

**STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
ANNUAL FINANCIAL REPORT  
FISCAL YEAR ENDED JUNE 30, 2012**

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

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**STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
OFFICIAL ROSTER  
JUNE 30, 2012**

**BOARD OF DIRECTORS**

Kathy McQueary, President

Mark Jansen, Vice President

Frank Ferri, Treasurer

Neil Segotta, Director

Charles Starkovich, Director

Sandy Chavez, Secretary/Finance Officer

David Mitchell, General Manager

**RATON PUBLIC SERVICE COMPANY  
REPORT ON AUDIT OF FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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## INDEPENDENT AUDITORS' REPORT

Mr. Hector H. Balderas  
New Mexico State Auditor

Board of Directors  
Raton Public Service Company

We have audited the accompanying 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, 2012, which collectively comprise the RPS's basic financial statements as listed in the table of contents. We have also audited the budgetary schedule presented as supplementary information for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the RPS's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the fourth paragraph, 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 RPS's internal control over financial reporting. Accordingly, we express no such opinion. An audit 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 the 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 only RPS, a component unit of the City of Raton, New Mexico. They do not purport to, and do not, present fairly the financial position of the City of Raton, New Mexico, as of June 30, 2012, and changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Raton Public Service Company does not maintain adequate records of its capital assets. Accordingly, we were unable to perform procedures sufficient to achieve the audit objectives of the balances presented for these accounts.

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, a component unit of the City of Raton, New Mexico, as of June 30, 2012, and the respective changes in its financial position and its cash flows thereof 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 of Raton Public Service Company for the year ended June 30, 2012, 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 our report dated November 27, 2012, on our consideration of the Raton Public Service Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the basic financial statements and the budgetary comparison. The Other Supplementary Information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The Other Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Heinfeld, Meech & Co., P.C.*

HEINFELD, MEECH & CO., P.C.  
CPAs and Business Consultants

November 27, 2012

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**(Required Supplementary Information)**



**STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2012**

As management of the Raton Public Service Company (RPS), we offer readers of RPS's financial statements this narrative overview and analysis of the financial activities of RPS for the current fiscal year.

### **FINANCIAL HIGHLIGHTS**

- The RPS's net assets increased \$829,504 which represents an increase of 9 percent from the prior year primarily due to increases in Large Light and Power sales and decreases in both distribution and administrative and general expenses.
- Operating revenues accounted for \$7.5 million in revenue, which represents a decrease from the prior year of 2 percent. Non-operating revenues in the form of interest income accounted for \$13,355 in revenue.
- RPS had \$6.5 million in operating expenses, an increase of 4 percent from the prior fiscal year primarily due to increased production expenses related to purchased power during down time of the Wartsila gas engine. Non-operating expenses in the form of interest expenses paid on debt accounted for \$281,749 in expenses.

### **OVERVIEW OF FINANCIAL STATEMENTS**

RPS' financial report includes three financial statements:

- Statement of Net Assets
- Statement of Revenues, Expenses and Changes in Net Assets
- Statement of Cash Flows

The Statement of Net Assets presents the assets, liabilities and net assets of RPS as of the end of the fiscal year. The Statement of Net Assets is a point-in-time financial statement, the purpose of which is to give the readers of the financial statements a fiscal snapshot of RPS. The statement presents end-of-year data concerning assets (current and non-current), liabilities (current and non-current), and net assets (assets minus liabilities).

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenue, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenue received by RPS, both operating and non-operating, and any other revenue, expenses, gains and losses received or incurred by RPS.

**STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2012**

**OVERVIEW OF FINANCIAL STATEMENTS (Concl'd)**

The Statement of Cash Flows presents the inflows and outflows of cash, summarized by operating, capital, financing and investing activities. The statement is prepared using the direct method of cash flows, and as such, presents gross, rather than net amounts for the year's activities.

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

**REPORTING ENTITY**

RPS is a component unit of the City of Raton, New Mexico. The financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when the obligation has occurred.

**FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of a government's financial position. In the case of RPS, total assets exceeded liabilities by \$9.7 million at the current fiscal year end.

