



STATE OF NEW MEXICO PUBLIC REGULATION COMMISSION

**Financial Statements
June 30, 2018**

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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
Don Shainin	State Fire Marshal
Cydney Beadles	Director, Legal
Michael C. Smith	Office of General Counsel, Acting
William Hermann	Director, Hearing Examiners
Milo Chavez	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. Wayne Johnson, 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 Public Regulation Commission (Commission), as of and for the year ended June 30, 2018, and the related notes to the financial statements which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material 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, 2018, 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, 2018, 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 5-11 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.

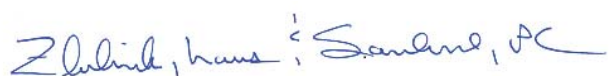
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The accompanying supplementary information such as the combining and individual nonmajor fund financial statements, the schedule 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 October 29, 2018 on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.



Zlotnick, Laws & Sandoval, P.C.

October 29, 2018

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, 2018. 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 in 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.

GAAP also requires that the MD&A be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB.

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, Public Safety and Program Support.

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 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.

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.

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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Commission's Statement of Net Position

Government Activities	June 30, 2018	June 30, 2017	Change
ASSETS			
Government activities			
Current and other assets	\$ 22,358,875	\$ 22,995,370	\$ (636,495)
Capital assets	1,931,790	2,199,099	(267,309)
Total assets	<u>\$ 24,290,665</u>	<u>\$ 25,194,469</u>	<u>\$ (903,804)</u>
LIABILITIES			
Current liabilities	\$ 20,020,272	\$ 21,354,003	\$ (1,333,731)
Long-term liabilities	129,390	108,124	21,266
Total liabilities	20,149,662	21,462,127	(1,312,465)
Deferred inflows of resources	960,319	1,044,149	(83,830)
NET POSITION			
Net investment in capital assets	1,931,790	2,199,099	(267,309)
Restricted for special projects	1,360,121	1,409,330	(49,209)
Unrestricted	(111,227)	(920,236)	809,009
Total net position	<u>3,180,684</u>	<u>2,688,193</u>	<u>492,491</u>
Total liabilities, deferred inflows, and net position	<u>\$ 24,290,665</u>	<u>\$ 25,194,469</u>	<u>\$ (903,804)</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 increased by \$492,491 over the fiscal year 2017.

Current assets consist mostly of assets due from external parties-federal grants in the amount of \$348,299, prepaid expenses of \$4,237, investments with the State Treasurer of \$3,070,612, and receivables from other state agencies in the amount of \$18,935,727. Current assets decreased due to the decrease in the State General Fund Investment Pool in the Fire Protection Grant Fund, where activities were suspended in FY18 per House Bill 4.

Capital Asset Administration

The decrease in capital assets of \$267,309 is due to new purchases of machinery and equipment of \$ 46,760, partially offset by depreciation expense of \$314,069 recorded in the current fiscal year.

Current Liabilities

Current liabilities of \$20,020,272 consists primarily of accounts payable of \$164,388, i.e., amounts that the Commission is obligated to pay; accrued salaries and benefits payable \$382,807; reversions due to the State General Fund \$19,053,219; and other liabilities of \$ 8,151. The estimated portion of compensated absence liabilities due in one year is \$411,707. Current liabilities decreased due to the reductions in accounts payable and in due to state general fund for activities suspended in the Fire Protection Grant Fund in FY18 per House Bill 4.

Long-Term Debt

The Commission has no long-term debt outstanding other than the noncurrent portion of compensated absences of \$129,390 as of June 30, 2018.

Deferred Inflows of Resources

The Commission received at year end from the utility companies for FY2019 pipeline assessments of \$ 960,319.

Net Position

The Commission reports balances in three categories of net position; (1) invested in capital assets; (2) restricted for special purposes and (3) unrestricted. Restricted net position decreased due to the utilization of restricted funds (Firefighters Use Fee Fund) for program support. The unrestricted deficit balance of \$111,227 is due to compensated absences reported in the government-wide financial statements. The unrestricted deficit balance was decreased by \$809,010 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.

State of New Mexico Public Regulation Commission

Management Discussion and Analysis June 30, 2018

Commission's Statement of Activities

<u>Government Activities</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>Change</u>
Program revenues	\$ 2,353,003	\$ 2,277,901	\$ 75,102
Program expenses	<u>(68,408,396)</u>	<u>(24,011,520)</u>	<u>(44,396,876)</u>
Net program revenue (expense)	(66,055,393)	(21,733,619)	(44,321,774)
General Revenues			
Fire Insurance Tax	90,529,671	85,404,550	5,125,121
Investment income	9,110	15,880	(6,770)
General Fund Appropriations	6,666,800	6,666,800	-0-
Reversion	(30,687,144)	(80,286,770)	49,599,626
Transfers in (out)	<u>29,447</u>	<u>(3,051,379)</u>	<u>3,080,826</u>
Total general revenue	<u>66,547,884</u>	<u>8,749,081</u>	<u>57,798,803</u>
Change in net position	492,491	(12,984,538)	13,477,029
Net position, beginning of year	<u>2,688,193</u>	<u>15,672,731</u>	<u>(12,984,538)</u>
Net position, end of year	<u>\$ 3,180,684</u>	<u>\$ 2,688,193</u>	<u>\$ 492,491</u>

Discussion of Statement of Activities

This statement shows the components that increased, in the aggregate, the Commission's net position by \$492,491 during the year. Operating grant revenue increased by \$839 from the prior year. The Commission recognized an increase in the Fire Insurance Tax of \$5,125,121. Program expenses increased due to distributions of over \$55 million to local fire districts from the Fire Protection Fund; however, transfers from the Fire Protection Grant Fund (FPGF) to local fire districts was suspended in FY18 per 2017 House Bill 4. The Commission reverted a total of \$30,687,144 to the State General Fund in fiscal year 2018, \$117,192 from the FPGF, \$75,324 from the General Fund, and \$30,494,628 from the Fire Protection Fund. Reversion and transfers out decreased due to the State no longer have solvency issues in fiscal year 2018.

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 \$1,789,991, for a net increase over the prior fiscal period of \$845,080. This is primarily from revenue from Fire Safer Cigarette, SFMO Inspections Fund, Transportation

Network Fund, and Pipeline Safety Fee Fund. Fund balances committed for the FY19 operating budget are the Pipeline Safety Fee and the Reproduction fund.

The General Fund is the Commission's operating fund where all operational expenses reside. The General Fund revenues increased \$36,192 due to miscellaneous receipts. Other financing sources decreased \$2,337,593 due to overall decreased in intra-agency transfers. General Fund expenditures decreased \$1,635,166 as compared to the previous year due to the reduction of capital outlay expenditures, payroll and benefits, contractual services, and other costs.

