



**STATE OF NEW
MEXICO
RATON PUBLIC
SERVICE COMPANY**

FINANCIAL STATEMENTS

JUNE 30, 2009

Moss Adams LLP
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**STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY**

**Official Roster
As of June 30, 2009**

BOARD OF DIRECTORS

Kathy McQueary	President
Scott Berry	Vice President
Mark Jansen	Treasurer
Joe Apache	Director
Charles Henry	Director
Sandy Chavez	Secretary/Office Manager
Glenn Fisher	General Manager

Independent Auditors' Report

State of New Mexico
Raton Public Service Company
Raton, New Mexico
and
Mr. Hector Balderas
New Mexico State Auditor
Santa Fe, New Mexico

We have audited the accompanying financial statements of the business-type activities and budgetary comparison listed as supplementary information in the table of contents of the Raton Public Service Company (RPS), a component unit of the City of Raton (City), as of and for the year ended June 30, 2009, which collectively comprise RPS's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the RPS' management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the RPS's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of RPS are intended to present the financial position and the changes in financial position and cash flows of RPS. They do not purport to and do not present fairly the financial position of the City as of June 30, 2009, and the changes in its financial position and its cash flows, where applicable, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

State of New Mexico
Raton Public Service Company
and
Mr. Hector Balderas
New Mexico State Auditor

As more fully described in Note 3 to the financial statements, RPS has errors in the carrying value of capital assets. In our opinion, capital assets should be recorded at cost, if purchased, or at fair value, if donated or contributed, to conform with accounting principles generally accepted in the United States of America, and those amounts should be depreciated over the estimated useful lives of the assets. The effects on the financial statements resulting from these errors are not reasonably determinable.

In our opinion, except for the effects of the matters discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of RPS, as of June 30, 2009, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the budget comparison referred to above presents fairly, in all material respects, the budgetary comparison for the year then ended is in conformity with the budgetary basis more fully described in Note 1 which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 30, 2009, on our consideration of RPS' internal control over financial reporting and 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* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the basic financial statements and budgetary comparisons. The additional schedule listed as "other supplemental information" in the table of contents is presented for the purposes of additional analysis and is not a required part of the basic financial statements of RPS. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

State of New Mexico
Raton Public Service Company
and
Mr. Hector Balderas
New Mexico State Auditor

For the year ended June 30, 2009, RPS has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Moss Adams LLP

Albuquerque, New Mexico
November 30, 2009

STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
BALANCE SHEET
June 30, 2009

ASSETS

Current Assets, Unrestricted	
Cash and cash equivalents	\$ 459,579
Accounts receivable from customers, net of allowance of \$135,427	423,201
Other accounts receivable	20,264
Inventory	
Coal	6,005
Distribution lines, materials and supplies	748,960
Prepaid expenses	7,094
Total unrestricted current assets	<u>1,665,103</u>
Restricted Assets - Cash and Cash Equivalents	
Sixty day operation reserve fund	427,519
Annual overhaul reserve fund	292,347
Capital improvement and replacement fund	1,867,845
Customer deposits	198,246
Customer advances for construction	72,747
Loan reserve	570,398
Total restricted current assets	<u>3,429,102</u>
Capital Assets	
Land	13,841
Utility plant, at cost	16,139,563
Accumulated depreciation	(10,024,745)
Total capital assets, net	<u>6,128,659</u>
Total assets	<u>\$ 11,222,864</u>

See Notes to Financial Statements.

STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
BALANCE SHEET (CONTINUED)
June 30, 2009

LIABILITIES AND NET ASSETS

Current Liabilities, Payable From Unrestricted Assets	
Accounts payable	\$ 538,580
Payroll taxes payable	70
Gross receipts tax payable	39,678
Deferred revenue	10,103
Due to water department	40,849
Interest payable	15,277
Loan payable, current portion	116,929
Compensated absences, current portion	22,970
Total unrestricted current liabilities	784,456
Current Liabilities, Payable From Restricted Assets	
Customer deposits	198,246
Customer advances for construction	72,747
Total restricted current liabilities	270,993
Non-Current Liabilities	
Loan payable, non-current portion	1,865,131
Compensated absences payable, non-current portion	68,911
	1,934,042
Total liabilities	2,989,491
Net Assets	
Invested in capital assets, net of related debt	4,146,599
Unrestricted	4,086,774
Total net assets	8,233,373
Total liabilities and net assets	\$ 11,222,864

See Notes to Financial Statements.

STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
Year Ended June 30, 2009

Operating Revenue	
Residential sales	\$ 3,309,685
Commercial sales	1,678,050
Power sales	1,608,670
Discounts forfeited	96,647
Connection charges	16,076
Total operating income	<u>6,709,128</u>
Operating Expenses	
Production	4,903,197
Distribution	641,610
Consumer contracts	116,361
Sales promotion	2,707
Administration and general	797,341
Total operating expenses before depreciation	<u>6,461,216</u>
Depreciation	<u>326,085</u>
Total operating expenses	<u>6,787,301</u>
Operating (Loss)	<u>(78,173)</u>
Non-Operating Income (Expenses)	
Interest income	35,058
Interest expense	(94,327)
Total non-operating income (expense)	<u>(59,269)</u>
Change in net assets	(137,442)
Net assets, beginning of year	<u>8,370,815</u>
Net assets, end of year	<u>\$ 8,233,373</u>

See Notes to Financial Statements.

STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
STATEMENT OF CASH FLOWS
Year Ended June 30, 2009

Cash Flows From Operating Activities	
Cash received from customers and others	\$ 6,743,413
Cash paid to suppliers	(5,344,403)
Cash paid to employees	(929,300)
Net cash provided by operating activities	<u>469,710</u>
Cash Flows From Capital and Related Financial Activities	
Acquisition and construction of capital assets	(1,199,131)
Loan principal payments	(113,031)
Loan interest payments	(94,327)
Net cash used by capital and related financial activities	<u>(1,406,489)</u>
Cash Flows From Investing Activities	
Interest income	35,058
Net cash provided by investing activities	<u>35,058</u>
Net (decrease) in cash	(901,721)
Cash, beginning of year	<u>4,790,402</u>
Cash, end of year	<u><u>\$ 3,888,681</u></u>
Reconciliation of operating income to Net Cash	
Provided by Operating Activities	
Operating (loss)	\$ (78,173)
Adjustments to Reconcile Operating Income to Net Cash	
Provided by Operating Activities	
Depreciation expense	326,085
Changes in assets and liabilities	
Receivables, net	5,827
Inventories	17,356
Prepaid expense	(17)
Accounts payable	150,053
Accrued payables	20,121
Deferred revenue	10,103
Customer deposits	18,355
Net cash provided by operating activities	<u><u>\$ 469,710</u></u>

See Notes to Financial Statements.

STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business. The State of New Mexico Raton Public Service Company (RPS) is a New Mexico Corporation acting under franchise from the City of Raton, New Mexico, for the purpose of providing utility services to rate paying customers within a service area allowed by law.

Reporting Entity. The reporting entity, for financial purposes, is determined using the basic criteria of oversight responsibility. Oversight responsibility includes, but is not limited to, financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. The reporting entity is the RPS, which is managed by a five-member board. RPS had no blended or discrete component units during the fiscal year ended June 30, 2009.

The physical assets of the Utility System are the property of the City of Raton. The management of the Utility System rests with RPS, a New Mexico Corporation, pursuant to a franchise contract, Ordinance No. 942, of the City of Raton. All of the RPS stock is held in trust for the benefit of the City of Raton. The City exercises all rate-making functions, and all financing is provided by the City through the issuance of municipal revenue bonds. Various bond reserves are established by the terms of the City's bond ordinances. RPS is managed by a board of five directors, three of whom are elected by the Trustee and two of who are members of the City Commission.

RPS is responsible for the fair presentation in the financial statements of the balance sheet, and the related statements of revenues, expenses and changes in retained earnings and cash flows in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of RPS accounting policies are described below.

Measurement Focus, Basis of Accounting and Basis of Presentation. The accounts of RPS are organized on the basis of a proprietary fund. Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. In accounting and reporting for its proprietary operations, RPS does not apply applicable FASB Statements and Interpretations issued after November 30, 1989. Proprietary funds include the following fund type:

Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Revenues are recognized when they are earned and expenses are recorded at the time liabilities are incurred.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of RPS enterprise fund are charges to customers. Operating expenses for enterprise funds include the cost of production, administrative expenses, and depreciation on capital assets. All distribution revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Government Wide and Fund Financial Statements. RPS is a single purpose government entity and has only business type activities. In the government-wide Statement of Net Assets, 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 receivable as well as long-term debt and obligations.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Net Assets – Investment in Capital Assets, net of Related Debt. This category reflects the portion of net assets that are associated with capital assets less outstanding capital asset related debt.

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

Accounts Receivable. It is RPS' policy to allow for trade receivables when the customer is no longer a participant in any city services, including power, water or trash service.

Inventory. Inventory is valued at lower of cost (first-in, first-out) or market.

Investment in Arkansas River Power Authority. The investment reflects RPS' amount of contributions to date for a new generation plant in Arkansas River Power Authority (ARPA).

STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Cash and Cash Equivalents. Amounts reflected as "cash and cash equivalents" on the balance sheet include amounts on hand and in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the Company. Investments, custom investment (savings) accounts and certificates of deposits with financial institutions are stated at cost or amortized cost, which approximates their market value.

Compensated Absences. RPS' policy allows employees to accumulate limited amounts of vacation and sick pay, which are payable to the employee upon termination or retirement.

Utility Rate. Utility rate schedules are prepared by an outside entity specializing in utility rate studies.

Jointly Governed Organization. RPS is a member of Arkansas River Power Authority (ARPA) with six other member cities. ARPA is an independent governmental entity organized under provision of the Colorado Revised Statutes. It operates within Colorado and New Mexico, but is not part of state government nor is it part of its member cities' governments, but is an intergovernmental entity created by its members. ARPA is responsible for providing the wholesale electric power requirements of its member cities. ARPA has the ability to issue and has issued bonds. ARPA is responsible for the payment of such bonds and RPS has no obligation for these bonds. Debt service from the ARPA bonds is included in the wholesale rates charged to its member cities. It is governed by an appointed Board and hires a manager to oversee the administration of the authority. ARPA issues a separate, publicly available financial report that includes financial statements and supplementary information. That report may be obtained from ARPA, Lamar, CO 85102.

