



STATE OF NEW MEXICO PUBLIC REGULATION COMMISSION

**Financial Statements
June 30, 2017**

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Commissioners

Sandy Jones	Chair
Cynthia B. Hall	Vice-Chair
Lynda Lovejoy	Commissioner
Patrick H. Lyons	Commissioner
Valerie Espinoza	Commissioner

Administrative Officials

Ernest D. Archuleta	Chief of Staff/Chief Financial Officer
Vacant	State Fire Marshal
Cydney Beadles	Director, Legal
Michael C. Smith	Office of General Counsel, Acting
William Hermann	Director, Hearing Examiners
Bill Garcia	Acting Director, Utility & Consumer Relations
Avelino Gutierrez	Director, Transportation
Vacant	Director, Administrative Services

INDEPENDENT AUDITORS REPORT

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 aggregate remaining fund information, and the budgetary comparisons for the general fund and major special revenue funds of the State of New Mexico Office of the State of New Mexico Public Regulation Commission (Commission), as of and for the year ended June 30, 2017, 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 also have audited the financial statements of each of the Commission's nonmajor governmental and fiduciary funds 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, 2017, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information and the budgetary comparisons for the general fund and major special revenue funds of the Commission, as of June 30, 2017, and the respective changes in financial position thereof 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 A1, 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, 2017, 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.

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 5-12 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 that collectively comprised of the Commission’s basic financial statements. The accompanying supplementary information such as the combining and individual nonmajor fund financial statements, the combining statement of changes in assets and liabilities, and the schedule of expenditures of federal awards as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and the other schedules required by 2.2.2.NMAC are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of expenditures of federal awards and the accompanying supplementary information listed on the table of contents 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 the auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and the supplementary information listed on the table of contents and other schedules required by 2.2.2 NMAC are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated on October 31, 2017 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.

Zlotnick, Laws & Sandoval, P.C.
October 31, 2017

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, 2017. 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.

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.

State of New Mexico Public Regulation Commission

Management Discussion and Analysis (Unaudited)

June 30, 2017

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.

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. 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, 2017</u>	<u>As Restated June 30, 2016</u>	<u>Change</u>
ASSETS			
Government activities			
Current and other assets	\$ 22,995,370	\$ 15,011,911	\$ 7,983,459
Capital assets	<u>2,199,099</u>	<u>2,235,639</u>	<u>(36,540)</u>
Total assets	<u>\$ 25,194,469</u>	<u>\$ 17,247,550</u>	<u>\$ 7,946,919</u>
LIABILITIES			
Current liabilities	\$ 21,354,003	\$ 1,538,072	\$ 19,815,931
Long-term liabilities	<u>108,125</u>	<u>-</u>	<u>108,125</u>
Total liabilities	21,462,128	1,538,072	19,924,056
Deferred inflows of resources	1,044,149	36,748	1,007,401
NET POSITION			
Net investment in capital assets	2,199,099	2,235,639	(36,540)
Restricted for special projects	1,409,330	14,257,851	(12,848,521)
Unrestricted	<u>(920,237)</u>	<u>(820,760)</u>	<u>(99,477)</u>
Total net position	<u>2,688,192</u>	<u>15,672,730</u>	<u>(12,984,538)</u>
Total liabilities, deferred inflows, and net position	<u>\$ 25,194,469</u>	<u>\$ 17,247,550</u>	<u>\$ 7,946,919</u>

Discussion of Statement of Net Position

Deducting total liabilities, deferred inflows and outflows from total assets derives the Net position. The overall Net position decreased by \$12,984,538 over fiscal year 2016.

Current assets consist mostly of assets due from external parties-federal grants in the amount of \$343,032 and investments with the State Treasurer of \$3,978,179; and receivables from other state agencies in the amount of \$18,674,159.

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 and a deficit fund balance in the Pipeline Safety Fund. Restricted net position decreased due to utilization of restricted funds (Fire Protection Grant Fund) to pay for grants to local governments. Per House Bill 4, there were no provisions to allocate funds to the Fire Protection Grant Fund at the end of fiscal year 2017. The unrestricted deficit balance was increased by \$99,477 mostly due to current year decrease in fund balance in the Pipeline Safety Fee Fund (37700). Resources from this fund were legally transferred to the General Fund (55000) to cover operating costs.

Capital Asset Administration

The decrease in capital assets of \$36,540 is due to new purchases of machinery and equipment of \$263,354, partially offset by depreciation expense of \$299,894 recorded in the current fiscal year.

Liabilities

Current liabilities of \$21,354,003 consists primarily of accounts payable of \$394,955, i.e., amounts that the Commission is obligated to pay; accrued salaries and benefits payable \$397,754; reversions due to the State General Fund \$20,212,223; and other liabilities of \$1,379. The estimated portion of compensated absence liabilities due in one year is \$347,692.

Long-Term Debt

The Commission has no long-term debt outstanding other than the noncurrent portion of compensated absences of \$108,125 as of June 30, 2017. There was no noncurrent portion of compensated absences reported in the prior fiscal year.

Deferred Inflows of Resources

The Commission received at year end from the utility companies for FY2018 pipeline assessments of \$1,044,149.

State of New Mexico Public Regulation Commission

Management Discussion and Analysis (Unaudited)

June 30, 2017

Commission's Statement of Activities

STATEMENT OF ACTIVITIES	June 30, 2017	As Restated June 30, 2016	Change
Government activities			
Operating grants and contributions	\$ 877,168	\$ 1,112,026	\$ (234,858)
Investment income	15,880	11,118	4,762
Charges for services	86,805,283	16,899,570	69,905,713
General Fund Appropriations	6,666,800	7,793,200	(1,126,400)
Other financing sources	-	-	-
Total revenue	<u>94,365,131</u>	<u>25,815,914</u>	<u>68,549,217</u>
Program expenses	24,011,520	20,282,485	3,729,035
Other financing uses	<u>83,338,149</u>	<u>429,137</u>	<u>82,909,012</u>
Total expense	<u>107,349,669</u>	<u>20,711,622</u>	<u>86,638,047</u>
Change in net position	(12,984,538)	5,104,292	(18,088,830)
Net position, beginning of year	<u>15,672,730</u>	<u>10,568,438</u>	<u>5,104,292</u>
Net position, end of year	<u>\$ 2,688,192</u>	<u>\$ 15,672,730</u>	<u>\$(12,984,538)</u>

Discussion of Statement of Activities

This statement shows the components that decreased, in the aggregate, the Commission's net position by \$12,984,538 during the year. Operating grant revenue decreased by \$234,858 from the prior year. The Commission recognized a large increase in the charges for services category because of the reclassification of the Fire Protection Fund from an agency fund to a Special Revenue fund effective for the fiscal year ended June 30, 2017. The charges for service for the Fire Protection Fund were \$85,509,099 which accounts for the major increase in charges for service and revenues overall. However, House Bill 4 required that any fund balances at June 30, 2017 in the Fire Protection and Fire Protection Grant funds be transferred to the State General Fund. These transfers account for the increase in Other financing uses amounts over the prior fiscal year. In addition, the Fire Protection Grant fund provided for approximately \$3,300,000 in additional grants to local governments over the prior fiscal year which accounts for much of the increase in program expenses over the past fiscal year. The General Fund also realized an increase in Personal Service costs over the prior fiscal year. These major transactions account for the decline in the Commission's net position of \$12,984,538.

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 \$944,910, for a net decrease over the prior fiscal period of \$13,016,733. This is primarily due to the decrease in the Fire Protection Grant Fund and Fire Protection Fund balances required to be transferred to the State General Fund as required by House Bill 4.

The General Fund is the Commission's operating fund where all operational expenses reside. The General Fund revenues decreased \$5,010,701, other financing sources increased \$6,110,834 due to a change in classification of receipts from the Fire Protection Fund. Expenditures decreased \$166,382 as compared to the previous year due to reduction of capital outlay expenditures and other costs which were offset by increases in personal services.