A large portion of RPS's total net assets reflects its investment in capital assets (e.g., land and improvements; buildings and improvements; vehicles, furniture, and equipment; and franchise), less any related debt used to acquire those assets that is still outstanding. The RPS uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although RPS's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2012**

**FINANCIAL ANALYSIS (Cont'd)**

The following table presents a summary of RPS's net assets for the fiscal years ended June 30, 2012 and June 30, 2011.

	As of <u>June 30, 2012</u>	As of <u>June 30, 2011</u>
Current assets	\$ 7,186,577	\$ 6,748,811
Capital assets, net	<u>10,164,798</u>	<u>10,431,353</u>
<b>Total assets, net</b>	<u>17,351,375</u>	<u>17,180,164</u>
Current liabilities	1,153,272	1,187,727
Long-term liabilities	<u>6,330,802</u>	<u>6,954,640</u>
<b>Total liabilities</b>	<u>7,484,074</u>	<u>8,142,367</u>
Invested in capital assets, net of related debt	3,584,414	3,233,409
Restricted	4,741,150	4,769,711
Unrestricted	<u>1,541,737</u>	<u>1,034,677</u>
<b>Total net assets</b>	<u>\$ 9,867,301</u>	<u>\$ 9,037,797</u>

RPS' financial position is the product of several financial transactions including the net result of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets. The following are significant current year transactions that had an impact on the Statement of Net Assets.

- The principal retirement of \$617,560 of loans.
- The decrease in noncurrent assets of \$266,555 from depreciation expense and asset dispositions.

**STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2012**

**FINANCIAL ANALYSIS (Concl'd)**

**Changes in net assets.** RPS's total revenues for the current fiscal year ended were \$7.5 million. The total cost of all operations was \$7.2 million. The following table presents a summary of the changes in net assets for the fiscal years ended June 30, 2012 and June 30, 2011.

	Fiscal Year Ended <u>June 30, 2012</u>	Fiscal Year Ended <u>June 30, 2011</u>
<b>Revenues:</b>		
Operating revenue:		
Residential sales	\$ 3,693,287	\$ 3,822,598
Commercial sales	1,755,905	1,816,239
Power sales	1,939,417	1,862,058
Discounts forfeited	114,139	116,694
Connection charges	10,593	11,294
Non-operating revenues:		
Interest income	13,355	2,216
<b>Total revenues</b>	<u>7,513,341</u>	<u>7,631,099</u>
<b>Expenses:</b>		
Operating expenses:		
Production	5,308,660	4,920,459
Distribution	584,749	601,782
Consumer contracts	134,257	121,506
Sales promotion	3,089	
Administration and general	478,007	634,905
Non-operating expenses:		
Depreciation	361,114	390,191
Interest expense	281,749	332,174
<b>Total expenses</b>	<u>7,151,625</u>	<u>7,001,017</u>
<b>Changes in net assets</b>	<u>375,071</u>	<u>630,082</u>
<b>Net assets, beginning</b>	9,037,797	8,407,715
<b>Net assets, restatement</b>	454,433	
<b>Net assets, restated</b>	<u>9,492,230</u>	<u>8,407,715</u>
<b>Net assets, ending</b>	<u>\$ 9,867,301</u>	<u>\$ 9,037,797</u>

The following are significant changes that have had an impact on the changes in net assets.

- Production expenses increased by \$388,201 primarily as a result of the Wartsila gas engine experiencing down time, which required purchasing of power.
- Administration and general expenses decreased by \$156,898 primarily as a result of decreased staffing and decreased building expenses.

**STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2012**

**BUDGETARY HIGHLIGHTS**

RPS's fiscal year 2011-12 operating and capital budget was not revised during the year.

- The favorable variance of \$220,656 in distribution was a result of lower than expected transportation expenses, purchases of tools and equipment and time spent on maintenance.
- The favorable variance of \$82,168 in administrative and general was a result of reduced amounts spent on worker's compensation, office supplies, training expenses and legal services.
- The unfavorable variance of \$134,257 in consumer contracts was a result of difference in budgeting versus reporting line items for consumer contracts.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** As of year end, RPS had invested \$21.3 million capital assets including land, buildings, facilities, vehicles, computers, equipment, and franchise assets. This amount represents a net increase in capital assets prior to depreciation of \$94,558 from the prior fiscal year. Total depreciation expense for the current fiscal year was \$361,114.