The General Fund has an original budget of over \$73 million and the final budget of over \$13 million. The difference of \$60 million was due to budget correction from the General Fund to the Fire Protection Fund. The Fire Protection Fund has zero original budget but a final budget of over \$64 million, of which, \$4 million was appropriated to the General Fund for operations, and \$60 million for distributions to local fire districts and PERA.

Revenues from the Fire Protection Fund (57800) are derived from fire insurance tax assessments through the Office of the Superintendent of Insurance. Major expenditures and uses incurred are amounts distributed to various fire districts in New Mexico, amounts appropriated to the Commission's General Fund for operations, and the annual amount of \$750,000 transferred to the PERA Volunteer Firefighters Retirement Fund. In FY19 the distribution for the Fire Protection Fund is \$57,074,913.

Non-major Governmental Funds at the PRC are the Firefighter Use Fee Fund, the Fire Safer Cigarette Fund, Motor Transportation Fund, SFMO Inspections Fund, Pipeline Safety Fund, Transportation Network Company Fund, Reproduction Fund, the Fire Protection Grant Fund, and the Title Insurance Fund. The nonmajor governmental funds received over \$1.4 million in revenues compared to \$170 thousand in the prior year due to the reclassification of the Fire Protection Grant Fund and the Pipeline Safety Fund from major funds to nonmajor funds in the current fiscal year.

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 distribute to local fire districts in FY18 per 2017 House Bill 4. In FY19 the Fire Protection Grant Fund will distribute \$ 10,269,213.

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 have limited the ability to hire critically needed positions throughout the Commission in FY18. In FY2018, the Commission achieved significant results in each of its programs. NMPRC Utility and Legal Divisions handled the adjudication of major utility cases filed with the Commission. Policy & Regulation Program had 44% of written documents (testimonies, reports, rulemaking comments, and affidavits) filed by staff to the total number of docketed cases in a fiscal year.

The Pipeline Safety Bureau, Firefighters Training Academy, and State Fire Marshal's Office logged over 110,000 contact training hours in FY2018. Pipeline Safety Bureau exceed the target of 6,500 inspections with 8,019 inspections of the following; pipeline safety inspection, excavation damage prevention, and investigation hours performed by the pipeline safety bureau in a fiscal year

NMPRC received an increase in personal services and employee benefits for FY19. During this time in FY19, the agency is filling positions.

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, 2018**

	<u>Governmental Activities</u>
Assets	
Interest in State General Fund Investment Pool	\$ 3,070,612
Due from Other State Agencies	18,935,727
Due from Federal Government	348,299
Prepaid Expenses	4,237
Total Current Assets	<u>22,358,875</u>
Capital Assets, net	<u>1,931,790</u>
Total Assets	<u><u>\$ 24,290,665</u></u>
Liabilities	
Current Liabilities	
Accounts Payable	\$ 164,388
Accrued Payroll	382,807
Due to State General Fund	19,053,219
Other Liabilities	8,151
Compensated Absences - current	411,707
Total Current Liabilities	<u>20,020,272</u>
Compensated Absences - noncurrent	<u>129,390</u>
Total Liabilities	<u><u>20,149,662</u></u>
Deferred Inflows of Resources	
Pipeline Assessments	960,319
Net Position	
Net Investment in Capital Assets	1,931,790
Restricted	1,360,121
Unrestricted (deficit)	<u>(111,227)</u>
Total Net Position	<u><u>3,180,684</u></u>
Total Liabilities, Deferred Inflows and Net Position	<u><u>\$ 24,290,665</u></u>

See Notes to the Financial Statements

STATE OF NEW MEXICO PUBLIC REGULATION COMMISSION

**Statement of Activities
For the Year Ended June 30, 2018**

	Policy and Regulation	Public Safety	Program Support	Total Governmental Activities
Program Expenses	\$ 6,627,381	\$ 59,874,251	\$ 1,592,695	\$ 68,094,327
Depreciation	21662	245045	47362	314,069
Total Expenses	<u>6,649,043</u>	<u>60,119,296</u>	<u>1,640,057</u>	<u>68,408,396</u>
Program Revenues				
Charges for Services	27,176	1,423,215	24,605	1,474,996
Operating Grants and Contributions	14,929	863,078	-	878,007
Total revenues	<u>42,105</u>	<u>2,286,293</u>	<u>24,605</u>	<u>2,353,003</u>
Net Program Revenue (Expense)	\$ (6,606,938)	\$ (57,833,003)	\$ (1,615,452)	\$ (66,055,393)
General Revenue				
Fire Insurance Tax				90,529,671
Interest Income				9,110
General Fund Appropriations				6,666,800
Transfers, net				29,447
General Fund Reversion				<u>(30,687,144)</u>
Total General Revenues				<u>66,547,884</u>
Change in Net Position				492,491
Net Position, Beginning				<u>2,688,193</u>
Net Position, Ending				<u><u>\$ 3,180,684</u></u>

See Notes to the Financial Statements.

STATE OF NEW MEXICO PUBLIC REGULATION COMMISSION

**Balance Sheet - Governmental Funds
June 30, 2018**

	General 55000	Fire Protection 57800	Non Major Governmental Funds	Total Governmental Funds
Assets				
Interest in SGFIP	\$ 188,493	\$ 13,288	\$ 2,868,831	\$ 3,070,612
Due from Other State Agencies	-	18,935,727	-	18,935,727
Due from Federal Agencies	348,299	-	-	348,299
Prepaid Expenses	4,237	-	-	4,237
Total Assets	<u>\$ 541,029</u>	<u>\$ 18,949,015</u>	<u>\$ 2,868,831</u>	<u>\$ 22,358,875</u>
Liabilities				
Accounts Payable	\$ 151,400	\$ 12,988	\$ -	\$ 164,388
Accrued Payroll	382,538	-	269	382,807
Due to State General Fund	-	18,936,027	117,192	19,053,219
Other Liabilities	7,091	-	1,060	8,151
Total Liabilities	<u>541,029</u>	<u>18,949,015</u>	<u>118,521</u>	<u>19,608,565</u>
Deferred Inflows of Resources				
Pipeline Assessments	-	-	960,319	960,319
Fund Balance				
Restricted	-	-	1,360,121	1,360,121
Committed	-	-	429,870	429,870
Unassigned	-	-	-	-
Total Fund Balance	<u>-</u>	<u>-</u>	<u>1,789,991</u>	<u>1,789,991</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 541,029</u>	<u>\$ 18,949,015</u>	<u>\$ 2,868,831</u>	<u>\$ 22,358,875</u>

See Notes to the Financial Statements.