The Fire Protection Grant Fund revenues are transferred from the Fire Protection Fund and used to provide grants of up to \$100,000 to fire departments in need of fire service support equipment. This fund did not receive any provisions in fiscal year 2017 from the Fire Protection Fund because of the House Bill 4 requirements. The fund did collect \$11,330,127 of Fire Insurance Tax fees from the Fire Protection Fund that represented amounts due from the prior fiscal year. Expenses incurred in this fund total \$10,150,045 primarily from grant awards to fire departments.

The Fire Protection Fund (57800) is presented as a Special Revenue Fund this fiscal year. The revenues in this fund are derived from fire insurance tax assessments through the Office of the Superintendent of Insurance. Major expenditures and uses incurred are amounts appropriated to the Commission's General Fund for operations and the annual transfer of \$750,000 to the PERA Volunteer Firefighters Retirement Fund. The other financing uses represent amounts transferred to the State General Fund per House Bill 4.

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 2017 were \$1,113,878. The other financing uses are amounts transferred to the General Fund (55000) to fund the operations of the Commission for the fiscal year.

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 2017 were \$170,765 with other financing sources (uses) netting to \$(688,767), therefore decreasing non-major fund balances by \$518,002.

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.

Currently Known Facts

The New Mexico Public Regulation Commission (PRC) continues to experience and 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 Regulation Commission (FERC), North American Electric Reliability Corporation (NERC), Environmental Protection Agency (EPA) and legislative-mandated renewable/energy efficiency programs in the state. Due to budget constraints from lower general fund appropriations statewide and PRC appropriated budget has limited the ability of the Commission to hire, and retain highly specialized qualified staff.

Budget constraints has limited the ability to hire critical needed positions throughout the Commission. In FY2017 the Commission achieved significant results in each of its programs. NMPRC Utility and Legal Divisions handled the adjudication of three filed major utility cases filed with the Commission. The Pipeline Safety Bureau, Firefighters Training Academy and State Fire Marshal's Office logged close to 10,000 inspections and audit hours in the field and over 130,000 contact training hours in FY2017.

The NMPRC has continued to work diligently to maintain its strong financial controls. Through these controls the implementation of policies to reduce audit findings. Findings reported in FY2017 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>.

FINANCIAL STATEMENTS

**STATE OF NEW MEXICO
PUBLIC REGULATION COMMISSION**

**Statement of Net Position
June 30, 2017**

	<u>Governmental Activities</u>
Assets	
Interest in State Treasurer Investment Pool	\$ 3,978,179
Due from Other State Agencies	18,674,159
Due from Federal Agencies	343,032
Total Current Assets	<u>22,995,370</u>
Capital Assets, net	<u>2,199,099</u>
Total Assets	<u><u>\$ 25,194,469</u></u>
Liabilities	
Current Liabilities	
Accounts Payable	\$ 394,955
Accrued Payroll	397,754
Due to Other State Agencies	1,379
Due to State General Fund	20,212,223
Compensated Absences - current	347,692
Total Current Liabilities	<u>21,354,003</u>
Compensated Absences - noncurrent	<u>108,125</u>
Total Liabilities	<u><u>21,462,128</u></u>
Deferred Inflows of Resources	
Pipeline Assessments	1,044,149
Net Position	
Net Investment in Capital Assets	2,199,099
Restricted	1,409,330
Unrestricted (deficit)	<u>(920,237)</u>
Total Net Position	<u><u>2,688,192</u></u>
Total Liabilities, Deferred Inflows and Net Position	<u><u>\$ 25,194,469</u></u>

See Notes to the Financial Statements

**STATE OF NEW MEXICO
PUBLIC REGULATION COMMISSION**

**Statement of Activities
For the Year Ended June 30, 2017**

	<u>Policy and Regulation</u>	<u>Public Safety</u>	<u>Agency Support</u>	<u>Total Governmental Activities</u>
Program Expenses	\$ (7,040,688)	(15,039,199)	(1,631,739)	(23,711,626)
Depreciation	-	(184,405)	(115,489)	(299,894)
Total Expenses	<u>(7,040,688)</u>	<u>(15,223,604)</u>	<u>(1,747,228)</u>	<u>(24,011,520)</u>
Program Revenues				
Charges for Services	86,793,630	11,653	-	86,805,283
Federal Grant Revenue	-	877,168	-	877,168
	<u>-</u>	<u>877,168</u>	<u>-</u>	<u>877,168</u>
Net Program Revenue (Expense)	<u>\$ 79,752,942</u>	<u>(14,334,783)</u>	<u>(1,747,228)</u>	63,670,931
General Revenue				
Interest Income				\$ 15,880
General Fund Appropriations				6,666,800
Transfers, net				(3,051,379)
General Fund Reversion				(80,286,770)
Total General Revenues				<u>(76,655,469)</u>
Change in Net Position				(12,984,538)
Net Position, Beginning				15,181,103
Prior Period Adjustment				491,627
Net Position, Beginning as restated				<u>15,672,730</u>
Net Position, Ending				<u>\$ 2,688,192</u>

See Notes to the Financial Statements.

**STATE OF NEW MEXICO
PUBLIC REGULATION COMMISSION**

**Balance Sheet - Governmental Funds
June 30, 2017**

	General 55000	Fire Protection Grant 56900	Pipeline Safety 37700
Assets			
Interest in STIP	\$ 595,862	1,020,183	1,008,836
Due from Other Funds	581,254	-	-
Due from Other State Agencies	9,000	-	-
Due from Federal Agencies	343,032	-	-
Total Assets	\$ 1,529,148	1,020,183	1,008,836
Liabilities			
Accounts Payable	\$ 394,205	-	-
Accrued Payroll	397,485	-	-
Due to Other Funds	210,577	-	581,254
Due to Other State Agencies	-	-	-
Due to State General Fund	526,881	1,020,183	-
Unearned Revenues	-	-	1,044,149
Total Liabilities	1,529,148	1,020,183	1,625,403
Fund Balance			
Restricted	-	-	-
Committed	-	-	-
Unassigned	-	-	(616,567)
Total Fund Balance	-	-	(616,567)
Total Liabilities and Fund Balance	\$ 1,529,148	1,020,183	1,008,836

See Notes to the Financial Statements.

Fire Protection 57800	Non Major Governmental Funds	Total Governmental Funds
\$ -	1,353,298	3,978,179
-	210,577	791,831
18,665,159	-	18,674,159
-	-	343,032
<u>\$ 18,665,159</u>	<u>1,563,875</u>	<u>23,787,201</u>
\$ 750	-	394,955
-	269	397,754
-	-	791,831
1,379	-	1,379
18,665,159	-	20,212,223
-	-	1,044,149
<u>18,667,288</u>	<u>269</u>	<u>22,842,291</u>
-	1,409,330	1,409,330
-	154,276	154,276
(2,129)	-	(618,696)
<u>(2,129)</u>	<u>1,563,606</u>	<u>944,910</u>
<u>\$ 18,665,159</u>	<u>1,563,875</u>	<u>23,787,201</u>

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**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, 2017**

Total fund balance governmental funds \$ 944,910

Amounts reported for governmental activities in the
Statement of Net Position are different because:

Capital assets (net of depreciation) used in governmental
activities are not financial resources and, therefore, are not
reported in the funds:

Governmental capital assets	8,529,660	
Accumulated depreciation	<u>(6,330,561)</u>	
		2,199,099

Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds	<u>(455,817)</u>
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Net position of governmental activities	<u>\$ 2,688,192</u>
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See Notes to the Financial Statements.