The following schedule presents capital asset balances for the fiscal years ended June 30, 2012 and June 30, 2011.

	As of June 30, 2012	As of June 30, 2011
Land	\$ 13,841	\$ 13,841
Buildings and improvements	19,755,389	19,660,830
Vehicles, furniture and equipment	1,515,732	1,515,732
Franchise	17,000	17,000
Less: Accumulated depreciation	(11,137,164)	(10,776,050)
<b>Total</b>	<b>\$ 10,164,798</b>	<b>\$ 10,431,353</b>

RPS did not maintain adequate records of its capital assets and as a result a qualified opinion was issued on the financial statements. Additional information on RPS's capital assets can be found in Note 4.

**STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2012**

**CAPITAL ASSETS AND DEBT ADMINISTRATION (Concl'd)**

**Debt Administration.** At year-end, RPS had \$6.6 million in long-term debt outstanding, \$324,439 due within one year. The following table presents a summary of RPS's outstanding long-term debt for the fiscal years ended June 30, 2012 and June 30, 2011.

	2012	2011
Loans payable	\$ 6,580,384	\$ 7,197,944
<b>Total</b>	<b>\$ 6,580,384</b>	<b>\$ 7,197,944</b>

Additional information on RPS's long-term debt can be found in Notes 5 and 6.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

Many factors were considered by RPS's administration during the process of developing the fiscal year 2012-13 budget. Among them:

- The need for more voltage conversion work throughout the system, totaling approximately \$785,000 from the Capital Improvement Fund.
- The commencement of a power purchase agreement with Enserco, expected to decrease wholesale electricity costs.
- The likelihood of being able to run the Wartsila gas unit on a consistent basis.
- An evaluation of the decreased loads of the previous few years.
- Company-wide salary increases of 2%.
- Increased employer retirement healthcare contributions.
- Capital expenses.

Also considered in the development of the budget is the local economy and inflation of the surrounding area.

Budgeted expenses decreased 7 percent to \$6.2 million in fiscal year 2012-13.

**CONTACTING RPS'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the RPS's finances and to demonstrate the RPS's accountability for the resources it receives. If you have questions about this report or need additional information, contact the Raton Public Service Company, 334 North Second Street, Raton, New Mexico 87740.

## **FINANCIAL STATEMENTS**

**STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
STATEMENT OF NET ASSETS  
JUNE 30, 2012**

**Assets**

Current assets, unrestricted:	
Cash and cash equivalents	\$ 571,041
Accounts receivable, net	967,362
Inventory - coal	6,005
Inventory - distribution lines, materials and supplies	661,781
Prepaid items	<u>22,867</u>
Total unrestricted current assets	<u>2,229,056</u>
Current assets, restricted:	
Cash and cash equivalents -	
Sixty day operation reserve fund	467,530
Annual overhaul reserve fund	258,774
Capital improvement and replacement fund	2,663,050
Customer deposits	143,624
Customer advances for construction	72,747
Loan reserve	<u>1,351,796</u>
Total restricted current assets	<u>4,957,521</u>
Noncurrent assets:	
Land	13,841
Buildings and improvements	19,755,389
Vehicles, furniture and equipment	1,515,732
Franchise	17,000
Accumulated depreciation	<u>(11,137,164)</u>
Total noncurrent assets	<u>10,164,798</u>
 Total assets	 <u>\$ 17,351,375</u>



**STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
STATEMENT OF NET ASSETS  
JUNE 30, 2012**

**Liabilities and Net Assets**

Current liabilities, payable from unrestricted assets:	
Accounts payable	\$ 377,905
Insurance payable	113,199
Payroll taxes payable	2,371
Gross receipts tax payable	36,690
Unearned revenue	8,204
Interest payable	49,141
Loan payable	324,439
Compensated absences	24,952
Total unrestricted current liabilities	<u>936,901</u>
Current liabilities, payable from restricted assets:	
Customer deposits	143,624
Customer advances from construction	72,747
Total restricted current liabilities	<u>216,371</u>
Noncurrent liabilities:	
Loan payable	6,255,945
Compensated absences	74,857
Total noncurrent liabilities	<u>6,330,802</u>
 Total liabilities	 <u>7,484,074</u>
Net assets:	
Invested in capital assets, net of related debt	3,584,414
Restricted	4,741,150
Unrestricted	1,541,737
Total net assets	<u>9,867,301</u>
 Total liabilities and net assets	 <u>\$ 17,351,375</u>

**STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2012**

Operating revenue:	
Residential sales	\$ 3,693,287
Commercial sales	1,755,905
Power sales	1,939,417
Discounts forfeited	114,139
Connection charges	10,593
Total operating revenue	<u>7,513,341</u>
Operating expenses:	
Production	5,308,660
Distribution	584,749
Consumer contracts	134,257
Sales promotion	3,089
Administration and general	478,007
Total operating expenses before depreciation	<u>6,508,762</u>
Depreciation	<u>361,114</u>
Total operating expenses	<u>6,869,876</u>
<b>Operating income</b>	<u>643,465</u>
Non-operating revenue (expense):	
Interest income	13,355
Interest expense	(281,749)
Non-operating income (expense)	<u>(268,394)</u>
<b>Change in net assets</b>	375,071
<b>Net assets, beginning of year</b>	9,037,797
<b>Net assets, restatement</b>	454,433
<b>Net assets, restated</b>	<u>9,492,230</u>
<b>Net assets, end of year</b>	<u>\$ 9,867,301</u>

**STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2012**

Cash flows from operating activities:	
Cash received from customers and others	\$ 7,022,105
Cash paid to suppliers	(5,774,019)
Cash paid to employees	(726,733)
<b>Net cash provided by operating activities</b>	<u>521,353</u>
Cash flows from investing activities:	
Acquisition of capital assets	(94,559)
<b>Net cash used for investing activities</b>	<u>(94,559)</u>
Cash flows from financing activities:	
Principal payments made under loan obligations	(617,560)
Interest payments made under loan obligations	(281,749)
Interest income	13,355
<b>Net cash used for financing activities</b>	<u>(885,954)</u>
<b>Net decrease in cash and cash equivalents</b>	(459,160)
<b>Cash and cash equivalents, beginning of year</b>	5,533,289
<b>Prior period adjustment</b>	454,433
<b>Cash and cash equivalents, adjusted</b>	<u>5,987,722</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 5,528,562</u>

**Reconciliation of Operating Income to Net Cash  
Provided by Operating Activities**

Operating income	\$ 643,465
Adjustments to reconcile change in operating income to net cash provided by operating activities	
Depreciation expense	361,114
Changes in operating assets:	
Accounts receivable, net	(476,313)
Inventory - distribution lines, materials and supplies	37,565
Prepaid items	(3,745)
Changes in operating liabilities:	
Accounts payable	(138,295)
Payroll taxes payable	113,239
Gross receipts tax payable	525
Unearned revenue	45
Due to water department	(2,785)
Interest payable	1,019
Compensated absences	487
Customer deposits	(14,968)
<b>Net cash provided by operating activities</b>	<u>\$ 521,353</u>

**STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

The financial statements of RPS have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The more significant of the RPS's accounting policies are described below.

**A. Reporting Entity**

The financial reporting entity consists of a primary government and its component units. A component unit is a legally separate entity that must be included in the reporting entity in conformity with generally accepted accounting principles. RPS is a component unit of the City of Raton and consequently is included as part of the primary government's reporting entity. RPS had no blended or discrete component units during the fiscal year ended June 30, 2012.

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 Trustees and two of whom are members of the City Commission.

**B. Measurement Focus and Basis of Accounting**

The accounts of RPS are organized on the basis of a proprietary fund. Proprietary funds are reported using the economic resources measurement focus and accrual basis of accounting and are presented in a single column.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The RPS has elected not to follow subsequent private-sector guidance.

**STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

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 the RPS's enterprise funds are charges to customers for sales and services. Operating expenses for this fund include production costs, distribution costs, consumer contracts, administrative expenses and depreciation. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Revenues are recognized when they are earned and expenses are recorded at the time liabilities are incurred.

**C. Cash and Investments**

For purposes of the Statement of Cash Flows, the RPS considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

New Mexico Statutes Annotated (NMSA) authorizes the RPS to invest public monies in the State Treasurer's Local Government Investment Pool, interest-bearing savings accounts, certificates of deposit, and repurchase agreements in eligible depositories; bonds or other obligations of the U.S. government that are guaranteed as to principal and interest by the U.S. government; and bonds of the State of New Mexico, counties, cities, school districts, and special districts as specified by statute.

