



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

**FINANCIAL STATEMENTS**

**JUNE 30, 2010**

**MOSS ADAMS<sub>LLP</sub>**

Certified Public Accountants | Business Consultants

*Acumen. Agility. Answers.*

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

**Official Roster  
As of June 30, 2010**

**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 basic financial statements 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, 2010, as listed in the table of contents. We have also audited the budget-to-actual schedule presented as supplementary information for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the RPS' management. Our responsibility is to express an opinion 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 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 opinion.

As discussed in Note 1, the financial statements present only RPS and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2010, 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, 2010, 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-to-actual schedule referred to above presents fairly, in all material respects, the budgetary comparison for the year then ended 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 22, 2011, 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 that collectively comprise RPS's basic financial statements. The additional schedule listed as "other supplemental information" in the table of contents is presented for 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, 2010, 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.

*Mess Adams LLP*

Albuquerque, New Mexico  
November 22, 2011

**STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
BALANCE SHEET  
June 30, 2010**

**ASSETS**

Current Assets, Unrestricted

Cash and cash equivalents	\$ 544,253
Accounts receivable from customers, net of allowance of \$132,745	529,748
Other accounts receivable	1,134
Inventory	
Coal	6,005
Distribution lines, materials and supplies	678,372
Prepaid expenses	15,252
<b>Total unrestricted current assets</b>	<u><u>1,774,764</u></u>

Restricted Assets - Cash and Cash Equivalents

Sixty day operation reserve fund	347,810
Annual overhaul reserve fund	295,552
Capital improvement and replacement fund	1,734,867
Customer deposits	171,563
Customer advances for construction	72,747
Loan reserve	1,674,252
<b>Total restricted current assets</b>	<u><u>4,296,791</u></u>

Capital Assets

Land	13,841
Utility plant, at cost	21,179,970
Accumulated depreciation	(10,414,936)
<b>Total capital assets, net</b>	<u><u>10,778,875</u></u>

<b>Total assets</b>	<u><u>\$ 16,850,430</u></u>
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*See Notes to Financial Statements.*

STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
BALANCE SHEET (CONTINUED)  
June 30, 2010

**LIABILITIES AND NET ASSETS**

Current Liabilities, Payable From Unrestricted Assets

Accounts payable	\$ 388,825
Payroll taxes payable	18,564
Gross receipts tax payable	37,052
Deferred revenue	11,378
Due to water department	62,781
Interest payable	49,141
Loan payable, current portion	311,683
Compensated absences, current portion	30,259
<b>Total unrestricted current liabilities</b>	<b>909,683</b>

Current Liabilities, Payable From Restricted Assets

Customer deposits	171,563
Customer advances for construction	72,747
<b>Total restricted current liabilities</b>	<b>244,310</b>

Non-Current Liabilities

Loan payable, non-current portion	7,197,944
Compensated absences payable, non-current portion	90,778
	<u>7,288,722</u>

<b>Total liabilities</b>	<b>8,442,715</b>
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Net Assets

Invested in capital assets, net of related debt	3,269,248
Unrestricted	5,138,467
<b>Total net assets</b>	<b>8,407,715</b>

<b>Total liabilities and net assets</b>	<b>\$ 16,850,430</b>
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*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, 2010**

Operating Revenue	
Residential sales	\$ 3,856,715
Commercial sales	1,839,382
Power sales	1,822,535
Discounts forfeited	109,547
Connection charges	8,728
<b>Total operating revenue</b>	<b>7,636,907</b>
Operating Expenses	
Production	5,341,386
Distribution	683,049
Consumer contracts	117,144
Sales promotion	2,431
Administration and general	574,436
<b>Total operating expenses before depreciation</b>	<b>6,718,446</b>
Depreciation	390,191
<b>Total operating expenses</b>	<b>7,108,637</b>
Operating Income	528,270
Non-Operating Income (Expense)	
Interest income	6,584
Interest expense	(360,512)
<b>Total non-operating income (expense)</b>	<b>(353,928)</b>
<b>Change in net assets</b>	174,342
Net assets, beginning of year	8,233,373
<b>Net assets, end of year</b>	<b>\$ 8,407,715</b>