**STATE OF NEW MEXICO
PUBLIC REGULATION COMMISSION**

**Statement of Revenue, Expenditures and Changes in Fund Balance - Governmental Funds
For the Year Ended June 30, 2017**

	General 55000	Fire Protection Grant 56900	Pipeline Safety 37700
Revenues			
Other Fees & Taxes	\$ 11,654	-	1,113,878
Interest Income	-	15,767	-
Federal Grant Revenue	877,168	-	-
Total Revenue	<u>888,822</u>	<u>15,767</u>	<u>1,113,878</u>
Expenditures			
Current:			
Personal Services	11,502,011	-	-
Contractual Services	511,037	30,000	-
Other Costs	1,608,995	10,120,045	-
Capital Outlay	263,354	-	-
Total Expenditures	<u>13,885,397</u>	<u>10,150,045</u>	<u>-</u>
Excess (Deficiency) of Revenues over Expenditures	(12,996,575)	(10,134,278)	1,113,878
Other Financing Sources (Uses)			
General Fund Appropriation	6,666,800	-	-
Other Financing Sources	-	-	-
Other Financing Uses	-	(2,300,000)	-
Intra-Agency Transfers	7,071,334	1,100,000	(1,397,822)
Reversions FY2017	(599,756)	(1,020,183)	-
Total Other Financing Sources (Uses)	<u>13,138,378</u>	<u>(2,220,183)</u>	<u>(1,397,822)</u>
Net Change in Fund Balance	141,803	(12,354,461)	(283,944)
Fund Balance, Beginning	(141,803)	11,862,834	(332,623)
Prior Period Adjustment	-	491,627	-
Fund Balance, Beginning as Restated	<u>(141,803)</u>	<u>12,354,461</u>	<u>(332,623)</u>
Fund Balance, Ending	<u>\$ -</u>	<u>-</u>	<u>(616,567)</u>

See Notes to the Financial Statements.

Fire Protection 57800	Non Major Governmental Funds	Total Governmental Funds
\$ 85,509,099	170,652	86,805,283
-	113	15,880
-	-	877,168
<u>85,509,099</u>	<u>170,765</u>	<u>87,698,331</u>
-	-	11,502,011
-	-	541,037
8,273	-	11,737,313
-	-	263,354
<u>8,273</u>	<u>-</u>	<u>24,043,715</u>
85,500,826	170,765	63,654,616
-	-	6,666,800
-	-	-
(751,379)	-	(3,051,379)
(6,084,745)	(688,767)	-
(78,666,831)	-	(80,286,770)
<u>(85,502,955)</u>	<u>(688,767)</u>	<u>(76,671,349)</u>
(2,129)	(518,002)	(13,016,733)
-	2,081,608	13,470,016
-	-	491,627
<u>-</u>	<u>2,081,608</u>	<u>13,961,643</u>
<u>\$ (2,129)</u>	<u>1,563,606</u>	<u>944,910</u>

**STATE OF NEW MEXICO
PUBLIC REGULATION COMMISSION**

**Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balance of Governmental Funds to
the Government-Wide Statement of Activities
For the Year Ended June 30, 2017**

Net change fund balance in governmental funds \$ (13,016,733)

Certain outlays are reported as expenditures in governmental funds. However, in the statement of activities, these costs are expensed as they are consumed or are allocated over their estimated useful lives. In the current period these amounts are:

Capital Outlay	263,354	
Depreciation Expense	(299,894)	
Total Capital Assets	(36,540)	(36,540)

Grant revenue earned during the prior year but not available in the prior year -

Expenses recognized in the Statement of Activities, not reported in the funds:

Change in Compensated Absences	68,735	
	68,735	

Change in net position - governmental activities \$ (12,984,538)

See Notes to the Financial Statements.

**STATE OF NEW MEXICO
PUBLIC REGULATION COMMISSION**

**Statement of Revenues And Expenditures – Budget And Actual
For the Year Ended June 30, 2017**

	General Fund (55000)			
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Other Fees & Taxes	\$ -	-	11,654	11,654
Federal funds	953,000	953,000	1,030,307	77,307
General Fund appropriations	7,054,800	6,666,800	6,666,800	-
Other financing sources	6,553,600	6,734,357	6,700,657	(33,700)
Total Revenues	14,561,400	14,354,157	14,409,418	55,261
EXPENDITURES				
Personnel services	12,005,200	11,625,726	11,502,011	123,715
Contractual services	711,300	634,300	534,187	100,113
Other costs	1,844,900	2,094,131	1,849,554	244,577
Total Expenditures	\$ 14,561,400	14,354,157	13,885,752	468,405
Excess (deficiency) of revenues over expenditures			523,666	
net changes in federal receivable			(153,139)	
Transfer from Pipeline Safety Fund (37700)			581,254	
Transfer to Firefighters Use Fee Fund (09300)			(208,762)	
Transfer to Reproduction Fund (47700)			(1,815)	
fund balance adjustment			355	
Reversion			(599,756)	
Fund balance, beginning			(141,803)	
Fund balance carryforward			-	

See Notes to the Financial Statements.

**STATE OF NEW MEXICO
PUBLIC REGULATION COMMISSION**

**Statement of Revenues And Expenditures – Budget And Actual
For the Year Ended June 30, 2017**

Fire Protection Grant Fund (56900)				
Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)	
Original	Final			
REVENUES				
Interest income	\$ -	-	15,767	15,767
Other Fees & Taxes	-	10,154,000	-	(10,154,000)
Other financing sources	-	-	1,100,000	1,100,000
Total Revenues	-	10,154,000	1,115,767	(9,038,233)
EXPENDITURES				
Contractual services	-	30,000	30,000	-
Other costs	-	10,124,000	10,120,045	3,955
Other financing uses	-	-	-	-
Total Expenditures	\$ -	10,154,000	10,150,045	3,955
Excess (deficiency) of revenues over expenditures			(9,034,278)	
Transfers to Other St. Agencies			(2,300,000)	
Due to State General Fund			(1,020,183)	
Fund balance, beginning			12,354,461	
Fund balance carryforward			-	

See Notes to the Financial Statements.

**STATE OF NEW MEXICO
PUBLIC REGULATION COMMISSION**

**Statement of Revenues And Expenditures – Budget And Actual
For the Year Ended June 30, 2017**

	Pipeline Safety Fund (37700)			
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Other Fees & Taxes	<u>\$ 1,130,600</u>	<u>816,568</u>	<u>1,113,878</u>	<u>297,310</u>
EXPENDITURES				
Other financing uses	<u>\$ 1,130,600</u>	<u>816,568</u>	<u>816,568</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures			297,310	
Due to the General Fund (55000)			(581,254)	
Fund balance, beginning			(332,623)	
Fund balance carryforward			<u>(616,567)</u>	

See Notes to the Financial Statements.

**STATE OF NEW MEXICO
PUBLIC REGULATION COMMISSION**

**Statement of Revenues And Expenditures – Budget And Actual
For the Year Ended June 30, 2017**

	Fire Protection Fund (57800)			
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Other Fees & Taxes	\$ 4,668,300	4,984,745	85,509,099	85,509,099
EXPENDITURES				
Other costs	-	-	-	-
Other financing uses	4,668,300	4,984,745	4,886,124	98,621
Total Expenditures	<u>\$ 4,668,300</u>	<u>4,984,745</u>	<u>4,886,124</u>	<u>98,621</u>
Excess (deficiency) of revenues over expenditures			80,622,975	
Prior year commitments:				
Distribution to PERA Firefighter Fund			(750,000)	
Distribution to Fire Protection Grant Fund			(1,200,000)	
Grant to local government			(8,273)	
Reversion			(78,666,831)	
Fund balance, beginning			-	
Fund balance carryforward			<u>(2,129)</u>	

See Notes to the Financial Statements.

