for the receipts from the Insurance Suspense Fund. The Fire Protection Fund distributes the monies collected for the operations of the State Fire Marshal and for the operations, maintenance, and betterment of local fire districts. Section 59A-53-5-2, NMSA 1978 provides that the remaining balance in the fire protection fund shall be calculated on June 30 of each year and shall equal the balance of the fund on that date less the sum of (1) the total amount to be distributed the succeeding fiscal year and (2) the total amount of other appropriations from the fire protection fund for the succeeding fiscal year. The remaining balance in the fire protection fund shall be transferred from the fire protection fund to the fire protection grant fund on a percentage basis on June 30 of each fiscal year as provided by Section 59A-53-5-2 NMSA 1978 (c). (SHARE Fund # 430-57800)

Special Corporation Fees Fund. To account for the collection and payment to the State General Fund of monies collected from railroads, telephone companies and radio communication carriers doing business within the State of New Mexico. Collections are from one-fourth of one percent of the gross receipts of the companies' business within the State of New Mexico. (SHARE Fund # 430-50600)

Qwest Performance Assurance Plan. To account for collection of Tier 2 payments received in conjunction with Qwest's application for approval under Section 271 of the Telecommunications Act of 1996. An agreement was formed requiring Qwest to meet certain parity and benchmark standards as defined in the agreement dated August 20, 2002. Failure to meet the specified criteria results in Tier 2 payments to the Fund. The fund reverts to the State General Fund. (SHARE Fund #430-30500)

Pipeline Fees Fund. To account for the collection and payment to the State General Fund of monies received from companies that conduct pipeline business in the State of New Mexico. Collections are from various fees set by state statute. (SHARE Fund # 430-50500)

Firefighters Survivors Fund. To account for funds deposited that will be distributed to firefighters' families. (Share Fund # 430-56400)

State of New Mexico
Public Regulation Commission

COMBINING BALANCE SHEET – ALL AGENCY FUNDS

June 30, 2016

	<u>Motor Transportation - 19000</u>	<u>Fire Protection Agency Fund - 57800</u>	<u>Special Corporation Fees Fund - 50600</u>
ASSETS			
Interest in State Treasurer Investment Pool	\$ (28,843)	\$ 82,726,748	\$ 25
Due from other state agencies	-	18,796,357	-
Other receivables	28,843	-	-
Due from other agency funds	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ -</u>	<u>\$ 101,523,105</u>	<u>\$ 25</u>
LIABILITIES			
Accounts payable	\$ -	\$ 50,980,348	\$ -
Due to State General Fund	-	15,069,195	25
Due to local governments	-	-	-
Due to Fire Protection Grant Fund	-	11,330,127	-
Due to other state agencies	-	-	-
Undistributed receipts	(49,430)	24,143,435	-
Other liabilities	<u>49,430</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 101,523,105</u>	<u>\$ 25</u>

Qwest Performance Assurance Plan - 30500	Pipeline Fees Fund - 50500	Firefighters Survivors - 56400	Total
\$ -	\$ -	\$ 255,025	\$ 82,952,955
-	-	645	18,797,002
-	-	-	28,843
-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 255,670</u>	<u>\$ 101,778,800</u>
\$ -	\$ -	\$ -	\$ 50,980,348
-	-	-	15,069,220
-	-	-	-
-	-	-	11,330,127
-	-	-	-
-	-	255,670	24,349,675
-	-	-	49,430
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 255,670</u>	<u>\$ 101,778,800</u>