*See Notes to Financial Statements.*

**STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
STATEMENT OF CASH FLOWS  
Year Ended June 30, 2010**

Cash Flows From Operating Activities	
Cash received from customers and others	\$ 7,524,082
Cash paid to suppliers	(5,827,804)
Cash paid to employees	(911,011)
<b>Net cash provided by operating activities</b>	<b><u>785,267</u></b>
Cash Flows From Capital and Related Financing Activities	
Acquisition and construction of capital assets	(5,040,407)
Proceeds from loans	5,742,409
Loan principal payments	(214,842)
Loan interest payments	(326,648)
<b>Net cash provided by capital and related financing activities</b>	<b><u>160,512</u></b>
Cash Flows From Investing Activities	
Interest income	6,584
<b>Net cash provided by investing activities</b>	<b><u>6,584</u></b>
Net increase in cash	952,363
Cash, beginning of year	<u>3,888,681</u>
<b>Cash, end of year</b>	<b><u>\$ 4,841,044</u></b>
<b>Reconciliation of cash to the balance sheet</b>	
Cash and cash equivalents	\$ 544,253
Restricted assets - cash and cash equivalents	4,296,791
Total cash and cash equivalents	<b><u>\$ 4,841,044</u></b>
<b>Reconciliation of operating income to Net Cash</b>	
Provided by Operating Activities	
Operating (loss)	\$ 528,270
Adjustments to Reconcile Operating Income to Net Cash	
Provided by Operating Activities	
Depreciation expense	390,191
Changes in assets and liabilities	
Receivables, net	(87,417)
Inventories	70,588
Prepaid expense	(8,158)
Accounts payable	(149,755)
Accrued payables	66,956
Deferred revenue	1,275
Customer deposits	(26,683)
<b>Net cash provided by operating activities</b>	<b><u>\$ 785,267</u></b>

See Notes to Financial Statements.

**STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

**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, 2010.

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 net assets 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, 2010**

**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.

*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.

*Restricted Resources.* 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.

*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 deposit with financial institutions are stated at cost or amortized cost, which approximates their market value.

**STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

*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 for 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, Colorado 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. During the year ended June 30, 2010, RPS entered into an agreement to purchase the Project in full.

*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, 2010**

**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, 2010, RPS' deposits of \$3,558,578 were exposed to custodial risk as follows:

Uninsured and collateralized with the collateral held in the financial institutions name	\$ 1,775,000
FDIC Insurance	749,764
Uninsured and uncollateralized exposed to custodial risk	<u>1,033,814</u>
Total cash deposits	<u>\$ 3,558,578</u>

**STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

**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		230,017	(26)	229,991
Capital improvement	Checking		1,066,516	(146)	1,066,370
Debt service and bond reserve	Checking		342,213	(41,699)	300,514
Gross income account	Checking		541,339	(49,155)	492,184
Operational reserve	Checking		156,308	(22)	156,286
Special fund	Checking		157,551	(825)	156,726
Gross income investment	Cert. of Dep.		7,217	-	7,217
Operational reserve	Cert. of Dep.		191,524	-	191,524
Capital improvement	Cert. of Dep.		668,497	-	668,497
Reserve for annual overhaul	Cert. of Dep.		65,560	-	65,560
Customers advance for construction	Cert. of Dep.		68,573	-	68,573
Special fund	Cert. of Dep.		63,263	-	63,263
Total cash deposits			3,558,578	(91,873)	3,466,705
Bank of NY Mellon					
Money Market Funds			1,065,241	-	1,065,241
NMFA reserves					
Held at State Treasurer's Office			308,498	-	308,498
Total cash and cash equivalents			\$ 4,932,317	(91,273)	4,841,044

**STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 2. DEPOSITS AND INVESTMENTS (CONTINUED)**

Deposits were collateralized at June 30, 2010 as follows:

	Book Balance	Bank Balance
International Bank	\$ 3,466,705	3,558,578
FDIC Insurance		(749,764)
Uninsured deposits		<u>2,808,814</u>
50% Collateralization requirement		1,404,407
Collateralization held by Federal Reserve Bank, Kansas City US Treasury Notes, 5.00%, due 9/13, CUSIP No. 3133X2Q4		<u>1,775,000</u>
Total pledged collateral		<u>1,775,000</u>
Collateralized in excess of the 50% requirement	\$	<u><u>370,593</u></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.

*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.



**STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

**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

Capital asset activity and related depreciation during the fiscal year ended June 30, 2010 are as follows:

	Beginning Balance	Increases	Reclasses	Ending Balance
Capital assets not being depreciated				
Land	\$ 13,841	-	-	13,841
Total capital assets not being depreciated	<u>13,841</u>	<u>-</u>	<u>-</u>	<u>13,841</u>
Capital assets being depreciated				
Intangible assets (investment in ARPA)	2,240,057		(2,240,057)	-
Buildings and improvements	12,370,794	5,036,387	2,240,057	19,647,238
Furniture, fixtures & equipment	1,511,712	4,020		1,515,732
Franchise	<u>17,000</u>	<u>-</u>	<u>-</u>	<u>17,000</u>
Total capital assets being depreciated	<u>16,139,563</u>	<u>5,040,407</u>	<u>-</u>	<u>21,179,970</u>
Accumulated depreciation	<u>(10,024,745)</u>	<u>(390,191)</u>	<u>-</u>	<u>(10,414,936)</u>
Total capital assets being depreciated, net	<u>6,114,818</u>	<u>4,650,216</u>	<u>-</u>	<u>10,765,034</u>
Total capital assets, net	<u>\$ 6,128,659</u>	<u>4,650,216</u>	<u>-</u>	<u>10,778,875</u>

**STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 3. CAPITAL ASSETS (CONTINUED)**

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. During the year ended June 30, 2010, RPS and ARPA entered into an agreement for RPS to purchase the facility in full.

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.

*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, 2010, 2009 and 2008 were \$189,928, \$187,027 and \$186,511, 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, New Mexico 87504-2123.

**STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 5. LONG-TERM DEBT**

Long-term debt as of June 30, 2010, 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%.	\$ 1,865,131
Note payable to New Mexico Finance Authority, original amount of \$4,619,684, due in annual installments through May 1, 2029, interest rate 3.81% to 4.95%.	4,543,247
Note payable to New Mexico Finance Authority, original amount of \$1,122,725, due in annual installments through May 1, 2029, interest rate 3.67% to 4.62%.	<u>1,101,249</u>
Total long-term debt	<u>7,509,627</u>
Less current portion	<u>311,683</u>
Long-term portion of note payable	<u>\$ 7,197,944</u>

The loan from New Mexico Finance Authority (NMFA) for \$2,693,610 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. The interest rate fluctuates based on the remaining life of the loan. The interest rate at June 30, 2010 was 3.83%.

The loan from New Mexico Finance Authority (NMFA) for \$4,619,684 is an obligation of the City of Raton with future revenues of RPS pledged as collateral. The purpose is to finance the purchase of a power generation plant and a transmission line. The interest rate fluctuates based on the remaining life of the loan. The interest rate at June 30, 2010 was 3.81%.

The loan from New Mexico Finance Authority (NMFA) for \$1,122,725 is an obligation of the City of Raton with future revenues of RPS pledged as collateral. The purpose is to finance the expansion of an existing substation. The interest rate fluctuates based on the remaining life of the loan. The interest rate at June 30, 2010 was 3.67%.

**STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 5. LONG-TERM DEBT (CONTINUED)**

The following is a summary of loan transactions of RPS for the year ended June 30, 2010:

	Loans	Compensated Absences
Beginning balance	\$1,982,060	91,881
Additions	5,742,409	125,150
Deletions	<u>(214,842)</u>	<u>(95,994)</u>
Ending balance	<u>\$7,509,627</u>	<u>121,037</u>
 Amount due in one year	 <u>\$ 311,683</u>	 <u>30,259</u>

The annual requirement to amortize the principal of all debt outstanding as of June 30, 2010 is as follows:

	Principal	Interest	Total
2011	\$ 311,683	294,845	606,528
2012	317,795	287,949	605,744
2013	324,439	280,325	604,764
2014	331,645	271,816	603,461
2015	339,869	262,097	601,966
2016-2020	1,909,171	1,128,772	3,037,943
2021-2025	2,079,952	725,084	2,805,036
2026-2029	<u>1,895,073</u>	<u>233,619</u>	<u>2,128,692</u>
Total	<u>\$ 7,509,627</u>	<u>3,484,507</u>	<u>10,994,134</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, 2010 was \$456,356. Amount consumed and billed to the City for the year ended June 30, 2010 was \$142,593. For all power and 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, 2010**

**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.
  - 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 (1/12<sup>th</sup>) 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, 2010**

**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 coilers and generation equipment; provided, however, that such fund shall be established when the accumulated base 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. No payments were made to the City during the year ended June 30, 2010, as amounts held were below the maximum allowed amount specified in the agreement described above.

STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2010

NOTE 6. NET ASSETS (CONTINUED)

Calculation of Reserve Balances Allowed Under the Franchise Agreement

Calculation of cash revenues for reserve balance

2009 operating revenue on accrual basis	\$	6,709,128
Add		
Interest earned		35,058
Beginning gross receivables		593,436
Less		
Ending gross receivables		(578,892)
Bad debt expense		(13,617)
Add		
Ending allowances for doubtful accounts		135,427
Less		
Beginning allowances for doubtful accounts		(144,144)
Sales to City of Raton/water		(113,497)
<b>Total 2009 gross annual revenue adjusted to cash basis</b>	<u>\$</u>	<u>6,622,899</u>

Calculation of cash revenues for reserve balance

2009 operating expenses on accrual basis	\$	6,787,301
Add		
Non-operating expenses		94,327
Beginning accounts payable (exclusive of fuel, ARPA, and sales tax)		388,528
Ending prepaid expenses		7,094
Beginning accrued vacation payable		80,408
Beginning accrued sick leave payable		6,982
Ending supplies inventory		754,965
Less		
Purchased power		(4,442,545)
Ending accounts payable (exclusive of fuel, ARPA, and sales tax)		(548,683)
Bad debt expense		(13,617)
Beginning prepaid expenses		(7,077)
Ending accrued vacation payable		(83,269)
Ending accrued sick leave payable		(8,612)
Beginning supplies inventory		(772,321)
<b>Total 2009 gross annual expenses adjusted to cash basis</b>	<u>\$</u>	<u>2,243,481</u>

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)	\$	2,243,481
Divided by days per year		360
		<u>6,232</u>
Times sixty days		60
		<u>373,914</u>
60-Day operating maximum required reserve	<u>\$</u>	<u>373,914</u>
Beginning reserve balance	\$	427,519
Allowable deposits		-
2010 cash outlay		(79,709)
Ending reserve balance	<u>\$</u>	<u>347,810</u>

STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2010

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	\$	292,347
Actual deposits		66,980
2010 cash outlay		(63,775)
Ending reserve balance	\$	<u>295,552</u>

Maximum balance		
2009 annual gross revenues	\$	6,622,899
		4.5%
Maximum reserve balance	\$	<u>298,030</u>

Allowable deposits (2.5% of gross annual revenues)	\$	<u>165,572</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	\$	4,316,839
Allowable deposits (10% of gross annual revenues)		<u>662,290</u>
Ending allowable reserve balance	\$	<u>4,979,129</u>