STATE OF NEW MEXICO PUBLIC REGULATION COMMISSION

**Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position
For the Year Ended June 30, 2018**

Total Fund Balance - Governmental Funds \$ 1,789,991

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	\$ 7,419,522	
Accumulated depreciation	<u>(5,487,732)</u>	
Total capital assets, net		1,931,790

Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds	<u>(541,097)</u>
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Total Net position - Governmental Activities \$ 3,180,684

See Notes to the Financial Statements.

STATE OF NEW MEXICO PUBLIC REGULATION COMMISSION

**Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds
For the Year Ended June 30, 2018**

	General 55000	Fire Protection 57800	Non Major Governmental Funds	Total Governmental Funds
Revenues				
Fire Insurance Tax	\$ -	\$ 90,529,671	\$ -	\$ 90,529,671
Licenses and Fees	-	-	1,305,890	1,305,890
Interest Income	-	-	9,110	9,110
Federal Grant Revenue	878,007	-	-	878,007
Miscellaneous Revenue	47,007	13,662	108,437	169,106
Total Revenue	<u>925,014</u>	<u>90,543,333</u>	<u>1,423,437</u>	<u>92,891,784</u>
Expenditures				
Current:				
Personal Services	10,543,797	-	-	10,543,797
Contractual Services	389,285	12,988	-	402,273
Other Costs	1,270,389	55,792,588	-	57,062,977
Capital Outlay	46,760	-	-	46,760
Total Expenditures	<u>12,250,231</u>	<u>55,805,576</u>	<u>-</u>	<u>68,055,807</u>
Excess (Deficiency) of Revenues over Expenditures	(11,325,217)	34,737,757	1,423,437	24,835,977
Other Financing Sources (Uses)				
General Fund Appropriation	6,666,800	-	-	6,666,800
Other Financing Sources	-	-	29,447	29,447
Intra-Agency Transfers	4,733,741	(4,241,000)	(492,741)	-
Reversions FY2018	(75,324)	(30,494,628)	(117,192)	(30,687,144)
Total Other Financing Sources (Uses)	<u>11,325,217</u>	<u>(34,735,628)</u>	<u>(580,486)</u>	<u>(23,990,897)</u>
Net Change in Fund Balance	-	2,129	842,951	845,080
Fund Balance, Beginning	-	(2,129)	947,040	944,911
Fund Balance, Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,789,991</u>	<u>\$ 1,789,991</u>

See Notes to the Financial Statements.

STATE OF NEW MEXICO PUBLIC REGULATION COMMISSION

**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances -
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2018**

Net Change in Fund Balances - Governmental Funds \$ 845,080

Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are expensed as they are consumed or are allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital Outlay	\$ 46,760	
Depreciation Expense	<u>(314,069)</u>	
Net capital outlay over depreciation expense		(267,309)

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

Change in Compensated Absences	<u>(85,280)</u>
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Change in Net Position - Governmental Activities \$ 492,491

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, 2018**

	General Fund (55000)			
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Federal Grant Revenue	\$ 1,177,700	\$ 1,232,700	\$ 878,007	\$ (354,693)
Miscellaneous Revenue	-	34,950	47,007	12,057
General Fund Appropriations	6,666,800	6,666,800	6,666,800	-
Other Financing Sources	65,367,100	5,180,570	5,135,770	(44,800)
Total Revenues	73,211,600	13,115,020	12,727,584	(387,436)
EXPENDITURES				
Personnel services	11,206,800	10,982,500	10,543,797	438,703
Contractual services	498,600	504,600	389,285	115,315
Other costs	61,506,200	1,627,920	1,317,149	310,771
Other Financing Uses	-	-	-	-
Total Expenditures	\$ 73,211,600	\$ 13,115,020	12,250,231	\$ 864,789
Excess (deficiency) of revenues over expenditures			477,353	
Reversion to State General Fund (FY2018)			(75,324)	
Intra-Agency:				
Reversion to Firefighters Use Fee (09300) (FY2018)			(85,219)	
Reversion to Pipeline Safety (37700) (FY2018)			(251,339)	
Reversion to Reproduction Fund (47700) (FY2018)			(65,471)	
Fund balance, beginning			-	
Fund balance carryforward			<u>\$ -</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, 2018**

	Fire Protection Fund (57800)			
	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Fire Insurance Tax	\$ -	\$ -	\$ 90,529,671	\$ 90,529,671
Miscellaneous Revenue	-	-	13,662	13,662
Other Financing Sources	-	64,241,000	-	(64,241,000)
Total Revenues	<u>-</u>	<u>64,241,000</u>	<u>90,543,333</u>	<u>26,302,333</u>
EXPENDITURES				
Personnel services	-	-	-	-
Contractual services	*	-	12,988	(12,988)
Other costs	-	60,000,000	55,792,588	4,207,412
Other financing uses	-	4,241,000	4,241,000	-
Total Expenditures	<u>\$ -</u>	<u>\$ 64,241,000</u>	<u>60,046,576</u>	<u>\$ 4,194,424</u>
Excess (deficiency) of revenues over expenditures			30,496,757	
Reversion (FY2018)			(30,494,628)	
Fund balance, beginning			(2,129)	
Fund balance carryforward			<u>\$ -</u>	

Capital Appropriation

<u>Title</u>	<u>Period</u>	<u>Approved Budget</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Unexpended</u>
Firefighter Burn Building	FY2018 *	\$ 2,500,000	\$ -	\$ 12,988	\$ 2,487,012

Under Laws of 2018, Chapter 80, Section 52, two million five hundred thousand dollars (\$2,500,000) is appropriated from the fire protection fund to the public regulation commission for expenditure in fiscal years 2018 through 2022, unless otherwise provided in Section 2 of this act, to plan, design and construct a firefighter training burn building at the firefighter training academy in Socorro in Socorro county.

See Notes to the Financial Statements.

STATE OF NEW MEXICO PUBLIC REGULATION COMMISSION

**Statement of Fiduciary Assets & Liabilities
June 30, 2018**

	<u>Agency Fund</u>
ASSETS	
Interest in SGFIP	\$ 251,920
Due from Other State Agencies	<u>-</u>
TOTAL ASSETS	<u><u>\$ 251,920</u></u>
 LIABILITIES	
Undistributed Receipts	<u>\$ 251,920</u>
TOTAL LIABILITIES	<u><u>\$ 251,920</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 the 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.