The State of New Mexico local government investment pool is a pool that is not registered with the United States Securities Exchange Commission. Section 6-10-10, NMSA 1978, empowers the State Treasurer, with the advice and consent of the State Board of Finance, to invest money held in the short-term investment in securities that are issued by the United States government or by its departments or agencies and are either direct obligations of the United States or are backed by the full faith and credit of the United States government or are agencies sponsored by the United States government. The Local Government Investment Pool investments are monitored by the same investment committee and the same policies and procedures that apply to all other state investments. The pool does not have unit shares. Per §6-10-10.1F, NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the fund amounts were invested. Participation in the local government investment pool is voluntary. The investment in the State of New Mexico local government investment pool approximates the value of the participant's pool share.

**STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

Certain resources for future projects, operation reserves, customer deposits, and loan reserve are classified as restricted current assets on the Statement of Net Assets because their use is limited by the franchise agreement, debt covenants, or ordinance.

**D. Accounts Receivable**

It is RPS's policy to allow for trade receivables when the customer is no longer a participant in any City services, including power, water, or trash services. Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. RPS provides for losses on accounts receivable using the allowance method. The allowance is based on experience, third-party contracts, and other circumstances, which may affect the ability of obligations to be met.

**E. Investment Income**

Investment income is composed of interest, dividends, and net changes in the fair value of applicable investments.

**F. Inventory**

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories consist of expendable supplies held for consumption.

**G. Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

**H. Capital Assets**

Capital assets are defined by RPS as assets with an initial, individual cost in excess of \$5,000 in accordance with Section 12-6-10 NMSA 1978 and an estimated useful life of more than one year. Such assets are recorded at historical cost, or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation.

**STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

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 No. 942, the assets have been included in this 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.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings	25 – 50 years
Improvements	10 – 20 years
Vehicles, furniture and equipment	3 – 10 years

**I. Compensated Absences**

RPS's policy allows employees to accumulate up to 320 hours of vacation and sick pay, which are payable to the employee upon termination or retirement.

**J. Net Assets**

RPS applies restricted resources first when expenses are incurred for which either restricted or unrestricted amounts are available.

**K. Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**L. Utility Rates**

Utility rate schedules are prepared by an outside entity specializing in utility rate studies and are approved by the Board of Directors.

**STATE OF NEW MEXICO  
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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concl'd)**

**M. Contractual Agreements**

RPS and the Arkansas River Power Authority (ARPA) have entered into a non-member power sales agreement. The agreement is a result of a settlement related to the termination of the membership of RPS in ARPA. RPS shall purchase wholesale electric power from ARPA on a temporary basis in excess of the power that RPS actually produces. The agreement is for a 36 month period and is set to expire during fiscal year 2013.

**N. Budget**

RPS adopts 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.

**NOTE 2 – CASH AND INVESTMENTS**

At year end, the carrying amount of RPS's deposits was \$4,455,358 and the bank balance was \$4,594,953. The difference represents outstanding checks, deposits, and other reconciling items.

***Custodial Credit Risk – Deposits.*** Custodial credit risk is the risk that in the event of a bank failure, the RPS's deposits may not be returned. The RPS has a deposit policy for custodial credit risk; which follows New Mexico law. All deposits with financial institutions must be collateralized in an amount not less than 50% of the uninsured balance. The RPS's agreement with its sole depository requires pledged collateral of 102% of the public money in each account. No security is required for the deposit of public money that is insured by the Federal Deposit Insurance Corporation (FDIC). At year end, \$821,494 of the RPS's bank balance was exposed to custodial credit risk as uninsured and collateralized with securities held by the pledging financial institution's trust department.

The pledged collateral by bank at year end consists of the following.

Deposits	\$ 4,594,953
Less: FDIC and Frank-Dodd Coverage	3,773,459
Total unsecured funds	<u>821,494</u>
50% collateral requirement	410,747
Pledged securities, fair value	<u>1,925,000</u>
Pledged in excess of requirement	<u>\$ 1,514,253</u>



**STATE OF NEW MEXICO  
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JUNE 30, 2012**

**NOTE 2 – CASH AND INVESTMENTS (Concl'd)**

At year end RPS's investments consisted of the following.