Beginning reserve balance	\$	1,867,845
Actual deposits		371,639
2010 cash outlay		(504,617)
Ending reserve balance	\$	<u>1,734,867</u>

Maximum balance		
2009 gross annual revenues	\$	6,622,899
Multiplied times 2		<u>2</u>
Maximum reserve balance	\$	<u>13,245,798</u>

Reserve analysis		Actual Cash Balance at June 30, 2010	Maximum Required Balance at June 30, 2010	Over (Under) Maximum
Sixty day operating revenue fund	\$	347,810	373,914	(26,104)
Annual overhaul reserve fund		295,552	298,030	(2,478)
Capital improvement and replacement fund		1,734,867	13,245,798	(11,510,931)



**STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

**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, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
Operating revenues				
Charges for sales and services	\$ 7,929,574	7,929,574	7,636,907	(292,667)
Operating expenses				
Production	5,679,750	5,679,750	5,458,530	221,220
Distribution & maintenance	916,730	916,730	683,049	233,681
General and administrative	780,229	780,229	576,867	203,362
Total Operating Expenses	7,376,709	7,376,709	6,718,446	658,263
Operating Income	552,865	552,865	918,461	365,596
Nonoperating revenues (expenses)				
Interest income	108,000	108,000	6,584	(101,416)
Net Income	660,865	660,865	925,045	264,180
Cash to Balance	(660,865)	(660,865)	-	-
Change in net assets	\$ -	-	925,045	-
Unbudgeted expenses				
Interest on Debt Service			360,512	
Depreciation			390,191	
Net income GAAP basis			\$ 174,342	

**STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
SUPPLEMENTAL SCHEDULE OF OPERATING EXPENSES  
Year Ended June 30, 2010**

Operating Expenses

Production

Salaries	\$ 207,108
Vacation pay expense	16,170
Sick leave pay expense	6,460
Employee benefits	82,184
Purchased power	4,883,353
Maintenance	
Structures and improvements	40,927
Generating and electric equipment	92,384
Station equipment	6,328
Station supplies and expense	6,185
Training	287

<b>Total production expenses</b>	<b><u>5,341,386</u></b>
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Distribution

Operation of lines	129,691
Services on customers' premises	42,647
Maintenance	
Overhead and underground systems	102,591
Line transformers and devices	14,635
Service	32,093
Meters	7,964
Street lighting and signal system	32,409
Other distribution expenses	17,830
Christmas lighting	7,801
Record system	19,622
General property	8,507
Employee benefits	148,977
Vacation pay expense	23,377
Sick leave pay expense	17,055
Training	27,203
Transportation	50,647

<b>Total distribution expenses</b>	<b><u>683,049</u></b>
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STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
SUPPLEMENTAL SCHEDULE OF OPERATING EXPENSES (CONTINUED)  
Year Ended June 30, 2010

Consumer Contracts	
Meter reading	\$ 26,488
Customer records and collections	90,656
	<hr/>
<b>Total consumer contracts</b>	<b>117,144</b>
	<hr/>
Sales and Promotions	
General advertising	2,431
	<hr/>
Administrative and General Expenses	
Salaries - executives	76,364
Salaries - general office	49,038
Vacation pay	19,740
Sick leave pay	13,192
Employee benefits	75,199
Directors fees	9,688
General office supplies and expense	76,740
General office maintenance	1,117
Insurance	94,105
Legal and audit	104,309
Special services	22,293
Bad debt	32,651
	<hr/>
<b>Total administrative and general expenses</b>	<b>574,436</b>
	<hr/>
<b>Total operating expenses excluding depreciation</b>	<b>\$ 6,718,446</b>
	<hr/> <hr/>

**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  
and  
Mr. Hector Balderas  
New Mexico State Auditor

We have audited the basic financial statements of the Raton Public Service Company (RPS), a component unit of the City of Raton, as of and for the year ended June 30, 2010, as listed in the table of contents and have issued our report thereon dated November 22, 2011. 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

Management of RPS is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered RPS's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the effectiveness of RPS's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of RPS's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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

*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 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. We consider the deficiencies described in the accompanying schedule of finding and responses, 04-05 and 10-01, to be material weaknesses.