**STATE OF NEW MEXICO
PUBLIC REGULATION COMMISSION**

**Statement of Fiduciary Assets & Liabilities
June 30, 2017**

	<u>Agency Funds</u>
ASSETS	
Interest in State Treasurer Investment Pool	\$ 257,873
Due from Other State Agencies	3,562
Other Receivables	-
	<hr/>
TOTAL ASSETS	<u><u>\$ 261,435</u></u>
LIABILITIES	
Due to State General Fund	\$ 910
Undistributed Receipts	260,425
Other Liabilities	100
	<hr/>
TOTAL LIABILITIES	<u><u>\$ 261,435</u></u>

See Notes to the Financial Statements.

NOTES TO FINANCIAL STATEMENTS

NATURE OF BUSINESS AND REPORTING ENTITY

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.

A. 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.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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, Fire Protection 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.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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. 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)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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). Per House Bill 4, distribution to the fire protection grant fund is suspended until fiscal year 2019. (SHARE Fund #57800)

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 nonreverting. (SHARE Fund #09300)

Title Insurance Fund. This is an old Office of Superintendent of Insurance Fund that had a small posting error during the year. (Share Fund #86000)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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.

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 #19000)

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 #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 #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 #50500)

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

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.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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.

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. Measurable means knowing or being able to reasonably estimate the amount. 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.

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.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2017 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.

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.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 and Improvements	25-50
Land improvements	15-20
Machinery and equipment	5-20

8. 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.

9. 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, 2017.

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.

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).

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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.

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.

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 deficit unassigned fund balance in the Pipeline Safety Fee Fund (37700) is due to revenues not materializing as expected. The deficit fund balance in the Fire Protection Fund (57800) was the result of prior year commitments exceeding the estimation determined as of June 30, 2016.

10. 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, 2017, 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, 2017. 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, 2017.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted – 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.
- 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 \$1,409,330 at June 30, 2017.

Unrestricted – 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.

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.

B. INTEREST IN STATE GENERAL FUND INVESTMENT POOL

State law (Section 8-6-3 NMSA 1978) requires the Commission’s cash be managed by the New Mexico State Treasurer's Office. Accordingly, the investments of the Commission consist of an interest in the General Fund Investment Pool managed by the New Mexico State Treasurer's Office.

B. INTEREST IN STATE GENERAL FUND INVESTMENT POOL (CONTINUED)

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 a 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, 2017.

At June 30, 2017 the Commission had the following invested in the General Fund Investment Pool:

	Book Balance	State Treasurer Balance
Governmental Funds:		
General Fund (55000)	\$ 595,862	595,862
Fire Protection Grant Fund (56900)	1,020,183	1,020,183
Pipeline Safety Fund (37700)	1,008,836	1,008,836
Fire Protection Fund (57800)	-	-
Fire Safer Cigarette and Fire Protection (10890)	586,919	586,919
Reproduction Fund (47700)	152,461	152,461
Transportation Network Fund (43150)	30,117	30,117
Firefighters Use Fee Fund (09300)	583,532	583,532
Title Insurance Fund (86000)	269	269
Total Governmental Funds	<u>3,978,179</u>	<u>3,978,179</u>
Agency Funds:		
Motor Transportation Fund (19000)	(2,552)	(2,552)
Special Corporation Fees Fund (50600)	-	-
Qwest Performance Assurance Plan (30500)	-	-
Pipeline Fees Fund (50500)	-	-
Firefighters Survivors Fund (56400)	260,425	260,425
Total Agency Funds	<u>257,873</u>	<u>257,873</u>
Total SGFIP	<u>\$ 4,236,052</u>	<u>4,236,052</u>

State of New Mexico Public Regulation Commission

Notes to the Financial Statements
For the year ended June 30, 2017

C. CAPITAL ASSETS

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

	Balance 6/30/2016	Additions	Deletions	Balance 6/30/2017
Building and Improvements	\$2,259,987	-0-	-0-	2,259,987
Land Improvements	901,172	-0-	-0-	901,172
Machinery and Equipment	5,367,736	263,354	262,589	5,368,501
Total	<u>8,528,895</u>	<u>263,354</u>	<u>262,589</u>	<u>8,529,660</u>
Less: Accumulated Depreciation				
Building and Improvements	1,134,905	48,824	-0-	1,183,729
Land Improvements	892,907	819	-0-	893,726
Machinery and Equipment	4,265,444	250,251	262,589	4,253,106
Total Accumulated Depreciation	<u>6,293,256</u>	<u>299,894</u>	<u>262,589</u>	<u>6,330,561</u>
Capital Assets, Net	<u>\$2,235,639</u>	<u>(36,540)</u>	<u>-0-</u>	<u>\$2,199,099</u>

The Commission recorded depreciation expense of \$299,894 for the year ended June 30, 2017.

D. DUE TO AND 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.

	Fund Due from:	
	General Fund 55000	Pipeline Safety Fund 37700
<u>Fund due to:</u>		
Firefighters Use Fee Fund (09300)	\$ 208,762	-
General Fund (55000)	-	581,254
Reproduction Fund (47700)	1,815	-
Total	<u>\$ 210,577</u>	<u>581,254</u>

E. DUE TO AND FROM OTHER STATE AGENCIES.

Due from other state agencies at year end of \$9,000 consists of amount due from the State Department of Energy and Minerals and Natural Resources for the Waste Isolation Pilot Plant grant (SHARE #19902), and \$18,665,159 from the Office of Superintendent of Insurance (SHARE #11820).

F. DUE TO STATE GENERAL FUND

Due to State general fund at year end consists of the following:

General Fund (55000) - FY2017 Reversion	\$ 519,756
General Fund (55000) - Stale Dated Warrants	7,125
Fire Protection Fund (57800) - FY2017 Reversion	18,665,159
Fire Protection Grant Fund (56900) – State fiscal solvency transfer related to HB4	<u>1,020,183</u>
Total	<u><u>\$ 20,212,223</u></u>

G. DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources consist of pipeline assessments paid in advance by utility companies which total \$1,044,149 at year end. In the fund financial statements, this amount is reported as unearned revenue.

H. COMPENSATED ABSENCES

The amount recorded as a long-term liability in the government-wide statements for compensated absences consist of accrued annual leave and accrued sick leave as follows:

Balance 2016	Additions	Deletions	Balance 2017	Due in one year
<u>\$ 524,554</u>	<u>452,771</u>	<u>521,508</u>	<u>\$ 455,817</u>	<u>\$ 347,692</u>

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.

H. COMPENSATED ABSENCES (CONTINUED)

Qualified employees accumulate maximum annual leave as follows:

<u>Years of Service</u>	<u>Hours Earned Per Pay Period</u>	<u>Days of Maximum Accrual</u>
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, 2017, over 600. Expenditures for accumulated sick pay for hours under 600 will be recognized as employees take such absences.

I. 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.

J. PERA PENSION PLAN

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, 2017.

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). Disclosure requirements for governmental funds apply to the primary government as a whole, and as such, this information will be presented in the Component Appropriation Funds Annual Financial Report (General Fund) and the Comprehensive Annual Financial Report (CAFR) of the State of New Mexico.

Information concerning the net pension liability, pension expense, and pension-related deferred inflows and outflows of resources of the primary government will be contained in the General Fund and 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, 2017, 2016, and 2015, were \$1,272,925, \$1,260,565, and \$1,322,259, respectively, which equal the amount of the required contributions for each fiscal year.

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 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.

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.

K. POST-EMPLOYMENT BENEFITS—STATE RETIREE HEALTH CARE PLAN (CONTINUED)

The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that choose to become participating employers after January 1, 1998, are required to make contributions to the RHCA fund in the amount determined to be appropriate by the board.

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. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2017, the statutes required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2017, 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. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The Commission's contributions to the RHCA for the years ended June 30, 2017, 2016 and 2015 were \$149,869, \$148,374, and \$155,733, respectively, which equal the required contributions for each year.