Joint Powers Agreement. RPS, The City of Raton and ARPA have entered into joint powers agreement to jointly finance a Raton Generation Project (Project) and the ownership and operation thereof. ARPA and the City of Raton will finance the Project on a fifty-fifty shared basis. ARPA shall own the Project facilities and be responsible for their protection. Raton's share of the Project cost shall be considered an equity contribution to ARPA of which it is a member and carried on ARPA's books and financial records as equity assigned to Raton. RPS shall operate and maintain the Project upon acceptance in commercial service.

Budget. RPS does adopt a budget each year which is approved by the Board of Directors. The budgetary basis is similar to GAAP, except that interest expense and depreciation expense are not included. The budget is not legally binding on RPS, but rather is used as a management tool.

STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 2. DEPOSITS AND INVESTMENTS

RPS is authorized under the provision of Chapter 6, Article 10, paragraph 10, NMSA 1978, annotated, to deposit its money in banks, savings and loan associations and/or credit unions whose accounts are insured by an agency of the United States.

All money not immediately necessary for the public uses of RPS may be invested in bonds or negotiable securities of the United States, the state or any county, municipality or town, securities that are issued by the United States government or by its agencies or instrumentalities or in contracts with banks, savings and loan associations or credit unions for the present purchase and resale at a specified time in the future of specific securities. If RPS is unable to receive payment on public money at the rate of interest set forth by the State Board of Finance from financial institutions within the geographic boundaries of the governmental unit, the Authority may invest its money as provided under Section 6-10-10.1 NMSA 1978 with the New Mexico State Treasurer's investment pool for a period greater than 181 days. The State Treasurer's investment pool shall be invested as provided for State funds under Section 60-10-10 NMSA 1978.

Cash and investments held by RPS include cash on deposit with financial institutions and certificates of deposit with maturities of three months or less. Deposits are secured by both Federal depository insurance and collateral pledged in RPS' name. Under New Mexico law, all deposits with financial institutions must be collateralized in an amount not less than 50% (102% for overnight deposits) of the uninsured balance. Market values of all cash and deposits approximate the cost of those assets.

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. As of June 30, 2009, RPS' deposits of \$3,809,932 were exposed to custodial risk as follows:

Uninsured and collateralized with the collateral held in the financial institutions name	\$ 2,175,000
FDIC Insurance	254,174
Uninsured and uncollateralized exposed to custodial risk	<u>1,380,758</u>
Total cash deposits	<u>\$ 3,809,932</u>

STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 2. DEPOSITS AND INVESTMENTS (CONTINUED)

Schedule of cash and equivalents is as follows:

Account Name	Bank Type	Maturity Date <90 days	Bank Balance	Outstanding Items	Book Balance
Petty Cash			\$ -	600	600
International Bank					
Reserve for annual overhaul	Checking	No Maturity	226,826	(39)	226,787
Capital improvement	Checking	No Maturity	1,199,548	(200)	1,199,348
Debt service and bond reserve	Checking	No Maturity	86,340	(17,281)	69,059
Gross income account	Checking	No Maturity	818,603	(404,563)	414,040
Operational reserve	Checking	No Maturity	156,022	(26)	155,996
Special fund	Checking	No Maturity	136,063	(1,080)	134,983
Gross income investment	Cert. of Dep.	44,939	44,939	-	44,939
Operational reserve	Cert. of Dep.	271,524	271,524	-	271,524
Capital improvement	Cert. of Dep.	660,930	660,930	-	660,930
Reserve for annual overhaul	Cert. of Dep.	65,560	65,560	-	65,560
Customers advance for construction	Cert. of Dep.	75,003	75,003	-	75,003
Special fund	Cert. of Dep.	64,400	64,400	-	64,400
Bank of America					
Customers advance for construction	Checking	No Maturity	4,174	-	4,174
Total cash deposits			3,809,932	(422,589)	3,387,343
Bank of Albuquerque NMFA reserves	US Treasury T-Bills	501,338	501,338	-	501,338
Total cash deposits and investments			\$ 4,311,270	(422,589)	3,888,681

STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 2. DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits were collateralized at June 30, 2009 as follows:

	Book Balance	Bank Balance
International Bank	\$ 3,382,569	3,805,758
FDIC Insurance		250,000
Uninsured deposits		<u>3,555,758</u>
50% Collateralization		<u>1,777,879</u>
Collateralization held by Federal Reserve Bank, Kansas City		
US Treasury Notes, 4.25%, due 11/09, CUSIP No. 3133MUGP4		50,000
US Treasury Notes, 4.875%, due 06/10, CUSIP No. 3133XCSY0		75,000
US Treasury Notes, 4.75%, due 6/10, CUSIP No. 3133XDTA9		100,000
US Treasury Notes, 4.875%, due 12/12, CUSIP No. 3133XDTB7		75,000
US Treasury Notes, 4.875%, due 06/14, CUSIP No. 3133XKTV7		100,000
US Treasury Notes, 5.00%, due 09/13, CUSIP No. 3133X2Q4		<u>1,775,000</u>
Total pledged collateral		<u>2,175,000</u>
Over collateralized amount	\$	<u><u>397,121</u></u>
Bank of America		
Fully insured demand deposits	<u>\$ 4,174</u>	<u>\$ 4,174</u>

Description of restricted assets follows:

Capital Improvements and Replacement Fund. Monies restricted to pay, in whole or in part, periodic inspection, overhaul and repair, and the costs of additions, extensions and improvements to the energy utility system.

STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 2. DEPOSITS AND INVESTMENTS (CONTINUED)

60 - Day Operation Reserve Fund. Monies are restricted for the payment of the average cash expenses (inclusive of fuel and purchased power and energy capacity) required for a sixty-day period.

Annual Overhaul Reserve Fund. Monies restricted to pay, in whole or in part, periodic repairs, inspection, and overhaul costs of the boilers and generation equipment.

Customer Advances for Construction. Represents deposits made by customers, which are refunded when construction is completed.

Customer Deposits. Represents deposits made by customers, which are refunded when service is terminated and account balance is current.

Loan Reserve. Monies are restricted for the payment of long-term debt.

RPS' investments were \$501,338 at June 30, 2009. Investments are carried at fair value in the balance sheet. Investments consist of U.S. Treasury T-Bill funds with original maturities of 30-90 days.

NOTE 3. CAPITAL ASSETS

Capital Assets - Capital assets are stated at cost. The capitalization policy included all items with a cost of \$5,000 or more and a useful life greater than one year. The City of Raton owns the physical assets of the RPS. However, since the RPS has responsibility for the operation and maintenance of the utility system and since separate management of the utility is vested in the RPS by franchise granted under ordinance number 731, the assets have been included in the report. Purchased software is capitalized with the related computers in the equipment category. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings	25-50 years
Improvements	10-20 years
Equipment	3-10 years

STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 3. CAPITAL ASSETS (CONTINUED)

Capital asset activity and related depreciation during the fiscal year ended June 30, 2009 are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Capital assets not being depreciated</i>				
Land	\$ 13,841	-	-	13,841
Total capital assets not being depreciated	13,841	-	-	13,841
<i>Capital assets being depreciated</i>				
Intangible Asset (Investment in ARPA)	2,240,057	-	-	2,240,057
Buildings and improvements	11,179,144	1,191,650	-	12,370,794
Furniture, fixtures & equipment	1,504,231	7,481	-	1,511,712
Franchise	17,000	-	-	17,000
Total capital assets being depreciated	14,940,432	1,199,131	-	16,139,563
Accumulated depreciation	(9,698,660)	(326,085)	-	(10,024,745)
Total capital assets being depreciated, net	5,241,772	873,046	-	6,114,818
Total capital assets, net	\$ 5,255,613	873,046	-	6,128,659

RPS and ARPA have entered into a memorandum of understanding whereby RPS and ARPA financed the construction of a power generation facility on a fifty-fifty share basis. ARPA shall own the building and is responsible for its operation. In the event the ARPA is dissolved, the facility will be transferred to the City of Raton. Previously, RPS's portion of this facility was reported as an investment in ARPA. However, during 2007 this amount was reclassified as an intangible asset as shown above and will be depreciated over the estimated useful life of the project facilities of 35 years.

During the fiscal year ended 2007, a physical inventory of capital assets was completed by an outside firm. However, RPS discovered that there were errors in the detail listing from the physical inventory. The effects on the financial statements resulting from this error are not reasonably determinable.

NOTE 4. EMPLOYEE BENEFITS

Vacation Pay. Accumulated unpaid vacation, sick pay, and other employee benefit amounts are accrued when incurred (using the accrual basis of accounting). The applicable amounts do not exceed a normal year's accumulations.

STATE OF NEW MEXICO
 RATON PUBLIC SERVICE COMPANY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2009

NOTE 4. EMPLOYEE BENEFITS (CONTINUED)

Retirement Plan.

Plan Description - Substantially all of the RPS 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, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries.

Funding Policy - Plan members are required to contribute 13.15% of their gross salary. RPS is required to contribute 9.15%. The contribution requirements of plan members and the RPS are established under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. RPS contributions to PERA for the years ending June 30, 2009, 2008 and 2007 were \$187,027, \$186,511 and \$74,052, respectively, equal to the amount of the required contributions. PERA issues separate financial statements which may be obtained by writing to PERA, PO Box 2123, Santa Fe, NM 87504-2123.

NOTE 5. LONG-TERM DEBT

Long-term debt as of June 30, 2009, consists of the following:

Note payable to New Mexico Finance Authority, original amount of \$2,693,610, due in annual installments through May 1, 2022, interest rate 2.06% to 4.86%.	\$ 1,982,060
Less current portion	<u>(116,929)</u>
Long-term portion of note payable	<u>\$ 1,865,131</u>

The loan from New Mexico Finance Authority (NMFA) is an obligation of the City of Raton with future revenues of RPS pledged as collateral. The purpose is to finance an electric generation plant in a joint powers agreement with Arkansas River Power Authority. The interest rate fluctuates based on the remaining life of the loan. The interest rate at June 30, 2009 was 4.48%.

STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 5. LONG-TERM DEBT (CONTINUED)

The following is a summary of loan transactions of RPS for the year ended June 30, 2009:

	Loan	Compensated Absences
Beginning Balance	\$ 2,095,951	\$ 87,390
Additions	-	44,184
Deletions	(113,891)	(39,693)
Ending Balance	<u>\$ 1,982,060</u>	<u>\$ 91,881</u>
Amount due in one year	<u>\$ 116,929</u>	<u>\$ 22,970</u>

The annual requirement to amortize the principal of all debt outstanding as of June 30, 2009 is as follows:

Year Ended June 30,	Principal	Interest	Total
2010	\$ 116,929	85,481	\$ 202,410
2011	121,492	81,221	202,713
2012	126,359	76,670	203,029
2013	131,562	71,795	203,357
2014	137,138	66,561	203,699
2015-2019	783,862	240,323	1,024,185
2020-2022	564,718	53,957	618,675
Total	<u>\$ 1,982,060</u>	<u>676,008</u>	<u>\$ 2,658,068</u>

NOTE 6. NET ASSETS

Municipal Uses. RPS shall furnish to the City all electric energy needed by the City for the lighting of its municipal offices, for street lighting, and for general municipal purposes within the City's electric utility service area, all without requiring payment therefore from the City. The amount consumed and not billed to the City for the year ended June 30, 2009 was \$394,494, respectively. Amount consumed and billed to the City for the year ended June 30, 2009 was \$113,497. For all power an electric energy taken by the City and its departments for its proprietary purposes, including but not limited to water treatment and pumping and sewage proprietary purposes, the City shall pay to RPS the actual cost thereof, computed as the rolling three-month average of fuel and purchased energy costs of the energy furnished.

STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 6. NET ASSETS (CONTINUED)

Rate and Income Requirements and Disposition of System Revenues.

1. RPS shall set aside the entire gross income and revenues of the utility system into a special fund to be known as the "City of Raton Utility System Gross Income Fund", the operational, reserve and debt payments below described. After payment of which monies, then RPS each year shall transfer and pay over to the City Treasurer all remaining income and revenues derived from the operation of the System for any lawful purpose of purposes then required or permitted under the constitution of the State of New Mexico and the bond ordinances and other ordinances of the City.
2. So long as the franchise shall remain in force and effect, the City shall set the utility system expended in the following priorities, to-wit:
 - a. RPS shall first set aside each month into a fund called "Operation and Maintenance Fund", monies sufficient to pay current expenses of the operation of the utility System, excluding depreciation and amortization expenses as they become due and payable. At June 30, 2009 the cash balance in this Fund was \$459,579.
 - b. From remaining income, RPS shall next set aside funds as required for debt service and bond reserves, under any ordinances of the City creating and issuing energy utility system bonds for improvements, replacements, or expansion of the City's energy utility system. The City shall continue to retain full authority to create and issue system lawful for such system bonds.
 - c. From any remaining income, the RPS shall next set aside each month into a reserve called "Operation Reserve Fund", an accumulation of cash reserves adequate to permit the payment of the average cash expenses (exclusive of fuel and purchased power and energy capacity) required for a sixty day period. Upon execution of this Ordinance, the sum of \$75,000 shall be set aside into such a fund, for the amount of the fiscal year ending June 30, 1985. Thereafter, this reserve is to be maintained at an amount determined to be a sixty day average of the preceding year's cash expenses (exclusive of fuel and purchased power and capacity) or \$75,000, whichever is greater.
 - d. From any remaining income, RPS shall next set aside, each month, on-twelfth (1/12th) of two and one-half percent (2.5%) of the immediately preceding fiscal year's gross annual revenues into the "Reserve for Annual Overhaul, Inspection and Repair of Boilers and Generation Equipment" reserve. As used throughout this Ordinance, "gross annual revenues" shall mean all revenues paid to the Company by rate payers for the retail sale of energy and earned interest, but shall not include (1) taxes or surcharges; (2) insurance proceeds; (3) payments from other utilities, co-generators, producers or

STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 6. NET ASSETS (CONTINUED)

transmitters of energy; (4) damage awards; (5) proceeds from sale of assets; (6) payments from the city of Raton for energy consumed; or (7) other revenues received from sources other than sales to rate paying customers, and earned interest. Amounts in said fund shall be used to pay, in whole or in part, periodic repairs, inspection, and overhaul costs of the coils and generation equipment; provided, however, that such fund shall be established when the accumulated balance of the amounts set aside equals four and one-half percent (4.5%) of the gross annual revenues for the immediately preceding fiscal year. Upon execution of this Ordinance, the sum of \$75,000 shall be set aside into such fund for the amount of the fiscal year ending June 30, 1985.

- e. From any remaining income RPS shall next set aside monthly payments of one-twelfth each, to the "City of Raton Utility System, Capital Improvement and Replacement Fund", a cash reserve as will be equal during each fiscal year to ten percent (10%) of the Company's present Capital Improvement Reserve shall be available to pay, in whole or in part, periodic inspection, overhaul and repair, and the costs of additions, extensions and improvements to the energy utility system; provided, however that such fund equal two hundred percent (200%) of the gross annual revenues of RPS for the preceding fiscal year. Thereafter, the maximum amount in such fund may be increased by the City, from year to year, by Resolution of the City Commission.
 - f. From any remaining income RPS shall next pay to the City, in monthly payments of one-twelfth each, an amount equal to three percent (3%) of the immediately preceding fiscal year's gross annual revenues, as defined above.
3. The residue of the revenues of RPS shall be paid to the City, annually. Such payment was made during the year ended June 30, 2009.

STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2009

NOTE 6. NET ASSETS (CONTINUED)

Calculation of Reserve Balances Allowed Under the Franchise Agreement

Calculation of cash revenues for reserve balance

2008 operating revenue on accrual basis	\$	6,691,650
Add		
Interest earned		163,178
Beginning gross receivables		560,597
Less		
Ending gross receivables		(593,436)
Bad debt expense		(13,637)
Add		
Ending allowances for doubtful accounts		144,144
Less		
Beginning allowances for doubtful accounts		(130,944)
Sales to City of Raton/water		(105,770)
Total 2008 gross annual revenue adjusted to cash basis	\$	6,715,782

Calculation of cash revenues for reserve balance

2008 operating expenses on accrual basis	\$	6,367,726
Add		
Non-operating expenses		98,241
Beginning accounts payable (exclusive of fuel, ARPA, and sales tax)		258,420
Ending prepaid expenses		7,077
Beginning accrued vacation payable		63,630
Beginning accrued sick leave payable		2,372
Ending supplies inventory		692,869
Less		
Purchased power		(4,224,115)
Ending accounts payable (exclusive of fuel, ARPA, and sales tax)		(258,420)
Bad debt expense		(13,637)
Beginning prepaid expenses		(18,954)
Ending accrued vacation payable		(80,408)
Ending accrued sick leave payable		(6,982)
Beginning supplies inventory		(800,962)
Total 2008 gross annual expenses adjusted to cash basis	\$	2,086,857

60-Day Operating Reserve

60-Day average of the preceding years cash expenses (exclusive of fuel, purchase power, and energy capacity OR \$75,000, whichever is greater)	\$	2,086,857
Divided by days per year		360
		5,797
Times sixty days		60
60-Day operating maximum required reserve	\$	347,810
Beginning reserve balance	\$	396,506
Allowable deposits		31,013
2009 cash outlay		-
Ending reserve balance	\$	427,519

STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2009

NOTE 6. NET ASSETS (CONTINUED)

Reserve for Annual Overhaul

Monthly deposit of 1/12 of 2.5% of the preceding
year's gross annual revenues, not to exceed 4.5% of the
preceding year's gross revenues

Beginning reserve balance	\$	268,489
Actual deposits		23,858
2009 cash outlay		-
Ending reserve balance	\$	<u>292,347</u>

Maximum balance		
2008 annual gross revenues	\$	6,715,782
		4.5%
Maximum reserve balance	\$	<u>302,210</u>

Allowable deposits (2.5% of gross annual revenues)	\$	<u>167,895</u>
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Capital improvements and replacement reserve

Monthly deposit of 1/12 of 10% of the preceding years
gross annual revenues not to exceed 200% of the
preceding year's gross annual revenues

Beginning reserve balance	\$	3,645,261
Allowable deposits (10% of gross annual revenues)		<u>671,578</u>

Ending allowable reserve balance	\$	<u>4,316,839</u>
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Beginning reserve balance	\$	2,768,908
Actual deposits		203,863
2009 cash outlay		(1,104,926)
Ending reserve balance	\$	<u>1,867,845</u>

Maximum balance		
2008 gross annual revenues	\$	6,715,782
Multiplied times 2		<u>2</u>

Maximum reserve balance	\$	<u>13,431,564</u>
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Reserve analysis

	Actual Cash Balance at June 30, 2009	Maximum Required Balance at June 30, 2009	Over (Under) Maximum
Sixty day operating revenue fund	\$ 427,519	347,810	79,709
Annual overhaul reserve fund	292,347	302,210	(9,863)
Capital improvement and replacement fund	1,867,845	13,431,564	(11,563,719)

STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 7. INSURANCE

RPS is a member of the New Mexico Insurance Authority through the City of Raton. Risk of loss equates purchase of commercial insurance. RPS is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which RPS carries commercial insurance.

STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
BUDGET-TO-ACTUAL SCHEDULE
YEAR ENDED JUNE 30, 2009

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
Operating revenues				
Charges for sales and services	\$ 7,724,591	7,724,591	6,709,128	(1,015,463)
Operating expenses				
Production	5,692,310	5,692,310	5,019,558	672,752
Distribution & maintenance	1,399,497	1,399,497	641,610	757,887
General and administrative	646,367	646,367	800,048	(153,681)
Total Operating Expenses	7,738,174	7,738,174	6,461,216	1,276,958
Operating Income (loss)	(13,583)	(13,583)	247,912	261,495
Nonoperating revenues (expenses)				
Interest income	108,000	108,000	35,058	(72,942)
Net Income (Loss)	94,417	94,417	282,970	188,553
Cash to Balance	(94,417)	(94,417)	-	-
Change in net assets	\$ -	-	282,970	-
Unbudgeted expenditures				
Interest on Debt Service			94,327	
Depreciation			326,085	
Net income (loss) GAAP basis			\$ (137,442)	

STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
SUPPLEMENTAL SCHEDULE OF OPERATING EXPENSES
Year Ended June 30, 2009

Operating Expenses

Production

Salaries	\$ 204,033
Vacation pay expense	16,391
Sick leave pay expense	9,113
Employee benefits	86,856
Purchased power	4,442,545
ARPA services	90,579
Maintenance	
Structures and improvements	40,901
Generating and electric equipment	11,095
Station equipment	(7,485)
Station supplies and expense	8,270
Training	191
Transportation	708