	Average Maturities	Fair Value
State Treasurer's Investment Pool	83 days	\$1,065,539

**Interest Rate Risk.** RPS does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit Risk.** RPS has no investment policy that would further limit its investment choices. The *New MexiGROW* Local Government Investment Pool (LGIP), a government investment pool is rated AAAM by Standard & Poor's and is authorized by the New Mexico State statute.

**Custodial Credit Risk - Investments.** RPS's investment in the State Treasurer's Investment Pool represents a proportionate interest in the Pool's portfolio; however, RPS's portion is not identified with specific investments and is not subject to custodial credit risk.

Description of restricted assets:

**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 60-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.

**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.

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

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

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

**STATE OF NEW MEXICO  
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**NOTE 3 – RECEIVABLES**

Receivable balances, net of allowance for doubtful accounts, as of June 30, 2012 for RPS in the aggregate, were as follows.

Accounts receivable from customers	\$ 1,104,625
Due from primary government	3,797
Due from other entities	1,148
Allowance for doubtful accounts	<u>(142,208)</u>
Net receivables	<u>\$ 967,362</u>

**NOTE 4 – CAPITAL ASSETS**

A summary of capital asset activity for the current fiscal year follows.

Business-type Activities	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 13,841	\$	\$	\$ 13,841
Franchise	17,000			17,000
Total capital assets, not being depreciated	<u>30,841</u>			<u>30,841</u>
Capital assets, being depreciated:				
Buildings and improvements	19,660,830	94,559		19,755,389
Vehicles, furniture, and equipment	1,515,732			1,515,732
Total capital assets being depreciated	<u>21,176,562</u>	<u>94,559</u>		<u>21,271,121</u>
Less total accumulated depreciation	<u>(10,776,050)</u>	<u>(361,114)</u>		<u>(11,137,164)</u>
Total capital assets, being depreciated, net	<u>10,400,512</u>	<u>(266,555)</u>		<u>10,133,957</u>
Business-type activities capital assets, net	<u>\$ 10,431,353</u>	<u>\$ (266,555)</u>	<u>\$</u>	<u>\$ 10,164,798</u>

**STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 5 – LOANS PAYABLE**

**NMFA Loans** – RPS entered into several debt finance agreements with New Mexico Finance Authority (NMFA) to purchase various equipment. The loans are listed under the City of Raton, however RPS is responsible for them. The NMFA loans are as follows.

<u>Purpose</u>	<u>Original Amount Issued</u>	<u>Interest Rates (Including Fees)</u>	<u>Remaining Maturities</u>	<u>Outstanding Principal June 30, 2012</u>	<u>Due Within One Year</u>
Backup generator	\$2,693,610	3.95-4.86%	5/1/13-22	\$ 1,317,515	\$ 131,562
Electric utility substation expansion	1,122,725	1.38-4.95%	5/1/13-29	1,026,956	37,637
Electric utility Wartsila and Burro Canyon lines	4,619,684	1.38-4.95%	5/1/13-29	4,235,913	155,240
Total				<u>\$ 6,580,384</u>	<u>\$ 324,439</u>

Principal and interest payments on the governmental loans payable at year end are summarized as follows.

Year ending June 30:	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 324,439	\$ 269,459
2014	331,645	260,622
2015	339,869	250,560
2016	350,817	239,556
2017	368,802	227,571
2018-22	1,754,474	918,830
2023-27	2,118,903	541,960
2028-29	991,435	72,910
Total	<u>\$ 6,580,384</u>	<u>\$ 2,781,468</u>

**STATE OF NEW MEXICO  
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NOTES TO FINANCIAL STATEMENTS  
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**NOTE 6 – CHANGES IN LONG-TERM LIABILITIES**

Long-term liability activity for the current fiscal year was as follows.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Business-type Activities:</b>					
Compensated absences	\$ 99,322	\$ 9,527	\$ 9,040	\$ 99,809	\$ 24,952
NMFA Loans payable	7,197,944		617,560	6,580,384	324,439
Total	<u>\$ 7,297,266</u>	<u>\$ 9,527</u>	<u>\$ 626,600</u>	<u>\$ 6,680,193</u>	<u>\$ 349,391</u>

**NOTE 7 – CONTINGENT LIABILITIES**

**Lawsuits** – RPS is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the RPS’s counsel, the resolution of these matters will not have a material adverse effect on the financial condition of RPS.