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

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. Basic Financial Statements

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

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

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

As to fund financial statements, the 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 and the Fire Protection 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 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. Any internal activity between funds is eliminated for government-wide financial statements.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 (SHARE #55000). 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. The Commission major special revenue fund is described below:

Fire Protection Fund (SHARE #57800). The Fire Protection Fund distributes the monies collected from the Insurance Suspense Fund for the operations of the State Fire Marshal and the operations, maintenance, and betterment of local fire districts. Section 59A-53-5-2, NMSA 1978 states 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).

The Commission has the following non-major special revenue funds:

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

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fire Safer Cigarette and Fire Protection Fund (SHARE #10890). This fund accounts for revenue and 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.

Motor Transportation Fund (SHARE #19000). This fund accounts 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.

SFMO Inspections Fund (SHARE #20750). This fund is used to track reimbursements from the Public Schools Facilities Authority for public school inspections under Section J of 22-24-4, NMSA 1978. This fund is non-reverting.

Pipeline Safety Fund (SHARE #37700). This 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. This fund may not always meet the criteria for a major fund; however, management has elected to present this fund with the major funds to maintain consistency.

Transportation Network Company Fund (SHARE #43150). 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.

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

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fire Protection Grant Fund (SHARE #56900). This 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 to make 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. Per House Bill 4, distribution to the fire protection grant fund is suspended until the fiscal year 2018.

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

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 an agency fund which is custodial in nature (assets equal liabilities) and do not involve measurement of results of operations:

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

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 is presented on an accrual basis of accounting. Under the accrual method of accounting, revenues are recognized when earned, and expenditures are recognized when incurred. Revenues collected for future periods are recorded as deferred inflows of resources until available.

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

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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.

The budget is adopted on a modified accrual basis of accounting except for accounts payable accrued at the end of the fiscal year that does 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 the fiscal year 2018 as all payables were paid by the statutory deadline. The Commission follows these procedures in establishing the budgetary data reflected in the financial statements:

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 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 does 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.
- 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.

5. 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. Receivable balances at fiscal year-end represent an excess of modified accrual basis expenditures over cash reimbursements received to date.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6. 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 outlay that significantly extend the useful life of an asset are capitalized.

Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives with no salvage value:

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

7. 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.

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.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accrued Sick Leave. Employees accrued 3.69 hours of sick leave per pay period. Employees accumulated sick leave over 600 hours 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 hours over 600 of accumulated sick leave. Therefore, the only sick leave which has been accrued represents the hours earned at June 30, 2018, over 600. Expenditures for accumulated sick pay for hours under 600 will be recognized as employees take such absences.

8. 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, 2018, 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, 2018. 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, 2018.

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 \$1,360,121 at June 30, 2018.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 unrestricted resources have been spent first.

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, 2018.

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).

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.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

10. Interfund Activity

Interfund transactions are treated as transfers. Transfers between governmental funds are eliminated to remove the 'doubling-up' effect in the government-wide financial statements.

11. Reversion

The Commission uses the general fund to account for all operating activities. When non-reverting funds are commingled with reverting funds, through intra-agency transfers, the Commission uses the net program activities (P-codes) within the general fund to determine reversion amounts. The Commission expends the State General Fund Appropriations before restricted funds.

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, 2018.

At June 30, 2018, the Commission had the following interest in the State General Fund Investment Pool:

	Book Balance	State Treasurer Balance
General Fund (55000)	\$ 665,996	\$ 665,996
Special Revenue Funds:		
Firefighters Use Fee Fund (09300)	547,064	547,064
Fire Safer Cigarette and Fire Protection (10890)	647,919	647,919
Motor Transportation Fund (19000)	910	910
SFMO Inspections Fund (20750)	29,447	29,447
Pipeline Safety Fund (37700)	986,002	986,002
Transportation Network Fund (43150)	50,472	50,472
Reproduction Fund (47700)	87,376	87,376
Firefighters Survivors Fund (56400)	251,920	251,920
Fire Protection Grant Fund (56900)	117,192	117,192
Fire Protection Fund (57800)	11,572,189	11,572,189
Title Insurance Fund (86000)	269	269
Total SGFIP	<u>\$ 3,070,612</u>	<u>\$ 3,070,612</u>

C. DUE FROM OTHER STATE AGENCIES.

Due from other state agencies at year-end of \$18,935,727 consists of amount due from the Office of the Superintendent of Insurance for the fire insurance tax.

D. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018, was as follows:

	Balance 6/30/2017	Additions	Deletions	Balance 6/30/2018
Land Improvements	\$ 901,172	\$ -0-	\$ -0-	\$ 901,172
Building and Improvements	2,259,987	-0-	-0-	2,259,987
Machinery and Equipment	5,368,501	46,760	(1,156,898)	4,258,363
Total	<u>8,529,660</u>	<u>46,760</u>	<u>(1,156,898)</u>	<u>7,419,522</u>
Less: Accumulated Depreciation				
Land Improvements	893,726	514	(1)	894,239
Building and Improvements	1,183,729	48,824	68	1,232,621
Machinery and Equipment	4,253,106	264,731	(1,156,965)	3,360,872
Total Accumulated Depreciation	<u>6,330,561</u>	<u>314,069</u>	<u>(1,156,898)</u>	<u>5,487,732</u>
Capital Assets, Net	<u>\$2,199,099</u>	<u>\$(267,309)</u>	<u>\$ -0-</u>	<u>\$1,931,790</u>

Included in the current year deletions were individual assets under \$5,000, which totaled \$1,156,898 that were taken off the capital assets listing. The Commission recorded depreciation expense of \$314,069 for the year ended June 30, 2018.

E. DUE TO STATE GENERAL FUND

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

Fire Protection Grant Fund (56900) - Reversion	\$ 117,192
Fire Protection Fund (57800) – Reversion and Other	<u>18,936,027</u>
Total	<u>\$ 19,053,219</u>

F. COMPENSATED ABSENCES

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

	Balance 2017	Additions	Deletions	Balance 2018	Due in one year
Annual	\$ 447,215	\$417,356	\$ (409,688)	\$ 454,883	\$ 333,885
Sick	8,602	12,908	(2,791)	18,719	10,327
Compensatory	-0-	98,255	(30,760)	67,495	67,495
Total	<u>\$ 455,817</u>	<u>\$528,519</u>	<u>\$ (443,239)</u>	<u>\$ 541,097</u>	<u>\$ 411,707</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.

G. DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources consist of pipeline assessments paid in advance by utility companies which total \$960,319 at year end. In the fund financial statements, this amount is reported as unearned revenue.

H. 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, 2018

H. PERA PENSION PLAN (CONTINUED)

The Commission, as part of the primary government of the State of New Mexico, is a contributing employer to a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees Retirement Association (PERA). 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 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, 2018, 2017, and 2016, were \$1,179,173, \$1,272,925, and \$1,260,565, respectively, which equal the amount of the required contributions for each fiscal year.