L. OPERATING LEASES

The Commission has certain leases for copying, printing, and mailing machines which can be terminated with no penalty to the Commission if the Legislature does not appropriate funding to the Commission. Minimum future rental payments under operating leases having remaining terms in excess of one year as of June 30, 2017, for each of the next five years and in the aggregate, are as follows:

<u>Year Ending</u>	<u>Amount</u>
June 30, 2018	\$ 42,027
June 30, 2019	41,113
June 30, 2020	18,197
June 30, 2021	5,425
June 30, 2022	-
Total	<u>\$ 106,762</u>

Operating lease expense for the fiscal year ended June 30, 2017 was \$64,326.

M. PRIOR PERIOD ADJUSTMENT

The Fire Protection Fund (56900). Refunds from grantees at the end of the June 30, 2016 should have been applied against the grants to Local Governments expenditures account. The following gives effect to the change.

	<u>Other Liabilities</u>	<u>Fund Balance</u>
As originally reported	\$ 491,627	\$ 11,862,834
Adjustment	(491,627)	491,627
As Adjusted	<u>\$ -0-</u>	<u>\$ 12,354,461</u>

N. RISK MANAGEMENT

The Commission is insured through the Risk Management Division of the General Services Department, which is accounted for as an internal service fund of the State of New Mexico. In general, Risk Management Division responds to suits against the State and state agencies, manages funds to provide unemployment compensation, tort liability insurance, workers' compensation, and general and property insurance, and attempts to reduce the number of suits against the State and state agencies through the risk management process. The actuarial gains and losses of Risk Management Division were not available and were not included in this report. However, the Commission is not liable for more than the premiums paid.

SUPPLEMENTAL INFORMATION

**STATE OF NEW MEXICO
PUBLIC REGULATION COMMISSION**

**Combining Balance Sheet - All Nonmajor Funds
June 30, 2017**

	Fire Safer Cigarette and Fire Protection 10890	Reproduction 47700	Transportation Network 43150	Firefighters Use Fee 09300	Title Insurance Fund 86000	Total
Assets						
Interest in State Treasurer Investment Pool	\$ 586,919	152,461	30,117	583,532	269	1,353,298
Due from Other Funds	-	1,815	-	208,762	-	210,577
Due from Other State Agencies	-	-	-	-	-	-
Due from Federal Agencies	-	-	-	-	-	-
Total Assets	<u>\$ 586,919</u>	<u>154,276</u>	<u>30,117</u>	<u>792,294</u>	<u>269</u>	<u>1,563,875</u>
Liabilities						
Accounts Payable	\$ -	-	-	-	-	-
Accrued Payroll	-	-	-	-	269	269
Due to Other Funds	-	-	-	-	-	-
Due to Other State Agencies	-	-	-	-	-	-
Due to State General Fund	-	-	-	-	-	-
Unearned Revenues	-	-	-	-	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>269</u>	<u>269</u>
Fund Balance						
Restricted	586,919	-	30,117	792,294	-	1,409,330
Committed	-	154,276	-	-	-	154,276
Total Fund Balance	<u>586,919</u>	<u>154,276</u>	<u>30,117</u>	<u>792,294</u>	<u>-</u>	<u>1,563,606</u>
						-
Total Liabilities and Fund Balance	<u>\$ 586,919</u>	<u>154,276</u>	<u>30,117</u>	<u>792,294</u>	<u>269</u>	<u>1,563,875</u>

See Independent Auditor's Report.

**STATE OF NEW MEXICO
PUBLIC REGULATION COMMISSION**

**Combining Statement of Revenue, Expenditures and Changes in Fund Balance - All Nonmajor Funds
For the Year Ended June 30, 2017**

	Fire Safer Cigarette and Fire Protection 10890	Reproduction 47700	Transportation Network 43150	Firefighters Use Fee 09300	Title Insurance Fund 86000	Total
Revenues						
Other Fees & Taxes	\$ 44,000	24,242	20,000	82,410	-	170,652
Interest income	-	-	113	-	-	113
Federal Grant Revenue	-	-	-	-	-	-
Total Revenue	<u>44,000</u>	<u>24,242</u>	<u>20,113</u>	<u>82,410</u>	<u>-</u>	<u>170,765</u>
Expenditures						
Current:						
Personal Services	-	-	-	-	-	-
Contractual Services	-	-	-	-	-	-
Other Costs	-	-	-	-	-	-
Capital Outlay	-	-	-	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues over Expenditures	44,000	24,242	20,113	82,410	-	170,765
Other Financing Sources (Uses)						
General Fund Appropriation	-	-	-	-	-	-
Other Financing Sources	-	-	-	-	-	-
Other Financing Uses	-	-	-	-	-	-
Intra-Agency Transfers	(178,344)	(48,185)	-	(462,238)	-	(688,767)
Reversions	-	-	-	-	-	-
Total Other Financing Sources (Uses)	<u>(178,344)</u>	<u>(48,185)</u>	<u>-</u>	<u>(462,238)</u>	<u>-</u>	<u>(688,767)</u>
Net Change in Fund Balance	<u>(134,344)</u>	<u>(23,943)</u>	<u>20,113</u>	<u>(379,828)</u>	<u>-</u>	<u>(518,002)</u>
Fund Balance, Beginning	<u>721,263</u>	<u>178,219</u>	<u>10,004</u>	<u>1,172,122</u>	<u>-</u>	<u>2,081,608</u>
Fund Balance, Ending	<u>\$ 586,919</u>	<u>154,276</u>	<u>30,117</u>	<u>792,294</u>	<u>-</u>	<u>1,563,606</u>

See Independent Auditor's Report.

**STATE OF NEW MEXICO
PUBLIC REGULATION COMMISSION**

**Combining Schedule of Changes in Assets and Liabilities - Agency Funds
June 30, 2017**

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
<u>Total All Funds</u>				
ASSETS				
Interest in State Treasurer Investment Pool	\$ 226,207	28,564,534	28,532,868	257,873
Due from Other State Agencies	645	3,562	645	3,562
Other Receivables	28,843	-	28,843	-
TOTAL ASSETS	\$ 255,695	28,568,096	28,562,356	261,435
LIABILITIES				
Due to State General Fund	\$ 25	27,480,082	27,479,197	910
Undistributed Receipts	255,670	5,400	645	260,425
Other Liabilities	-	3,431,276	3,431,176	100
TOTAL LIABILITIES	\$ 255,695	30,916,758	30,911,018	261,435
<u>19000-Motor Transportation Fund</u>				
ASSETS				
Interest in State Treasurer Investment Pool	\$ (28,843)	3,457,467	3,431,176	(2,552)
Due from Other State Agencies	-	3,562	-	3,562
Other Receivables	28,843	-	28,843	-
TOTAL ASSETS	\$ -	3,461,029	3,460,019	1,010
LIABILITIES				
Due to State General Fund	\$ -	910	-	910
Undistributed Receipts	-	-	-	-
Other Liabilities	-	3,431,276	3,431,176	100
TOTAL LIABILITIES	\$ -	3,432,186	3,431,176	1,010

STATE OF NEW MEXICO
PUBLIC REGULATION COMMISSION

Combining Schedule of Changes in Assets and Liabilities - Agency Funds
June 30, 2017

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
<u>56400-Firefighters Survivors Fund</u>				
ASSETS				
Interest in State Treasurer Investment Pool	\$ 255,025	5,400		260,425
Due from Other State Agencies	645	-	645	-
Other Receivables	-	-	-	-
TOTAL ASSETS	<u>\$ 255,670</u>	<u>5,400</u>	<u>645</u>	<u>260,425</u>
LIABILITIES				
Due to State General Fund	\$ -	-	-	-
Undistributed Receipts	255,670	5,400	645	260,425
Other Liabilities	-	-	-	-
TOTAL LIABILITIES	<u>\$ 255,670</u>	<u>5,400</u>	<u>645</u>	<u>260,425</u>
<u>50600-Special Corporation Fees Fund</u>				
ASSETS				
Interest in State Treasurer Investment Pool	\$ 25	24,965,107	24,965,132	-
Due from Other State Agencies	-	-	-	-
Other Receivables	-	-	-	-
TOTAL ASSETS	<u>\$ 25</u>	<u>24,965,107</u>	<u>24,965,132</u>	<u>-</u>
LIABILITIES				
Due to State General Fund	\$ 25	27,342,612	27,342,637	-
Undistributed Receipts	-	-	-	-
Other Liabilities	-	-	-	-
TOTAL LIABILITIES	<u>\$ 25</u>	<u>27,342,612</u>	<u>27,342,637</u>	<u>-</u>