*A significant deficiency* is a deficiency, or 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. We consider the deficiencies described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting, 08-02 and 09-02.

#### 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 and 08-03.

We noted a certain matter that is required to be reported under Subsection A of 2.2.2.9 NMAC, which is described in the accompanying schedule of findings and responses as item 10-02.

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

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 RPS'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.

*Mass Adams LLP*

Albuquerque, New Mexico  
November 22, 2011

**STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
Year Ended June 30, 2010**

<u>Comment</u>	<u>Current Status</u>
02-01 Policies and Procedures Manual – RPS	Updated and Included
04-05 Capital Assets	Updated and Included
08-02 Aged Accounts Receivable Finding	Updated and Included
08-03 IT Environment	Updated and Included
09-01 Payroll Finding	Resolved
09-02 Accounts Payable Finding	Updated and Included



**STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended June 30, 2010**

**02-01 Policies and Procedures Manual**

CONDITION

There are no written policies and procedures for accounting.

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 policies and procedures for accounting.

RECOMMENDATION

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

MANAGEMENT RESPONSE

RPS has not developed an accounting procedure due to its small size and governance by state and federal accounting requirements.

**STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
Year Ended June 30, 2010**

**04-05 Capital Assets (*Material Weakness*)**

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

We recommend that RPS develops and implements 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, and management should consider grouping capital assets within their system as they are presented in the financial statements.

**STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
Year Ended June 30, 2010**

**04-05 Capital Assets (*Material Weakness*) Continued**

MANAGEMENT RESPONSE

As noted in previous year's response, the discrepancy between the 2007 year end inventory and the general ledger were previously resolved. While asset additions have been tracked, RPS is working to resolve the remaining issues with the detail listing.

Moveable assets are tagged with a unique identifier as required under NMAC.

RPS follows NMAC requirements for disposition of fixed assets.

**STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
Year Ended June 30, 2010**

**08-02 Aged Accounts Receivable Finding (*Significant deficiency*)**

CONDITION

As of June 30, 2010, there was a \$55,324 discrepancy between the accounts receivable balance reflected on the aged listing and the general ledger accounts receivable balance. Subsequent to our inquiry, RPS reconciled a portion of the difference; however, there is still a variance of \$6,662.

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 trial balance was overstated and not representative of the actual account receivable balance in the A/R subsidiary ledger at year end.

CAUSE

There were errors in the daily postings to the general ledger from the accounts receivable ledger.

RECOMMENDATION

We recommend that RPS develop and implement policies and procedures to ensure the accounts receivable balance is reconciled on a monthly basis from the subsidiary schedule to the general ledger.

MANAGEMENT RESPONSE

RPS will begin reconciliation between the accounts receivable and general ledger on a monthly basis.

**STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
Year Ended June 30, 2010**

**08-03 IT Environment Finding**

**CONDITION**

During our testing of internal controls relating to information technology controls we noted the following opportunities for RPS 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 RPS 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, 2010**

**08-03 IT Environment Finding**

RECOMMENDATION

We recommend RPS 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 RESPONSE

As a component unit of the City, RPS is on the same network system as the City and is controlled by the City's IT policy, including password policies and security assessments. RPS does work with the City's IT consultant on any changes to the billing/accounts receivable system. Backup of all data are made nightly and checked regularly for consistency. Changes made by the consultant to the billing/accounts receivable systems consist of recommended updates from the software vendor. The vendor does pre-release testing to ensure compatibility with the existing software. Due to the size of the billing/AR system, non-production testing is not feasible.

**STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
Year Ended June 30, 2010**

**09-02 Accounts Payable and Accrued Liabilities (*Significant deficiency*)**

CONDITION

During our test of cutoff for accounts payable, we noted one expense transaction for \$15,680 that occurred during fiscal year 2010 and paid in the subsequent period was not accrued at year end. In addition, several accrued liability accounts were not reconciled as of June 30, 2010.

CRITERIA

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

EFFECT

Accounts payable and accrued liabilities in total were understated by \$67,532.

CAUSE

Certain expenses incurred near year end and paid in the subsequent period were not fully examined to determine proper cutoff.

RECOMMENDATION

We recommend establishing procedures to ensure that expenditures incurred near end are properly accrued in accounts payable and accrued liabilities.

MANAGEMENT RESPONSE

Normal procedure is to accrue payables and liabilities incurred near year end appropriately. The procedures will be reviewed and adjusted as required.

**STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
Year Ended June 30, 2010**

**10-01 Bank and Loan Accounts (*Material Weakness*)**

CONDITION

During our test of cash equivalent and loan balances, we noted the prior year accounts were transferred to a new bank. The client had not recorded the new accounts in the trial balance. In connection with these accounts, the client did not properly record the loan balances as of June 30, 2010. Subsequent to discussion with RPS, RPS recorded the balances in the general ledger.

CRITERIA

RPS should reconcile all cash and cash equivalent balances and loan balances to the general ledger on a monthly basis.

EFFECT

RPS had understated the restricted cash balance by \$872,400 and overstated the loan balance by \$304,334.

CAUSE

The accounts transferred to a new bank and the old and new bank accounts were not reconciled to the general ledger.

RECOMMENDATION

We recommend that RPS develop and implement policies and procedures to ensure all bank and loan accounts are reconciled on a monthly basis.

MANAGEMENT RESPONSE

As part of the settlement agreement reached on January 15, 2010 with the Arkansas River Power Authority, loans for the purchase of the Burro Canyon transmission line and Wartsila generating unit were obtained from the New Mexico Finance Authority (NMFA). Since the electric utility is owned by the City, the loans were taken out in the City's name. Paperwork regarding the loans was sent to the City; therefore, at year end, RPS had not created accounts to reflect the restricted funds held by Bank of Mellon for NMFA. As noted, these restricted funds have now been recorded in the general ledger and the loan account information is being routed to RPS.



**STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
Year Ended June 30, 2010**

**10-01 Bank and Loan Accounts (*Material Weakness*) Continued**

The overstated loan balance of \$304,334 was from a 2002 loan from NMFA of approximately \$2.2 million which represented Raton's original investment in the Wartsila generating unit. The \$304,334 was unspent loan proceeds. In August 2009, NMFA transferred these over to a debt service fund. The loan balance was not reduced in the RPS general ledger. This change has been made.

**STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
Year Ended June 30, 2010**

**10-02 RPS Late Audit Report**

CONDITION

The Auditors for RPS submitted its audit report after the due date of December 1, 2010. The Office of the State Auditor received the audit report in March, 2011.

CRITERIA

Subsection A of 2.2.2.9 NMAC states that audit report due date for municipalities, including component units, is December 1.

CAUSE

The audit fieldwork was completed in November 2010 and an exit conference was held November 24, 2010. Due to a delay on the part of the auditors, however, the final audit report was not submitted until March 2011.

EFFECT

The users of RPS's financial statements, including the State Auditor, legislators and others, were not able to review RPS's report timely.

RECOMMENDATION

In the future we recommend RPS coordinate closely with their auditors in order to ensure the audit is submitted on time.

MANAGEMENT RESPONSE

RPS has and will continue to work with their auditors to comply with these statutes.

**STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
EXIT CONFERENCE  
Year Ended June 30, 2010**

An exit conference was held on November 24, 2010. Attending were the following:

Representing RPS:

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

Representing Moss Adams LLP:

Chris Garner, CPA	Senior Manager
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The financial statements were prepared with the assistance of Moss Adams LLP.