I. VOLUNTEER FIREFIGHTERS RETIREMENT FUND

The Commission is a nonemployer contributing to this fund. This plan is a single employer defined benefit pension plan with a special funding situation. Eligibility for membership in the Volunteer Firefighters Retirement Fund is set forth in Chapter 10-11A-2, NMSA 1978. Any volunteer non-salaried firefighter who is listed as an active member on the rolls of a fire department and who meets certain age and service credit requirements set forth in the statute is eligible for membership in the Volunteer Firefighters Retirement Fund. Benefits are available at age 55 or older to any member having served as a volunteer fire fighter for a minimum of 10 years. Benefits are \$125 per month, as of July 1, 2013, with at least 10 but less than 25 years of service or \$250 per month with 25 or more years of service. Benefits for post-retirement surviving spouse annuities are also available. Members of the Volunteer Firefighters Retirement Fund do not make individual contributions to the plan. State statutes require that the State Treasurer transfer \$750,000 during the fiscal year from the Fire Protection Fund (#57800) to the Volunteer Firefighters Retirement Fund.

I. VOLUNTEER FIREFIGHTERS RETIREMENT FUND

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.

J. POST-EMPLOYMENT BENEFITS—STATE RETIREE HEALTH CARE PLAN

Compliant with the requirements of Government Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, the State of New Mexico has implemented this standard for the fiscal year ended June 30, 2018.

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 postemployment health care plan that provides comprehensive group health insurance for persons who have retired from certain public service positions in New Mexico. The other postemployment benefits (OPEB) Plan is administered by the Retiree Health Care Authority of the State of New Mexico (RHCA). Overall, total OPEB liability exceeds OPEB Plan net position resulting in a net OPEB liability. The State has determined the State's share of the net OPEB liability to be a liability of the State as a whole, rather than any agency or department of the State and the liability will not be reported in the department or agency level financial statements of the State. All required disclosures will be presented in the Comprehensive Annual Financial Report (CAFR) of the State of New Mexico.

Information concerning the net liability, benefit expense, and benefit-related deferred inflows and deferred outflows of resources of the primary government will be contained in the State of New Mexico Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2018 and will be available, when issued, from the Office of the State Controller, Room 166, Bataan Memorial Building, 407 Galisteo Street, Santa Fe, New Mexico, 87501 .

The Commission's contributions to the RHCA for the years ended June 30, 2018, 2017 and 2016 were \$138,808, \$149,869, and \$148,374, respectively, which equal the required contributions for each year.

K. DEFERRED COMPENSATION

The State of New Mexico offers state, local government, and school district employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all State employees and those local government and school district employees whose employers have elected participation in the plan, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. There are employees that are making contributions to a Deferred Compensation Plan. Neither the Commission or the State of New Mexico make any contributions to the Deferred Compensation Plan. All contributions withheld from participants by the Commission have been paid to the New Mexico Public Employees Retirement Association, which administers the plan.

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, 2018, for each of the next five years and in the aggregate, are as follows:

<u>Year Ending</u>	<u>Amount</u>
June 30, 2019	\$ 44,613
June 30, 2020	22,448
June 30, 2021	12,771
June 30, 2022	875
June 30, 2023	-0-
Total	<u>\$ 80,707</u>

Operating lease expense for the fiscal year ended June 30, 2018, was \$56,586.

M. CONTINGENT LIABILITIES

The Commission is a defendant in various lawsuits regarding regulatory matters and current 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 effect on the financial condition of the Commission since they are covered by the risk management.

N. RISK MANAGEMENT

The Commission is insured through the Risk Management Division of the General Services Department. 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 Commission is only liable for the premiums paid, which totaled \$691,561 at year-end.

SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO PUBLIC REGULATION COMMISSION

Combining Balance Sheet - All Nonmajor Funds
June 30, 2018

	Firefighters Use Fee 09300	Fire Safer Cigarette and Fire Protection 10890	Motor Transportation 19000	SFMO Inspections 20750
Assets				
Interest in SGFIP	\$ 632,283	\$ 647,919	\$ 1,060	\$ 29,447
Due from Other State Agencies	-	-	-	-
Due from Federal Agencies	-	-	-	-
Prepaid Expenses	-	-	-	-
Total Assets	<u>\$ 632,283</u>	<u>\$ 647,919</u>	<u>\$ 1,060</u>	<u>\$ 29,447</u>
Liabilities				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
Accrued Payroll	-	-	-	-
Due to State General Fund	-	-	-	-
Other Liabilities	-	-	1,060	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>1,060</u>	<u>-</u>
Deferred Inflows of Resources				
Pipeline Assessments	-	-	-	-
Fund Balance				
Restricted	632,283	647,919	-	29,447
Committed	-	-	-	-
Unassigned	-	-	-	-
Total Fund Balance	<u>632,283</u>	<u>647,919</u>	<u>-</u>	<u>29,447</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 632,283</u>	<u>\$ 647,919</u>	<u>\$ 1,060</u>	<u>\$ 29,447</u>

See Independent Auditor's Report.

Pipeline Safety 37700	Transportation Network 43150	Reproduction 47700	Fire Protection Grant 56900	Title Insurance Fund 86000	Total
\$ 1,237,342	\$ 50,472	\$ 152,847	\$ 117,192	\$ 269	\$ 2,868,831
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 1,237,342</u>	<u>\$ 50,472</u>	<u>\$ 152,847</u>	<u>\$ 117,192</u>	<u>\$ 269</u>	<u>\$ 2,868,831</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	269	269
-	-	-	117,192	-	117,192
-	-	-	-	-	1,060
-	-	-	117,192	269	118,521
960,319	-	-	-	-	960,319
-	50,472	-	-	-	1,360,121
277,023	-	152,847	-	-	429,870
-	-	-	-	-	-
<u>277,023</u>	<u>50,472</u>	<u>152,847</u>	<u>-</u>	<u>-</u>	<u>1,789,991</u>
<u>\$ 1,237,342</u>	<u>\$ 50,472</u>	<u>\$ 152,847</u>	<u>\$ 117,192</u>	<u>\$ 269</u>	<u>\$ 2,868,831</u>

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, 2018

	Firefighters Use Fee 09300	Fire Safer Cigarette and Fire Protection 10890	Motor Transportation 19000	SFMO Inspections 20750
Revenues				
Fire Insurance Tax	\$ -	\$ -	\$ -	\$ -
Licenses and Fees	86,770	61,000	-	-
Interest Income	-	-	-	-
Federal Grant Revenue	-	-	-	-
Miscellaneous Revenue	-	-	-	-
Total Revenue	86,770	61,000	-	-
Expenditures				
Current:				
Personal Services	-	-	-	-
Contractual Services	-	-	-	-
Other Costs	-	-	-	-
Capital Outlay	-	-	-	-
Total Expenditures	-	-	-	-
Excess (Deficiency) of Revenues over Expenditures	86,770	61,000	-	-
Other Financing Sources (Uses)				
General Fund Appropriation	-	-	-	-
Other Financing Sources	-	-	-	29,447
Intra-Agency Transfers	(246,781)	-	-	-
Reversions FY2018	-	-	-	-
Total Other Financing Sources (Uses)	(246,781)	-	-	29,447
Net Change in Fund Balance	(160,011)	61,000	-	29,447
Fund Balance, Beginning	792,294	586,919	-	-
Fund Balance, Ending	\$ 632,283	\$ 647,919	\$ -	\$ 29,447

See Independent Auditor's Report.