**NOTE 8 – 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 current fiscal year was \$588,147. Amount consumed and billed to the City for the current fiscal year was \$202,272. 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.

The rate and Income Requirements and Disposition of System Revenues ordinance is as follows:

1. RPS shall set aside annual revenues of the utility system into a special fund to be known as the “City of Raton Electric Utility System Gross Income Fund,” from which the board shall make the operational, reserve and debt service payments below described.
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 in the “Gross Income Account” monies sufficient to pay one month average expenses of the operation of the utility system, excluding depreciation and amortization expenses, as they become due and payable.

**STATE OF NEW MEXICO  
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JUNE 30, 2012**

**NOTE 8 – NET ASSETS (Cont'd)**

The sum of \$339,000 shall be set aside in the Gross Income Account for the amount of the fiscal year ending June 30, 2005. Thereafter, this reserve's maximum allowable balance is to be maintained at an amount determined by an independent annual audit to be a one month average of the preceding year's cash expenses of the operation of the utility system, excluding depreciation and amortization expenses. No transfers will be made until such time as the Gross Income Account balance exceeds the calculated maximum allowable balance. On June 20, 2007, the RPS Board of Directors approved a motion moved by the RPS Vice President, and seconded by a City of Raton Commissioner to adjust the reserve balance from \$339,000 to \$500,000.

- b. From any remaining income, RPS shall next transfer into a reserve fund called "Debt Service Reserve" funds as required for the debt service and bond reserves, under any ordinances or resolutions of the City creating and issuing energy utility system bonds or approving other lawful means of borrowing monies for improvements, replacements, or expansion of the City's energy utility system. The maximum allowable balance of the Debt Service Reserve fund is not to exceed one half of the annual debt service requirements, including principal, interest and other costs associated with said debt. The City shall continue to retain full authority to create and issue system bonds and to enact such ordinances and revenue guarantees as shall be appropriate and lawful for such system bonds or the repayment of other approved loans. No additional transfers will be made until such time as the maximum allowable balance of the Debt Service Reserve Fund has been attained.
- c. From any remaining income, RPS shall next transfer into a reserve fund 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. At no time shall the Operation Reserve Fund balance exceed the maximum allowable balance, as determined by an independent annual audit. The monies in RPS's Operation Reserve Fund shall remain in such fund and the maximum allowable balance shall remain in force. Thereafter, this reserve's maximum allowable balance is to be determined, by an independent annual audit, to be a sixty-day average of the preceding year's cash expenses (exclusive of fuel and purchased power and energy capacity). No additional transfers will be made until such time as the maximum allowable balance of the Operation Reserve Fund has been attained.
- d. From any remaining income, RPS shall next transfer, for the current month, an amount not to exceed the maximum allowable transfer equal to one-twelfth (1/12) 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." In addition, if in any prior month, within the current fiscal year, funds were not adequate for the maximum allowable transfer, those funds shall also be transferred into the Reserve for Annual Overhaul,

**STATE OF NEW MEXICO  
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**NOTE 8 – NET ASSETS (Cont'd)**

Inspection, and Repair of Boilers and Generation Equipment Reserve. Amounts in said fund shall be used to pay, in whole or in part, periodic repairs, inspection,, overhaul costs of the boilers and generation equipment, and closure and retirement costs of the generation facility or facilities. The balance of such fund shall not exceed the maximum allowable balance equal to four and one-half percent (4.5%) of the gross annual revenues of RPS, as determined annually by an independent audit, for the preceding fiscal year. The monies in RPS's Reserve for Annual Overhaul, Inspection, and Repair of Boilers and Generation Equipment Reserve shall remain in such fund and the maximum allowable balance and maximum allowable transfers shall remain in force. If in the event all municipally owned power generation is retired from service, all remaining funds in the "Reserve for Annual Overhaul, inspection, and Repair of Boilers and Generation Equipment Reserve following retirement and closure of such municipally owned generation shall be transferred to the "City of Raton Electric Utility System, Capital Improvement and Replacement Fund." No additional transfers will be made until such time as all maximum allowable transfers for the current fiscal year of the maximum allowable balance of the Reserve for Annual Overhaul, Inspection, and Repair of Boilers and Generation Equipment has been attained.