**STATE OF NEW MEXICO
PUBLIC REGULATION COMMISSION**

**Combining Schedule of Changes in Assets and Liabilities - Agency Funds
June 30, 2017**

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
<u>30500-Qwest Performance Assurance Plan</u>				
ASSETS				
Interest in State Treasurer Investment Pool	\$ -	-	-	-
Due from Other State Agencies	-	-	-	-
Other Receivables	-	-	-	-
TOTAL ASSETS	\$ -	-	-	-
LIABILITIES				
Due to State General Fund	\$ -	-	-	-
Undistributed Receipts	-	-	-	-
Other Liabilities	-	-	-	-
TOTAL LIABILITIES	\$ -	-	-	-
 <u>50500-Pipeline Fees Fund</u>				
ASSETS				
Interest in State Treasurer Investment Pool	\$ -	136,560	136,560	-
Due from Other State Agencies	-	-	-	-
Other Receivables	-	-	-	-
TOTAL ASSETS	\$ -	136,560	136,560	-
LIABILITIES				
Due to State General Fund	\$ -	136,560	136,560	-
Undistributed Receipts	-	-	-	-
Other Liabilities	-	-	-	-
TOTAL LIABILITIES	\$ -	136,560	136,560	-

See Independent Auditor's Report.

**STATE OF NEW MEXICO
PUBLIC REGULATION COMMISSION**

**Schedule of Operating Transfers
For the Year Ended June 30, 2017**

	SHARE FUND	TITLE	TRANSFER	
			IN	OUT
General Fund (55000)				
(1)	85300	Department of Finance and Administration	\$ 6,666,800	-
(2)	85300	Department of Finance and Administration	-	599,756
Fire Protection Grant (56900)				
(3)	85300	Department of Finance and Administration	-	1,020,183
(4)	89200	NM Economic Development	-	1,100,000
(5)	87100	NM Spaceport Authority	-	1,200,000
Fire Protection (57800)				
(6)	60700	Public Employees Retirement Assoc.	-	750,000
(7)	62000	Department of Finance and Administration	-	1,379
(2)	85300	Department of Finance and Administration	-	78,666,831
Total governmental funds			<u>\$ 6,666,800</u>	<u>83,338,149</u>

- (1) General Fund Appropriations - Laws of 2016, Chapter 11, Section 4.
- (2) Fiscal Year 2017 Reversions to the State General Fund.
- (3) State Solvency - Laws 2017, Chapter 1, Section 7.
- (4) Border Authority Appropriation - Laws of 2016, Chapter 81, Section 33.
- (5) Space Port Authority Appropriation - Laws of 2016, Chapter 11, Section 5.
- (6) Volunteer Firefighters Retirement Act - NMSA 10-11A-3.
- (7) Transfer to DFA for Active Shooter Program.

See Independent Auditor's Report.

**STATE OF NEW MEXICO
PUBLIC REGULATION COMMISSION**

**Schedule of Joint Powers Agreements
For the Year Ended June 30, 2017**

Government	Local Contributions	Description
City of Artesia	\$ 7,000	Support regional response hazmat team
City of Albuquerque	7,000	Support regional response hazmat team
City of Carlsbad	7,000	Support regional response hazmat team
City of Hobbs	7,000	Support regional response hazmat team
City of Las Vegas	6,000	Support regional response hazmat team
City of Raton	7,000	Support regional response hazmat team
City of Roswell	7,000	Support regional response hazmat team
City of Santa Fe	7,000	Support regional response hazmat team
City of Vaughn	5,000	Support regional response hazmat team
Chaves County	11,000	Support regional response hazmat team
Colfax County	7,000	Support regional response hazmat team
Eddy County	5,000	Support regional response hazmat team
San Miguel County	7,000	Support regional response hazmat team
Santa Fe County	15,000	Support regional response hazmat team
Torrance County	7,000	Support regional response hazmat team
	\$ 112,000	

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.

See Independent Auditor's Report.

**STATE OF NEW MEXICO
PUBLIC REGULATION COMMISSION**

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017**

Federal Grantor/ Pass-Through Grantor/Program Title	CFDA Number	Grant Number or Passthrough Entity Number	Federal Expenditures
U.S. Department of Transportation			
Pipeline Safety Program State Base Grant	20.700	DTPH5616GSBG29	\$ 258,324
Pipeline Safety Program State Base Grant	20.700	DTPH5616GSBL08	34,988
Pipeline Safety Program State Base Grant	20.700	69A3801730029PSBG	271,147
Pipeline Safety Program State Base Grant	20.700	69A3801730057PSBL	11,885
Total Pipeline Safety Program			<u>576,344</u>
State Damage Prevention Program Grants	20.720	DTPH5616SDP06	22,992
PHMSA Pipeline Safety Program One Call Grant	20.721	DTPH5616GSOC18	36,747
PHMSA Pipeline Safety Program One Call Grant	20.721	69A3801740018PSOC	60,000
Total PHMSA Pipeline Safety Program			<u>96,747</u>
Total U.S. Department of Transportation			<u>696,083</u>
U.S. Department of Energy			
Pass-through Programs:			
State of New Mexico, Energy, Minerals and			
Natural Resources Department:			
Transport of Transuranic Wastes to the			
Waste Isolation Pilot Plant: States and Tribal			
Concerns, Proposed Solutions	81.106	DE-FC29-88AL53813	189,149
			<u>189,149</u>
Total Expenditures of Federal Awards			<u>\$ 885,232</u>

Note >1 Basis of Presentation

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, 2017. 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.

**STATE OF NEW MEXICO
PUBLIC REGULATION COMMISSION**

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017**

<u>Federal Grantor/ Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Grant Number or Passthrough Entity Number</u>	<u>Federal Expenditures</u>
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Note >2 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 the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note >3 Indirect Cost Rate

The Commission has elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

See Independent Auditor's Report.

OTHER REPORTS

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

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 aggregate remaining fund information and the budgetary comparisons of the general fund and major special revenue funds, of the State of New Mexico, Public Regulation Commission (Commission) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated October 31, 2017.

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. We did identify deficiencies in internal control, described in the accompanying *schedule of findings and questioned costs* that we consider to be significant deficiencies, items 2017-001 to 2017-003.

Compliance and Other Matters

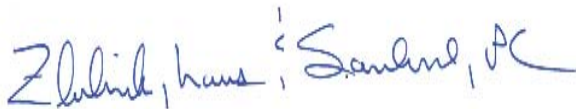
As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 and other matters that are required to be reported under *Government Auditing Standards* and by Section 12-6-5 NMSA 1978 which are described in the accompanying *schedule of findings and questioned costs* as items 2017-003 to 2017-005.

Commission's Responses to the findings

The Commission's responses to the findings identified in our audit are described in the accompanying *schedule of findings and questioned costs*. The Commission's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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



Zlotnick, Laws & Sandoval, P.C.

October 31, 2017

Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Award 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, 2017. 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, 2017.

Report on Internal Control over Compliance

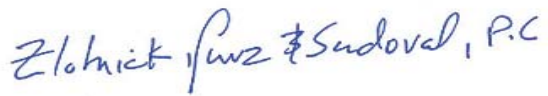
Management of the Commission is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Commission's internal control over compliance with 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 that reads "Zlotnick, Laws & Sandoval, P.C.".