Pipeline Safety 37700	Transportation Network 43150	Reproduction 47700	Fire Protection Grant 56900	Title Insurance Fund 86000	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1,117,250	20,000	20,870	-	-	1,305,890
-	355	-	8,755	-	9,110
-	-	-	-	-	-
-	-	-	108,437	-	108,437
<u>1,117,250</u>	<u>20,355</u>	<u>20,870</u>	<u>117,192</u>	<u>-</u>	<u>1,423,437</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
1,117,250	20,355	20,870	117,192	-	1,423,437
-	-	-	-	-	-
-	-	-	-	-	29,447
(223,661)	-	(22,299)	-	-	(492,741)
-	-	-	(117,192)	-	(117,192)
<u>(223,661)</u>	<u>-</u>	<u>(22,299)</u>	<u>(117,192)</u>	<u>-</u>	<u>(580,486)</u>
893,589	20,355	(1,429)	-	-	842,951
(616,566)	30,117	154,276	-	-	947,040
<u>\$ 277,023</u>	<u>\$ 50,472</u>	<u>\$ 152,847</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,789,991</u>

STATE OF NEW MEXICO PUBLIC REGULATION COMMISSION

**Schedule of Changes in Assets and Liabilities - Agency Fund
June 30, 2018**

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018
<u>56400-Firefighters Survivors Fund</u>				
ASSETS				
Interest in SGFIP	260,425	241,495	250,000	251,920
Due from Other State Agencies	-	-	-	-
TOTAL ASSETS	<u>\$ 260,425</u>	<u>\$ 241,495</u>	<u>\$ 250,000</u>	<u>\$ 251,920</u>
LIABILITIES				
Undistributed Receipts	260,425	241,495	250,000	251,920
TOTAL LIABILITIES	<u>\$ 260,425</u>	<u>\$ 241,495</u>	<u>\$ 250,000</u>	<u>\$ 251,920</u>

See Independent Auditor's Report.

STATE OF NEW MEXICO PUBLIC REGULATION COMMISSION

**Schedule of Operating Transfers
For the Year Ended June 30, 2018**

	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	-	75,324
Fire Protection Fund (57800)				
(2)	85300	Department of Finance and Administration	-	30,494,628
Fire Protection Grant Fund (56900)				
(2)	85300	Department of Finance and Administration	-	117,192
SFMO Inspections (20750)				
(3)	94700	Public Schools Facilities Authority	29,447	-
<u>Intra-Agency Transfers</u>				
(1)	55000	General Fund	4,733,741	-
(1)	09300	Firefighters Use Fee	-	332,000
(1)	37700	Pipeline Safety	-	475,000
(1)	47700	Reproduction Fund	-	87,770
(1)	57800	Fire Protection Fund	-	4,241,000
(4)	09300	Firefighters Use Fee	85,219	-
(4)	37700	Pipeline Safety	251,339	-
(4)	47700	Reproduction Fund	65,471	-
Total governmental funds			<u>\$ 11,832,017</u>	<u>\$ 35,822,914</u>

- (1) General Fund Appropriations - Laws of 2017, Chapter 135, Section 4.
- (2) Fiscal Year 2018 Reversions.
- (3) State Fire Marshal's Office - Code Enforcement Income.
- (4) Revert FY2018 unexpended amounts from the general fund to the restricted funds.

See Independent Auditor's Report.

STATE OF NEW MEXICO PUBLIC REGULATION COMMISSION

**Schedule of Joint Powers Agreements
For the Year Ended June 30, 2018**

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, 2018**

Federal Grantor/ Pass-Through Grantor/Program Title	CFDA Number	Grant Number or Passthrough Entity Number	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Transportation				
Railroad Safety State Participation	20.301	FR-SPP-0005-17	\$ -	\$ 14,628
Pipeline Safety Program State Base Grant	20.700	69A3801730029PSBG		252,026
Pipeline Safety Program State Base Grant	20.700	69A3801730057PSBL		27,534
Pipeline Safety Program State Base Grant	20.700	693JK31830030PSBG		256,202
Pipeline Safety Program State Base Grant	20.700	693JK31830008PSBL		17,469
Total Pipeline Safety Program				<u>553,231</u>
State Damage Prevention Program	20.720	DTPH561GSDP06		22,992
State Damage Prevention Program	20.720	693JK31741017		67,550
Total State Damage Prevention				<u>90,542</u>
PHMSA Pipeline Safety Program One Call	20.721	693JK31840021PSOC		60,000
Total U.S. Department of Transportation			<u>-</u>	<u>718,401</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-EM0004167	112,000	182,598
Total Expenditures of Federal Awards			<u>\$ 112,000</u>	<u>\$ 900,999</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, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Commission, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Commission.

Note >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. Wayne Johnson, 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, 2018, 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 29 2018.

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 a deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency, item 2017-001.

Compliance and Other Matters

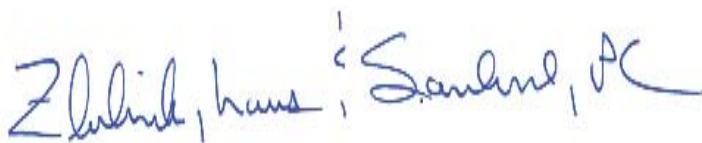
As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 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 2018-001 and 2017-002.

The Commission's Response to the findings

The Commission's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Commission's response was not subjected to the auditing procedures applied in the audit 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 29 2018

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. Wayne Johnson, 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 *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, 2018. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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, 2018.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2017-002 and 2018-003. Our opinion on each major federal program is not modified with respect to these matters.

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

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 types of 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.