State of New Mexico
Public Regulation Commission

**COMBINING SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES –
ALL AGENCY FUNDS**

June 30, 2016

	Balance June 30, 2015	Additions	(Deletions)	Balance June 30, 2016
<u>MOTOR TRANSPORTATION (19000)</u>				
ASSETS				
Interest in State Treasurer Investment Pool	\$ 2,121,168	\$ 3,453,968	\$ (5,603,979)	\$ (28,843)
Other receivables	-	28,843	-	28,843
Total assets	\$ 2,121,168	\$ 3,482,811	\$ (5,603,979)	\$ -
LIABILITIES				
Due to other state agencies	\$ 2,117,845	\$ -	\$ (2,117,845)	\$ -
Other liabilities	3,323	49,430	(3,323)	49,430
Undistributed receipts	-	3,467,226	(3,516,656)	(49,430)
Total liabilities	\$ 2,121,168	\$ 3,516,656	\$ (5,637,824)	\$ -
<u>FIRE PROTECTION AGENCY FUND (57800)</u>				
ASSETS				
Interest in State Treasurer Investment Pool	\$ 76,837,682	\$ 84,362,058	\$ (78,472,992)	\$ 82,726,748
Due from other state agencies	18,865,950	19,839,316	(19,908,909)	18,796,357
Total assets	\$ 95,703,632	\$ 104,201,374	\$ (98,381,901)	\$ 101,523,105
LIABILITIES				
Accounts payable	\$ 48,079,615	\$ 50,980,348	\$ (48,079,615)	\$ 50,980,348
Due to State General Fund	15,156,473	15,069,194	(15,156,472)	15,069,195
Due to local governments	49,899	-	(49,899)	-
Due to Fire Protection Grant Fund	7,635,215	11,330,127	(7,635,215)	11,330,127
Undistributed receipts	24,782,430	136,099,719	(136,738,714)	24,143,435
Total liabilities	\$ 95,703,632	\$ 213,479,388	\$ (207,659,915)	\$ 101,523,105
<u>SPECIAL CORPORATION FEES FUND (50600)</u>				
ASSETS				
Interest in State Treasurer Investment Pool	\$ -	\$ 15,195,506	\$ (15,195,481)	\$ 25
Total assets	\$ -	\$ 15,195,506	\$ (15,195,481)	\$ 25
LIABILITIES				
Due to State General Fund	\$ -	\$ 15,195,506	\$ (15,195,481)	\$ 25
Total liabilities	\$ -	\$ 15,195,506	\$ (15,195,481)	\$ 25

State of New Mexico
Public Regulation Commission

**COMBINING SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES –
ALL AGENCY FUNDS – CONTINUED**

June 30, 2016

	Balance June 30, 2015	Additions	(Deletions)	Balance June 30, 2016
<u>QWEST PERFORMANCE ASSURANCE PLAN (30500)</u>				
ASSETS				
Interest in State Treasurer Investment Pool	\$ -	\$ -	\$ -	\$ -
Total assets	\$ -	\$ -	\$ -	\$ -
LIABILITIES				
Due to State General Fund	\$ -	\$ -	\$ -	\$ -
Total liabilities	\$ -	\$ -	\$ -	\$ -
<u>PIPELINE FEES (50500)</u>				
ASSETS				
Interest in State Treasurer Investment Pool	\$ -	\$ 153,236	\$ (153,236)	\$ -
Total assets	\$ -	\$ 153,236	\$ (153,236)	\$ -
LIABILITIES				
Due to State General Fund	\$ -	\$ 153,236	\$ (153,236)	\$ -
Total liabilities	\$ -	\$ 153,236	\$ (153,236)	\$ -
<u>FIREFIGHTERS SURVIVORS (56400)</u>				
ASSETS				
Interest in State Treasurer Investment Pool	\$ 56,771	\$ 198,254	\$ -	\$ 255,025
Due from other state agencies	750	510	(615)	645
Total assets	\$ 57,521	\$ 198,764	\$ (615)	\$ 255,670
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Undistributed receipts	57,521	198,149	-	255,670
Total liabilities	\$ 57,521	\$ 198,149	\$ -	\$ 255,670

State of New Mexico
Public Regulation Commission

**SCHEDULE OF VENDOR INFORMATION FOR PURCHASES EXCEEDING \$60,000
(EXCLUDING GRT)
(UNAUDITED)**

As of June 30, 2016

RFB#/RFP#	Type of Procurement	Vendor Name	Did Vendor Win Contract?	\$ Amount of Awarded Contract	\$ Amount of Amended Contract	Physical Address of Vendor (City, State)	Did the Vendor provide documentation of eligibility for in-state preference?	Did the Vendor provide documentation of eligibility for veterans' preference?	Brief Description of the Scope of Work
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No contracts exceeded \$60,000 in the current year.