Zlotnick, Laws & Sandoval, P.C.

October 31, 2017

Section I – Summary of Auditor’s Result

	<u>Yes</u>	<u>No</u>
<u>Financial Statements</u>		
Type of auditor’s report issued: <i>Unmodified Opinion</i>		
Internal control over financial reporting:		
Material weaknesses identified?		X
Significant deficiencies identified that are not considered to be material weaknesses?	X	
Noncompliance material to the financial statements noted?		X

Federal Awards

Type of auditors’ report issued on compliance for major programs: *Unmodified Opinion*

Audit findings under 2 CFR 200.516(a):

- | | | |
|---|--|---|
| A. Significant deficiencies and material weaknesses in internal control over major program? | | X |
| B. Material noncompliance with federal statutes? | | X |
| C. Known questioned costs greater than \$25,000 for a major program? | | X |
| D. Known questioned costs greater than \$25,000 not audited as a major program? | | X |
| E. Known or likely fraud affecting a federal award? | | X |
| F. Significant instances of abuse over major programs? | | X |
| G. Modified auditor’s report? | | X |
| H. Summary schedule of prior audit findings prepared by the auditee materially misrepresents the status of any prior audit finding? | | X |

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
20.700	Pipeline Safety Program State Base Grant
20.720	State Damage Prevention Program Grants
20.721	PHMSA Pipeline Safety Program One Call Grant

Dollar threshold used to distinguish between type A and type B programs	\$750,000
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Auditee qualified as low-risk auditee?	X
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Section I – Summary of Auditor’s Result

No.	Title	Status of Prior Year Findings	Significant Deficiency	Material Weakness	Other Compliance	Other Matters	Federal Awards Finding
Prior Year Findings:							
2016-001	Late Audit	Resolved					
2016-002	Untimely Reversion	Resolved					
Current Year Findings:							
2017-001	Accounting Over Revenue and Receipts		X				
2017-002	Non-Major Grant Revenue Billings		X				
2017-003	Capital Assets		X		X		
2017-004	State Vehicle Use and Reporting				X		
2017-005	Commission Operations					X	

Section II – Financial Statement Findings

SIGNIFICANT DEFICIENCIES

2017-001 ACCOUNTING OVER REVENUE AND RECEIPTS

CONDITION

In our audit work over the revenues and cash receipts of the Commission, we noted that the various divisions/bureaus within PRC maintain cash/check logs for amounts received from third parties. However, the cash/check logs in use are not uniform. PRC staff encountered some difficulty in retrieving the logs in use in certain bureaus because of employee turnover and because the logs were not kept in designated areas within the division/bureau.

CRITERIA

Good accounting and the Manual of Model Accounting Practices (MAPS), require that all monies received be documented either with pre-numbered receipt/deposit tickets or by entering them in a cash receipt log that specifies the amount and date of the receipt, the source of revenue, and account coding information. That information should be readily available.

CAUSE

The PRC divisions/bureaus develop and maintain their own cash logs.

EFFECT

Documentation maintained at PRC is not uniform. Access to records by Administrative Services Division (ASD) financial personnel is limited.

RECOMMENDATION

We recommend ASD accounting personnel develop a uniform cash receipts log for all divisions and bureaus within PRC to utilize. The logs should be kept on the PRC server where ASD personnel can gain access for the purpose of confirming receipts received for deposit and for audit support. This process will also assist division/bureau employees in accessing the logs when there is employee turnover or absence.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION

The Agency agrees with the recommendation. ASD Financial Management Bureau has begun the process of developing a uniform cash receipts log for all divisions and bureaus within the PRC. This will be completed by the end of this calendar year. The Commission's Interim CFO is responsible for ensuring completion of this task. When completed, a log and will be placed on the Agency's intranet, for use by all staff who receive money from third parties.

Section II – Financial Statement Findings

SIGNIFICANT DEFICIENCIES

2017-002 NON-MAJOR GRANT REVENUE BILLINGS

CONDITION

The Commission receives reimbursement from the New Mexico Energy, Minerals, and Natural Resources Department for expenditures incurred regarding the WIPP Emergency Response Capability grant. The grant reimburses the Commission for timely reimbursement requests. The Commission did not capture all expenditures eligible for reimbursement at the end of the current fiscal year and it was unable to recover \$14,471.03 in eligible costs. In addition, the Commission was not paid a revenue billing submitted and recorded in fiscal year 2016 in the amount of \$8,074.95 because the request for reimbursement was not timely filed.

CRITERIA

Requests for reimbursement of costs from grants and contracts should be complete and timely filed with funding sources to assist the Commission in recovering expenditures incurred in conducting public safety activities.

CAUSE

Reports generated for billing did not capture all eligible expenditures in the initial request for reimbursement. When the omission was discovered, the period for timely filing and eligibility for reimbursement had passed.

EFFECT

Other funding sources are used to cover expenditures that could have been recovered through grant funding.

RECOMMENDATION

The Commission needs to review the procedures in place and modify them to ensure that all costs eligible for reimbursement are captured and billed to the grantor in a timely manner.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION

The Commission agrees with the recommendation and will run accurate financial reports to capture all expenses for each billing cycle. As of October 12, 2017, the SHARE Financial System has been upgraded which should enable the Commission to run accurate reports for billing purposes. The Commission's Interim CFO and Financial Staff Manager are responsible for ensuring completion of this task.

Section II – Financial Statement Findings

SIGNIFICANT DEFICIENCIES and NONCOMPLIANCE

2017-003 CAPITAL ASSETS (Other Noncompliance)

CONDITION

The Commission did not conduct a physical inventory of capital assets for the fiscal year ended June 30, 2017. The last inspection of capital assets was conducted on June 24, 2016. In addition, our audit work revealed that the Commission did not include in capital assets the cost of installation of a water tank at the Firefighter Training Academy. The cost of the installation was \$27,315.23.

CRITERIA

The Audit Act (12-6-10 NMSA 1978) requires agencies to conduct an annual physical inventory of movable chattels and equipment on the inventory list at the end of each fiscal year. The agency shall certify the correctness of the inventory after the physical inventory.

The Audit Act also requires agencies to capitalize assets whose cost exceeds \$5,000.

CAUSE

The Commission utilizes a service entity to maintain its inventory list. The service entity does not conduct a physical inspection every year unless requested by the Commission. The cost of the installation was coded to contractual services.

EFFECT

Certain movable chattels and equipment on the inventory list could be misplaced, lost, or stolen without the knowledge of the Commission when an annual inventory is not conducted. In addition, the capital asset inventory will not reflect proper balances for items on hand at year end.

RECOMMENDATION

The Commission should establish a capital asset inventory manager to ensure that a physical inventory is conducted each year by either coordinating with the service entity or conducting the physical inventory utilizing Commission staff. All costs associated with placing an asset into service should be capitalized.

Section II – Financial Statement Findings

IEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION

The Agency agrees with the recommendation and will establish a capital asset inventory team within the Commission. The team will have key responsibilities with regard to capital asset management, and will train divisions and bureaus within the agency on accurate record keeping in order to comply with our statutory requirements. The team will conduct a physical inventory of all capital assets prior to fiscal year end in compliance to the Audit Act. The Commission's Interim CFO is responsible for ensuring completion of this task.

Section II – Financial Statement Findings

NONCOMPLIANCE

2017-004 STATE VEHICLE USE AND REPORTING

CONDITION

The Commission has not issued Form 1099-Misc to employees driving a state vehicle to report the value of the personal use when the state vehicle is used for commuting from the domicile to the post of duty as required by the Commission’s policy #20, Operation of State Vehicles. The Commission has authorized take home vehicles for the five (5) Public Regulation Commissioners, State Fire Marshal’s Office Investigations Bureau, State Fire Marshal’s Code Enforcement Bureau, State Fire Marshal, and Transportation Division Pipeline Safety Bureau (certain staff). This matter affects IRS reporting requirements for prior years as well.