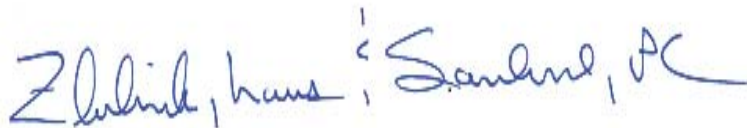
A deficiency in internal control over compliance exists when the design or operation of control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of 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 over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items 2018-003 and 2018-004 to be significant deficiencies.

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

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.



Zlotnick, Laws & Sandoval, P.C.
October 29 2018

State of New Mexico Public Regulation Commission

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018**

Section I – Summary of Auditor’s Result

	<u>Yes</u>	<u>No</u>
<u>Financial Statements</u>		
Type of auditor’s report issued:	<u>Unmodified Opinion</u>	
Internal control over financial reporting:		
Material weakness(es) identified?		X
Significant deficiency(ies) identified?	X	
Noncompliance material to the financial statements noted?		X
<u>Federal Awards</u>		
Type of auditors’ report issued on compliance for major programs:	<u>Unmodified Opinion</u>	
Audit findings under 2 CFR 200.516(a):		
A. Internal Control over major programs:		
material weakness(es) identified?		X
Significant deficiency(ies) identified	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>
81.106	Transport of Transuranic Wastes to the Waste Isolation Pilot Plant: States and Tribal Concerns, Proposed Solutions

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

Auditee qualified as low-risk auditee? X

State of New Mexico Public Regulation Commission

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018**

Section I – Summary of Auditor’s Result

No.	Title	Status of Prior Year Findings	Significant Deficiency	Material Weakness	Other Non- compliance	Other Matters	Federal Awards Finding
Prior Year Findings:							
2017-001	Accounting Over Revenue and Receipts	Revised & Repeated	X				
2017-002	Non-Major Grant Revenue Billings	Revised & Repeated					X
2017-003	Capital Assets	Resolved					
2017-004	State Vehicle Use and Reporting	Resolved					
2017-005	Commission Operations	Resolved					
Current Year Findings:							
2018-001	Payroll Deductions				X		
2018-002	Public Money Act				X		
2018-003	Schedule of Expenditures of Federal Awards		X				X
2018-004	Subrecipients		X				X

Section II – Financial Statement Findings

SIGNIFICANT DEFICIENCY

2017-001 Accounting over Revenue and Receipts (Revised and Repeated)

Condition

The Administrative Services Division (ASD) created a cash receipts log based on prior year audit recommendation. However, we found four instances for \$3,445 out of forty-four deposits tested, totaling \$10,428,401, where checks that got deposited were not included in the cash receipts log. We also found one instance for \$11,250 where the ASD could not locate the supporting documents for a deposit.

Criteria

Good accounting and the Manual of Model Accounting Practices-Fin 2.3 (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.

Effect

The cash receipts log is incomplete and does not agree to the daily deposit.

Cause

Some reimbursement checks received by the ASD were not recorded in the cash receipts log.

Recommendation

ASD needs to reconcile the cash receipts log to the daily deposit to ensure the log is complete and accurate.

Views of Responsible Officials and Corrective Action Plan

Since the beginning of the current Fiscal Year, the Line II Manager in ASD has reconciled daily the cash receipts log to the daily deposit to ensure that the batches are recorded in the cash receipts log.

Section II – Financial Statement Findings

OTHER NONCOMPLIANCE

2018-001 Payroll Deductions

Condition

We reviewed twenty-one (21) out of one hundred twenty-two (122) personnel files and found one employee who enrolled but did not have deductions taken from his paycheck for Public Employee Retirement Association (PERA), Retiree Health Care Authority (RHCA), and health insurance premiums.

Criteria

Employees are required to participate in the PERA under Section 10-11-3, NMSA 1978, and RHCA under Section 10-7C-6, NMSA 1978.

Effect

Both the employee and the Commission are required to make catch-up contributions for PERA and RHCA from the time the employee was hired on March 10, 2018. The Commission estimates the costs of the catch-up contributions for the employee and the Commission are \$1,500 and \$2,600, respectively, spread out over three pay periods.

Cause

A coding error in the payroll system (HCM) prevented deductions from the employee paycheck.

Recommendation

The Commission should scan the payroll register periodically to ensure PERA and RHCA are deducted from the employee's paychecks.

Views of Responsible Officials and Corrective Action Plan

The Commission's Human Resources Bureau has taken steps to ensure that the payroll register is reviewed every pay period to prevent coding errors in the payroll system.

Section II – Financial Statement Findings

OTHER NONCOMPLIANCE

2018-002 Public Money Act

Condition

We tested forty-four deposit days totaling \$10,428,401 and found two instances for \$16,315 where the Commission did not deposit money received within the 24 hours.

Criteria

The Public Money Act [Chapter 6-10-3 NMSA 1978] requires that state agencies receiving any money for or on behalf of the state shall remit to the State Treasurer before the close of the next succeeding business day after the receipt of money.

Effect

Non-compliance with State Law.

Cause

Unknown.

Recommendation

The Commission should make every effort to comply with the state law by cross-training other financial specialists to prepare and submit the deposits in a timely manner.

Views of Responsible Officials and Corrective Action Plan

Other financial staff has been trained to prepare and submit deposits in a timely manner to comply with state law. Within six months the Commission's CFO will assign staff to complete this task.

Section III – Federal Awards Findings

NONCOMPLIANCE

2017-002 Grant Revenue Billings (Revised and Repeated)

CFDA #81.106 - Transport of Transuranic Wastes to the Waste Isolation Pilot Plant:

States and Tribal Concerns, Proposed Solutions

Pass-through: New Mexico Energy, Minerals and Natural Resources Department

Pass-through # DE-EM0004167

Award Year: 7/2/2017 – 6/30/2018

Condition

The Commission receives a pass-through Federal grant from the New Mexico Energy, Minerals, and Natural Resources Department for the Waste Isolation Pilot Plant (WIPP) program activities. The grant reimburses the Commission monthly for expenditures incurred. During the year, the Commission received reimbursements in excess of actual expenditures of \$7,091, which is reflected in the accompanying financial statements as other liabilities.

Last year, the condition related to the WIPP program was for the under billing of eligible costs.

Criteria

In order to receive cost reimbursement under Federal awards, the department or agency usually submits claims asserting that allowable and eligible costs (direct and indirect) have been incurred in accordance with Uniform Guidance, subpart E.

Effect

The Commission did not comply with the cash management requirement. The Commission received excess cash for a program operating on cost reimbursement.

Cause

The Commission is not using the SHARE general ledger system to prepare the reimbursement reports; as a result, operating transfers and journal entries posted to the grant departments were not reflected in the reimbursement reports.