State of New Mexico
Public Regulation Commission

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2016

Federal Grantor/ Pass-Through Grantor/Program Title	Grant Number or Pass- Through Number	Federal Catalog of Domestic Assistance Number	Total Federal Award Expenditures
U.S. Department of Transportation:			
Direct Programs:			
Pipeline Safety Program Base Grants			
Gas Pipeline Safety	DTPH56-15-G-PHPG28	20.700	\$ 437,618
Gas Pipeline Safety	DTPH5616GSBG29	20.700	270,352
Hazardous Liquid Pipeline Safety	DTPH56-15-G-PHPL08	20.700	25,905
Hazardous Liquid Pipeline Safety	DTPH5616GGSBL08	20.700	17,484
			<u>751,359</u>
Damage Prevention Pipeline Safety	DTPH5615GPPS07	20.720	50,000
Damage Prevention Pipeline Safety	DTPH5616GPPS07	20.720	77,008
			<u>127,008</u>
Gas Pipeline Safety (One-call)	DTPH56-15-G-PHPC20	20.721	22,500
Gas Pipeline Safety (One-call)	DTPH5616GSOC18	20.721	22,249
			<u>44,749</u>
Total U.S. Department of Transportation			923,116
U.S. Department of Energy:			
Pass-through programs:			
State of New Mexico, Energy, Minerals, and Natural Resources Department			
Waste Isolation Pilot Plan Enhancement of the State of New Mexico's Emergency Response Capability	DE-FC29-88AL53813	81.106	188,910
Total U.S. Department of Energy			<u>188,910</u>
Total expenditures of federal awards			<u>\$ 1,112,026</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2016

NOTE A – GENERAL

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of the Commission under programs of the federal government for the year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Commission, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Commission.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards has been prepared on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Amounts related to pass-through grants are classified as state grants and contracts in the accompanying statement of revenues, expenses, and changes in net position.

NOTE C – INDIRECT COST RATE

The Commission has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**INDEPENDENT AUDITORS' 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**

Public Regulation Commissioners
State of New Mexico
Public Regulation Commission
and
Mr. Timothy Keller
New Mexico State Auditor
Santa Fe, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, the budgetary comparison for the General Fund and Major Special Revenue Funds, and the aggregate remaining fund information of the State of New Mexico Public Regulation Commission (the Commission), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements. We have also audited the financial statements of each of the Commission's non-major governmental funds and respective budgetary comparisons presented as supplementary information, as defined by the Governmental Accounting Standards Board, in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2016, as listed in the table of contents, and have issued our report thereon dated December 16, 2016.

Internal Control over Financial Reporting

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

Compliance and Other Matters

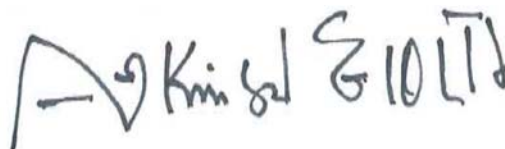
As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material 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. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and 2.2.2 NMAC, and which are described in the accompanying schedule of findings and questioned costs as items 2016-001 and 2016-002.

Commission's Response to Findings

The Commission's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Commission's response was not subjected to the auditing procedures applied in the audit and accordingly, we express no opinion on it.

Purpose of this Report

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

A handwritten signature in black ink, appearing to read "Atkinson & Co., Ltd.", with a stylized flourish on the left side.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
December 16, 2016

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Public Regulation Commissioners
State of New Mexico
Public Regulation Commission
and
Mr. Timothy Keller
New Mexico State Auditor
Santa Fe, New Mexico

Report on Compliance for Each Major Federal Program

We have audited the State of New Mexico Public Regulation Commission's (the Commission) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the Commission's major federal programs for the year ended June 30, 2016. The Commission's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Commission's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the Commission's compliance.

Opinion on Each Major Federal Program

In our opinion, the Commission complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control over Compliance

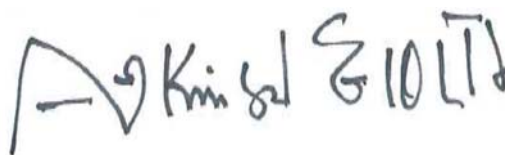
Management of the Commission is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Commission's internal control over compliance with the requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, 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. 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.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in blue ink, appearing to read "Atkinson & Co., Ltd.", with a stylized flourish to the left.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
December 16, 2016

State of New Mexico
Public Regulation Commission

SUMMARY OF AUDIT FINDINGS

For the year ended June 30, 2016

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.5163(a)? Yes No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
20.700	Pipeline Safety Program Base Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes No

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2016

II. Status of Prior Audit Findings

<u>Comment</u>	<u>Current Status</u>
2015-001 Financial Close and Reporting	Resolved

III. Current Audit Findings

Financial Statement Findings Required by *Government Auditing Standards*

None

Findings in Accordance with Uniform Guidance

None

Findings in Accordance with 2.2.2. NMAC

2016-001 Late Audit (Other Noncompliance)
2016-002 Untimely Reversion (Other Noncompliance)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

For the year ended June 30, 2016

Findings in Accordance with 2.2.2. NMAC

2016-001 LATE AUDIT (OTHER NONCOMPLIANCE)

CONDITION

The Commission did not submit its fiscal year 2016 audited financial statements to the Office of the State Auditor by the statutory deadline. The annual audits of the Commission have been filed on time in recent years.