CRITERIA

The Commission’s Policy #20 – Operation of State Vehicles, Section IV 13, requires that employees assigned a state vehicle maintain a log of the number of miles driven annually between work and the employee’s residence. The policy also requires that a Form 1099-Misc be issued to the employee each calendar year for the value of the personal use of the state vehicle.

CAUSE

Policy has not been enforced.

EFFECT

The Commission is not complying with Internal Revenue Service reporting requirements and its own policy.

RECOMMENDATION

The Commission needs to enforce its policy on state vehicle use for employees that use a state vehicle on a non-temporary basis. The reporting needs to be coordinated with the Department of Finance & Administration (DFA) so that Form 1099-Misc is issued to the employees affected each calendar year.

Section II – Financial Statement Findings

VIEW OF RESPONSIBLE OFFICIALS AND ACTION PLAN

As of March 13, 2017, the Commission and Chief of Staff have implemented a corrective operational plan that prohibits the use of state vehicles for commuting to an employee's post of duty with the exception of on-call employees and commissioners. The Commission's Human Resources Staff, along with the Chief of Staff, will coordinate with DFA to comply with Commission's Policy No. 20 which requires employees utilizing take home vehicles to report annual miles driven between the employee's home and post of duty and the issuance of either a Form 1099-Misc. or a W-2 reflecting the value of the use of a state vehicle for such purpose.

Section II – Financial Statement Findings

OTHER MATTERS

2017-005 COMMISSION OPERATIONS

CONDITION

The Commission has operated under budget constraints for several years and currently has vacancies in critical staff positions. The Commission has not employed an Administrative Services Division (ASD) director for approximately two years and currently does not employ a State Fire Marshal. The Commission's Chief of Staff is acting as both State Fire Marshal and Chief Financial Officer. During our audit, we found that there are also vacancies in the Utilities and Pipeline Safety Bureaus that utilize code and other inspectors.

The Legislature also passed House Bill 4 that requires any cash balances in the Fire Protection Fund and Fire Protection Grant Fund at June 30, 2017 be transferred to the State General Fund. The total amount transferred from these funds as of June 30, 2017 was approximately \$104,000,000. These sources not only partially fund the operations of the Commission, but provide critical funding to fire districts around the State.

CRITERIA

The Commission's core mission is to protect the public interest. In addition, 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. The Commission promotes public safety through the offices of State Fire Marshal, the Firefighter Training Academy, and Pipeline Safety Bureau.

CAUSE

Limited resources have been allocated to the Commission. The Commission faces challenges in filling vacancies in these areas because of non-competitive compensation that limits the ability to hire and retain professionals with the education and specific experience needed to maintain staff workload.

EFFECT

The condition makes it more difficult for the Commission to meet its regulatory mission.

Section II – Financial Statement Findings

RECOMMENDATION

The Commission needs to conduct a thorough evaluation of its condition and implement the necessary changes in order to ensure that it is properly funded and staffed to ensure it meets its stated mission.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION

After an evaluation, the Agency believes that currently allocated resources are insufficient to meet its regulatory mission. The Agency received a budget reduction in the FY 2017 of 5.5% in keeping with other state agencies. The reduction affected the program areas in P611 (Utilities, Transportation, Legal, Office of General Counsel, and Commissioner offices) and P613 Program Support. In FY 2018, the Agency asked for, but did not receive, an increase from the General Fund in the amount of \$480,000 as the funds were an operating transfer to P613 for FY17 Operating budget. These funds were taken from the Firefighter Use Feed Fund and these funds were no longer available to support the transfer.

On July 1, 2017 (FY2018), the PRC began with a negative operating budget. This situation has created difficulties within the Agency as funds have been moved between programs to keep the agency operating in the positive with respect to salaries and benefits.

As positions are vacated, we have not filled these positions, in many cases, for extended pay periods. The PRC's operating budget request for FY 2019, if funded, would contain sufficient funds to hire an Administrative Services Director.

PRC resources and uncompetitive compensation scale have been insufficient to successfully recruit **a** licensed Senior Electrical Engineer who could provide technical and economic analysis with respect to new rate increases. Additionally, the PRC requires **two** additional staff lawyers that can serve in an advocacy role when evaluating utility cases.

Overall, the PRC Utility Division, P611 Program, has a 17.72 % vacancy rate. Just over half of the vacant PRC positions reside in this area. The salaries and benefits required to fill these positions at midpoint is approximately \$900,000. The Legislature has expressed concerns that economic impact and job losses be taken into account when providing utility case analysis. However, the expertise and resources necessary to assess and quantify these specific types of issues do not currently exist at the PRC. In order for the required analysis and filing of testimony occur, the PRC would need to have the requisite budget to hire an additional **two** staff members, particularly in the areas of economics and tax accounting. Without this internal expertise, the records developed in cases before the PRC would lack the type of data and evidence, presented by independent Staff experts, that is necessary for the PRC to consider these impacts.

Section II – Financial Statement Findings

In the absence of such internal personnel, the PRC could attempt to retain highly proficient expertise through contractual services. However, this in itself may present challenges, as many who are qualified have held previous employment with an Investor Owned Utility (IOU) and may thus be subject to conflicts of interest. Another challenge remains from a funding perspective, as the Legislature has provided little in the Contractual Services category. For example, in FY 2018 less was appropriated than the prior fiscal year. This programmed amount does not represent a serious commitment to the effective use of consultants retained for matters requiring highly specialized expertise.

In addition to the requisite staffing, the PRC does not currently have the software tools and budget to address these concerns. In particular, the PRC requires access to software necessary to either validate or challenge expert testimony provided by the utilities. In order to begin meeting these obligations the PRC would have to purchase and train Staff on the following software:

Strategist – This is a widely accepted and utilized production costing and resource planning model software that allows utilities to evaluate the impact of generation resources. Strategist is used to estimate the costs of various resource expansion plans, to evaluate specific capacity requirements and measure the potential risks of new environmental legislation and other policy scenarios. Strategist has been used for many years by utilities, consultants, and state public utility commissions to evaluate a variety of long-term resource planning issues. All the IOUs in the state use this model. This software is not limited to rate cases, but also includes IRP and Renewable Portfolio Standard (RPS) proceedings.

Cost of Service Software (“COSS”) – Cost of Service Studies are among the basic tools of ratemaking. The primary objective of a cost of service analysis is to identify the cost of providing service to each rate class as a function of load and service characteristics. All electric utilities in the state use some form of Cost of Service Software to justify an overall rate increase and the rate increases to each rate class. The PRC currently does not have the capability to effectively and, more importantly, independently evaluate an electric utilities rate increase without having to depend on the study conducted by the utility.

SUMMARY

Budget allowing, the Commission hopes to have the ASD/CFO position filled by the beginning of FY 19. The Commission’s Chief of Staff is responsible for implementing this Corrective Action Plan.

The agency is also actively pursuing the hiring process for a State Fire Marshall. We are hopeful that the process will be finalized in the December 2017/January 2018 time frame. The Commission’s Chief of Staff is responsible for implementing this Corrective Action Plan.

Section III – Federal Awards Findings

No matters noted.

An exit conference was held in a closed session on November 1, 2017. In attendance were the following:

Representing the State of New Mexico Public Regulation Commission:

Sandy Jones, Chair
Patrick H. Lyons, Commissioner
Ernest Archuleta, Chief of Staff
Donald Martinez, ASD - Financial Manager

Representing Zlotnick, Laws & Sandoval, P.C.:

Richard Sandoval, CPA
Ban Trinh, CPA

Financial Statements

The accompanying financial statements of the Commission have been prepared by Zlotnick, Laws & Sandoval, P.C., the Commission's independent public auditors; however, the financial statements are the responsibility of management.