Section III – Federal Awards Findings

Recommendation

The SHARE general ledger system should be used to support Federal cost reimbursements. The Commission should inquire with the Department of Finance and Administration about using the project codes in SHARE. The project codes allow the program manager and ASD to keep track of each Federal award for period availability, budget to actual, activities allowed and allowable costs. Inadvertent expenditures coded to the project can be adjusted through journal vouchers.

Views of Responsible Officials and Corrective Action Plan

The Commission will inquire with the Department of Finance and Administration about setting up project codes in the SHARE general ledger system. The Commission agrees that this will allow ASD and each program manager to better keep track of each Federal award. Within six months the Commission's CFO will assign staff to complete this task.

Section III – Federal Awards Findings

SIGNIFICANT DEFICIENCY and NONCOMPLIANCE

2018-003 Schedule of Expenditures of Federal Awards (SEFA)

Condition

The Commission hired an external accountant to provide accounting services that include budget analysis, reversion, review account balances and assist with the financial statements audit. The SEFA, prepared by the accountant, did not comply with the Uniform Guidance, missing grant numbers, notes describing significant accounting policies, and subrecipient information. Also, there were no reconciliations between the SHARE general ledger and the worksheets and subsidiary information used to prepare the SEFA.

Criteria

Under the Uniform Guidance Sections 200.510, the Commission is required to prepare the SEFA to meet the six minimum elements, including those mentioned above. The Uniform Guidance Section 200.62 states that the Commission should have controls in place to ensure transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and federal reports.

Effect

The SEFA does not comply with the minimum requirements under the Uniform Guidance, and federal reports may not be complete and accurate.

Cause

The Commission and the accountant may not be aware of the requirements under the Uniform Guidance. The Commission is not using the SHARE general ledger system to reconcile to the federal reports; as a result, operating transfers and journal entries posted to the grant departments were not included in the SEFA.

Recommendation

More training may be required for the grant administrators or program managers to comply with the OMB Uniform Guidance. The SHARE general ledger system should be used to support the SEFA. The Commission should inquire with the Department of Finance and Administration about using the project codes in SHARE. The project codes allow program manager and ASD to keep track of each Federal award for period availability, budget to actual, activities allowed and allowable costs. Inadvertent expenditures coded to the project can be adjusted through journal vouchers.

Section III – Federal Awards Findings

Views of Responsible Officials and Corrective Action Plan

The Commission agrees that more training is needed so that grant administrators and program managers are able to comply with OMB Uniform Guidance. The Commission will inquire with the Department of Finance and Administration about setting up project codes in the SHARE general ledger system. The Commission agrees that this will allow ASD and each program manager to better keep track of each Federal award. Within six months the Commission's CFO will assign staff to complete this task.

Section III – Federal Awards Findings

SIGNIFICANT DEFICIENCY

2018-004 Subrecipient Notification

CFDA #81.106 - Transport of Transuranic Wastes to the Waste Isolation Pilot Plant:

States and Tribal Concerns, Proposed Solutions

Pass-through: New Mexico Energy, Minerals and Natural Resources Department

Pass-through # DE-EM0004167

Award Year: 7/2/2017 – 6/30/2018

Condition

The Commission receives a pass-through federal grant from the New Mexico Energy, Minerals, and Natural Resources Department for the Waste Isolation Pilot Plant (WIPP) program activities. The Commission then awards a portion of the funding to the fire districts within the counties or municipalities along the WIPP route using joint power agreements (JPAs). The fire districts meet the criteria of subrecipients. The JPAs did not provide information regarding Federal awards, pass-through entity, and CFDA number.

Criteria

Under the Uniform Guidance Section 200.331, all pass-through entities must provide to the subrecipients the required information that include CFDA number, the name of Federal award agency and pass-through entity, and that the Federal award is used in accordance with Federal statutes, regulations and the terms and conditions of Federal awards.

Effect

The WIPP grant pass-through to the counties and municipalities may not have been audited under the Uniform Guidance.

Cause

The JPAs signed by the counties and municipalities did not identify the Federal award and the CFDA number.

Recommendation

The Commission should revise the JPAs to include CFDA number, the name of the Federal award, the pass-through entity, and compliance under the Uniform Guidance, 2 CFR Part 200.

Section III – Federal Awards Findings

Views of Responsible Officials and Corrective Action Plan

The Commission will work through its Fire Marshal Division/Fire Support Bureau to revise the current JPAs to ensure compliance with all requirements. Within six months the Commission's CFO will assign this task to the Fire Support Bureau Chief with direction to complete this task

An exit conference was held in a closed session on October 29, 2018. In attendance were the following:

Representing the State of New Mexico Public Regulation Commission:

Sandy Jones, Chair
Ernest Archuleta, Chief of Staff
Donald Martinez, ASD - Financial Manager
Brad Mathews, Budget Analyst

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.

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NEW MEXICO PUBLIC REGULATION COMMISSION

COMMISSIONERS

DISTRICT 1 CYNTHIA B. HALL, VICE-CHAIR
DISTRICT 2 PATRICK H. LYONS
DISTRICT 3 VALERIE ESPINOZA
DISTRICT 4 LYNDA LOVEJOY
DISTRICT 5 SANDY JONES, CHAIR



P.O. Box 1269
1120 Paseo de Peralta
Santa Fe, NM 87504-1269

CHIEF OF STAFF
Ernest D. Archuleta, P.E.

2017-002 Grant Revenue Billings (Revised and Repeated)

Agency Response and Corrective Action

The Commission will inquire with the Department of Finance and Administration about setting up project codes in the SHARE general ledger system. The Commission agrees that this will allow ASD and each program manager to better keep track of each Federal award. Within six months the Commission's CFO will assign staff to complete this task.

2018-003 Schedule of Expenditures of Federal Awards (SEFA)

Agency Response and Corrective Action

The Commission agrees that more training is needed so that grant administrators and program managers are able to comply with OMB Uniform Guidance. The Commission will inquire with the Department of Finance and Administration about setting up project codes in the SHARE general ledger system. The Commission agrees that this will allow ASD and each program manager to better keep track of each Federal award. Within six months the Commission's CFO will assign staff to complete this task.

2018-004 Subrecipient Notification

Agency Response and Corrective Action

The Commission will work through its Fire Marshal Division/Fire Support Bureau to revise the current JPAs to ensure compliance with all requirements. Within six months the Commission's CFO will assign this task to the Fire Support Bureau Chief with direction to complete this task.

A handwritten signature in black ink, reading "Ernest D. Archuleta, P.E.".

Ernest D. Archuleta, P.E.
Chief of Staff