CRITERIA

Per State Audit Rule 2.2.2.9A1(d), the audited financial statements of state agencies are due by December 1 following the close of the year under audit.

EFFECT

The Commission was not in compliance with state law.

CAUSE

The Commission's Administrative Services Division (ASD) Director position was vacant as of the end of the fiscal year and the engagement of a contractor to assist with closing the Commission's books was delayed causing an adjusted trial balance to be unavailable for auditors until mid-November.

RECOMMENDATION

We recommend that management fill the ASD Director position as soon as possible and/or engage a contract accountant closer to the fiscal year-end.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION

The audit contract engaging Atkinson & Co. Ltd. ("Atkinson") to audit the Commission's financial statements was approved by DFA Contracts Review Bureau on August 26, 2016. The first contact the Commission had with Atkinson following DFA Contracts Review Bureau's approval was on September 30, 2016 when Atkinson emailed the Commission that it had established a plan start date of October 31, and for field work to commence on November 7. Although all of the trial balances were not completed until November 22, it is clear that field work and testing did not need to wait for completion of the trial balances and should have begun earlier. Had field work and testing begun earlier, the Commission believes the audit would have been completed by the statutory deadline. For 2017 audit, the Agency will be ready for audit or contract for audit support and arrange for audit fieldwork to begin by the last week of September. This will be a task for the Chief of Staff and Chief Financial Officer. This finding will not repeat.

POINT OF CONTACT

Ernest Archuleta, Chief of Staff

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

For the year ended June 30, 2016

Findings in Accordance with 2.2.2. NMAC – CONTINUED

2016-002 UNTIMELY REVERSION (OTHER NONCOMPLIANCE)

CONDITION

The Commission did not revert appropriations in excess of expenditures timely for the general fund in accordance with state statute. At June 30, 2016, the Commission's liabilities included \$432,119 of reversions due to the State General Fund. These funds were not reverted as of the date of the auditors' report.

CRITERIA

Section 6-5-10(A) NMSA 1978 requires "all unreserved, undesignated fund balances in reverting funds and accounts as reflected in the central accounting system as of June 30 shall revert by September 30 to the general fund."

EFFECT

The State General Fund and Department of Finance and Administration (DFA) did not have accurate reversion information from the Commission. This lack of information could have affected budgeting for subsequent fiscal years.

CAUSE

The Commission did not have accurate data in order to calculate the reversion in a timely manner.

RECOMMENDATION

We recommend the Commission make efforts to close their books and make timely reversions by September 30 of each year. Any changes to the reversions from audit adjustments, if any, can be settled after the annual audit is complete.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION

The agency recognizes that once a DFA rule is now State Statute and will comply with this in accordance of the State Law. The Agency (PRC) has accelerated its compliance calendar to perform reversion estimates by August 25, after DFA mandated closings. The chief accountant will report to the Chief of Staff concerning reversion activity. A final reversion or best available estimate will be submitted to DFA by the deadline in 2017.

POINT OF CONTACT

Ernest Archuleta, Chief of Staff

State of New Mexico
Public Regulation Commission

FINANCIAL STATEMENT PREPARATION

June 30, 2016

The financial statements were prepared by the independent certified public accounting firm performing the audit with the assistance of the Commission's staff. Management is responsible for ensuring that the books and records adequately support the preparation of financial statements in accordance with generally accepted accounting principles. Management has reviewed and approved the financial statements.

EXIT CONFERENCE

An exit conference was held on December 8, 2016, to discuss the audit. The following individuals were in attendance:

State of New Mexico – Public Regulation Commission

Ernest Archuleta
Donald Martinez

Chief of Staff
ASD - Financial Manager

Independent Auditor – Atkinson & Co., Ltd.

Martin Mathisen, CPA, CGFM
Sarah Brack, CPA, CGFM, CGMA

Audit Director
Audit Manager

ATKINSON & CO. LTD
CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

6501 AMERICAS PARKWAY NE
SUITE 700
ALBUQUERQUE, NM 87110

T 505 843 6492
F 505 843 6817
ATKINSONCPA.COM