Total production expenses

4,903,197

Distribution

Operation of lines	128,586
Services on customers' premises	42,769
Maintenance	
Overhead and underground systems	40,996
Line transformers and devices	16,385
Service	26,916
Meters	17,148
Street lighting and signal system	44,960
Other distribution expenses	29,162
Christmas lighting	8,390
Record system	18,861
General property	12,234
Employee benefits	140,573
Vacation pay expense	24,468
Sick leave pay expense	19,066
Training	25,641
Transportation	45,455

Total distribution expenses

641,610

STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
SUPPLEMENTAL SCHEDULE OF OPERATING EXPENSES (CONTINUED)
Year Ended June 30, 2009

Consumer Contracts	
Meter reading	\$ 26,304
Customer records and collections	<u>90,057</u>
Total consumer contracts	<u>116,361</u>
Sales and Promotions	
General advertising	<u>2,707</u>
Administrative and General Expenses	
Salaries - executives	74,110
Salaries - general office	46,932
Vacation pay	13,173
Sick leave pay	3,974
Employee benefits	84,181
Directors fees	10,198
General office supplies and expense	40,664
General office maintenance	526
Insurance	78,398
Legal and audit	413,267
Transportation	381
Special services	17,920
Bad debt	<u>13,617</u>
Total administrative and general expenses	<u>797,341</u>
Total operating expenses excluding depreciation	<u><u>\$ 6,461,216</u></u>

**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***

State of New Mexico
Raton Public Service Company
Raton, New Mexico
and
Mr. Hector Balderas
New Mexico State Auditor
Santa Fe, New Mexico

We have audited the financial statements of the business-type activities and budgetary comparison listed as supplementary information in the table of contents of the Raton Public Service Company (RPS) a component unit of the City of Raton, as of and for the year ended June 30, 2009, which collectively comprise RPS's basic financial statements as listed in the table of contents and have issued our report thereon dated November 30, 2009. Our report was modified to include a qualification for errors in the carrying value of capital assets. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered RPS' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of RPS' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of RPS' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of RPS's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We

State of New Mexico
Raton Public Service Company
Raton, New Mexico
and
Mr. Hector Balderas
New Mexico State Auditor
Santa Fe, New Mexico

consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting, 04-05 and 08-02.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the RPS's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses, and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 04-05 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether RPS' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 02-01, 08-03, 09-01 and 09-02.

The RPS's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the organization's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within RPS, the Commissioners, the State Auditor, and the New Mexico State Legislature and is not intended to be and should not be used by anyone other than those specified parties.

Moss Adams LLP

Albuquerque, New Mexico
November 30, 2009

STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2009

<u>Comment</u>	<u>Current Status</u>
02-01 Policy and Procedures Manual – RPS	Updated and Included
04-05 Capital Assets	Updated and Included
08-01 Expensing of Inventory used in Operations	Resolved
08-02 Aged Accounts Receivable Finding	Updated and Included
08-03 IT Environment	Updated and Included

**STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2009**

02-01 Polices and Procedures Manual

CONDITION

There are no written polices and procedures for accounting and purchasing.

CRITERIA

Policies and procedures should be maintained to ensure proper accounting and ensure that internal control structure is adequate and in operation.

EFFECT

Without policies and procedures, there may be inconsistencies on how items are processed and may lead to improper accounting method utilization.

CAUSE

Due to the size of RPS and the fact that the majority of transactions are routine, management has not determined it cost effective to develop formal polices and procedures for accounting.

RECOMMENDATION

Policy and procedure manuals should be written and adopted by the Board.

MANAGEMENT RESPONSE

RPS has an existing purchasing policy, implemented on July 24, 2002, in place and follows state purchasing requirements. RPS is working on an accounting policy governing internal controls.

STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended June 30, 2009

04-05 Capital Assets

CONDITION

During our testwork of capital assets, the following was noted:

- A physical inventory was completed at or near the 2007 fiscal year-end by an outside firm. However, the inventory taken by the firm did not agree to amounts posted in the general ledger for fixed assets. Additionally, there are unresolved errors in the detail listing from the physical inventory.
- Movable assets, such as computers, are not tagged with unique identifying numbers.
- RPS does not have policies and procedures related to the disposition of fixed assets.

CRITERIA

Sound accounting requirements require a detailed asset listing, which should be in agreement with the general ledger. In addition, RPS is not in compliance with 1 NMAC 1.2.1, Accounting and Control of Fixed Assets since the assets are not tagged.

EFFECT

RPS is not in compliance with 1 NMAC 1.2.1 and assets could be stolen or misplaced without RPS's knowledge.

CAUSE

Adequate policies and procedures are not in place to help monitor this situation.

RECOMMENDATION

Develop and implement policies and procedures that incorporate tagging all assets and calls for a complete physical inventory at or near year-end and proper disposal of assets. Reconcile all capital assets to the general ledger. Management should consider grouping capital assets within their system as they are presented in the financial statements.

MANAGEMENT RESPONSE

The discrepancy between the year-end inventory and the general ledger valuations is resolved. The inventory system was using an average valuation for assets compared to the actual for the GL. RPS will work to properly tag moveable assets. RPS follows state requirements for the disposition of assets and will formalize the proper methodology via policy.

STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended June 30, 2009

08-02 Aged Accounts Receivable Finding

CONDITION

There was a discrepancy between the accounts receivable balance reflected on the aged listing and the general ledger accounts receivable balance.

CRITERIA

The total accounts balance per the aged accounts receivable listing should agree to the general ledger balance at year end.

EFFECT

The accounts receivable balance reflected on the general ledger was understated and not representative of the actual account receivable balance in the aged accounts receivable listing at year end. Related revenues were also understated.

CAUSE

Unapplied credits were credited against accounts receivable in the general ledger even though there was no related accounts receivable balance for these amounts.

RECOMMENDATION

We recommend establishing procedures to ensure that the accounts receivable balance on the aged listing agrees to the general ledger balance at year end.

MANAGEMENT RESPONSE

The reimbursements (unapplied credits) from the Water Fund were incorrectly booked. A new account has been set up to properly book unapplied credits as deferred revenue.

STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended June 30, 2009

08-03 IT Environment Finding

CONDITION

During our testing of internal controls relating to information technology controls we noted the following opportunities for the County to improve controls and overall system security:

- RPS does not have a change management program in place for implementing software application programming or other technology changes. It was noted that the A/R system was modified by an external consultant. Modified applications bear an increased risk of lost or damaged data, or the introduction of processing errors.
- Currently, Raton Public Service does not have a password policy in place. Even access to non-critical systems can be a risk for RPS.
- Security access has not been tested over the past year.

CRITERIA

There should be proper safeguards and controls over information technology to ensure proper financial reporting and safeguarding of County information.

EFFECT

The safeguarding of important and confidential information can be compromised. Also, once weak passwords are exploited, a determined hacker can use other systems within the network to launch attacks or intrusion attempts against critical systems.

CAUSE

There are no established policies and procedures for the application of implementing new software and passwords. Additionally, there has not been any testing by an outside security expert.

STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended June 30, 2009

08-03 IT Environment Finding

RECOMMENDATION

We recommend the County implement the following:

- A process should be developed to document and manage all technology changes at RPS, including those performed by external consultants. Change management should at a minimum document the review and approval of the proposed change, developing and testing changes in a non-production environment, rollback procedures, and approval to migrate the change to production. Development documentation, performed by an external consultant, should be retained in-house by RPS. Such proactive measures will help ensure the expected performance of the system, and help anticipate any unforeseen problems.
- A password policy should be uniform across the organization regardless of the employee's status or role. Everyone should be required to adhere to a regular schedule of changing their passwords for access to the network. This policy should be clearly defined with the following parameters: requiring users to change their passwords every 90 days, maintaining password uniqueness, and having at least 8 alphanumeric characters in their password. In addition, the system should lock out an account after three failed login attempts.
- RPS should establish policies and procedures to ensure that a security assessment will be conducted annually and that penetration testing be added to the quarterly maintenance routines.

MANAGEMENT'S RESPONSE

RPS will work with the City and the IT consultant to develop a password and security assessment policy. The IT consultant does monitor all changes to the system. Most changes, including software updates or loading new software can only be performed by the consultant. Regarding the modifications to the accounts receivable system, this was an upgrade of the software by the third party provider. It was performed in concert with the IT consultant. Daily data backups are done through a system implemented by the City's IT consultant to avoid issues of data loss and/or corruption.

STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended June 30, 2009

09-01 Payroll Finding

CONDITION

Three of five employee payroll time cards tested were not signed by the department supervisor.

CRITERIA

Good internal controls include having the employee payroll time cards being signed by the department supervisor indicating their review.

EFFECT

The number of hours recorded and related account codes indicated on the employee time cards may not be reflective of actual hours worked and account codes may not be accurate.

CAUSE

Three of five employee payroll time cards tested were not reviewed by the payroll supervisor.

RECOMMENDATION

We recommend establishing procedures to ensure that bi-weekly payroll time cards are reviewed and signed by the department supervisor.

MANAGEMENT RESPONSE

The issue has been addressed with all supervisors. It was reinforced that the supervisors are directly responsible for reviewing and approving all timesheets prior to submission for processing.

STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended June 30, 2009

09-02 Accounts Payable Finding

CONDITION

During our test of cutoff for accounts payable, we noted three expense transactions that occurred during fiscal year 2009 and paid in the subsequent period were not accrued at year end.

CRITERIA

Good internal controls require that expenditures incurred near year end are recorded in the proper period.

EFFECT

Accounts payable and expenses were understated for the fiscal year ended 2009.

CAUSE

Policies and procedures do not exist to ensure that all accounts payable are properly recorded.

RECOMMENDATION

We recommend establishing procedures to ensure that expenditures incurred near year end are recorded in the proper period.

MANAGEMENT RESPONSE

This issue has been addressed in conjunction with Moss Adams regarding the proper method to address payments made in subsequent periods.

**STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
EXIT CONFERENCE
Year Ended June 30, 2009**

An exit conference was held on November 30, 2009. Attending were the following:

Representing RPS:

Kathy McQueary	Vice President of the Board
Glenn Fisher	General Manager
Sandy Chavez	Office Manager

Representing Moss Adams LLP:

James Hartogensis, CPA Senior Manager

The financial statements were prepared with the assistance of Moss Adams LLP.