- e. From any remaining income, RPS shall next transfer, for the current month, an amount not to exceed the maximum allowable transfer equal to one-twelfth (1/12) of ten percent (10%) of the immediately preceding fiscal year's gross annual revenues into the "City of Raton Electric Utility System, Capital Improvement and Replacement Fund." In addition, if in any prior month, within the current fiscal year, funds were not adequate for the maximum allowable transfer, those funds shall also be transferred into the "City of Raton Electric Utility System, Capital Improvement Fund." The monies in RPS's City of Raton Electric Utility System, Capital Improvement and Replacement Fund shall remain in such fund and the maximum allowable transfers shall remain in force. Amounts in said fund 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 electric utility system. Additionally, amounts in said fund shall be available, without restriction, to pay or repay current and future principal and interest on any debt owed by RPS. The balance of such fund shall not exceed the maximum allowable balance equal to two hundred percent (200%) of the gross annual revenues of RPS, as determined annually by an independent audit, for the preceding fiscal year.
- f. All residual funds shall remain in the "Gross Income Account" until June 30 of each year, at which time, after payment of such monies described above, the RPS 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 or purposes then required or permitted under the constitution and laws of the State of New Mexico and the bond and other ordinances of the City.

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NOTES TO FINANCIAL STATEMENTS  
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**NOTE 8 – NET ASSETS (Cont'd)**

**Calculation of Reserve Balances Allowed Under the Franchise Agreement**

<b>Calculation of cash revenues for reserve balance:</b>	\$	7,628,883
2011 operating revenue on accrual basis		
Add		
Interest earned		2,216
Beginning gross receivables		662,493
Less		
Ending gross receivables		(618,267)
Bad debt expense		(13,262)
Add		
Ending allowance for doubtful accounts		127,218
Less		
Beginning allowance for doubtful accounts		(132,745)
Sales to City of Raton/water		(167,672)
Total 2011 gross annual revenue adjusted to cash basis	\$	<u>7,488,864</u>

<b>Calculation of cash expense for reserve balance:</b>	\$	6,668,843
2011 operating expense on accrual basis		
Add		
Nonoperating expenses		332,174
Beginning accounts payable (exclusive of fuel, ARPA, and sales tax)		388,825
Ending prepaid expenses		19,122
Beginning compensated absences payable		121,037
Ending supplies inventory		705,351
Less		
Purchased power		(4,478,601)
Ending accounts payable (exclusive of fuel, ARPA, and sales tax)		(516,200)
Bad debt expense		13,262
Beginning prepaid expenses		(15,252)
Ending compensated absences payable		(99,322)
Beginning supplies inventory		(684,377)
Total 2011 gross annual expenses adjusted to cash basis	\$	<u>2,454,862</u>

**STATE OF NEW MEXICO  
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JUNE 30, 2012**

**NOTE 8 – NET ASSETS (Cont'd)**

**60-Day Operation Reserve Fund**

60-Day average of the preceding year's cash expenses (exclusive of fuel, purchase power, and energy capacity)	\$ 2,454,862
Divided by days per year	360
	6,819
Times 60 days	60
60-Day operating maximum required reserve	409,144
Beginning reserve balance	347,810
Allowable deposits	119,932
2012 cash outlay	(212)
Ending reserve balance	\$ 467,530

**Annual Overhaul Reserve Fund**

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	\$ 302,210
Actual deposits	44,765
2012 cash outlay	(88,201)
Ending reserve balance	\$ 258,774
Maximum balance	
2011 annual gross revenues	\$ 7,488,864
Maximum reserve balance	\$ 336,999
Allowable deposits (2.5% of gross annual revenues)	\$ 187,222



**STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
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JUNE 30, 2012**

**NOTE 8 – NET ASSETS (Concl'd)**

**Capital Improvements and Replacement Reserve Fund**

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

Beginning reserve balance	\$ 5,717,325
Allowable deposits (10% of gross annual revenues)	<u>748,886</u>
Ending allowable reserve balance	<u>\$ 6,466,211</u>
Beginning reserve balance	\$ 2,406,445
Actual deposits	344,945
2012 cash outlay	<u>(88,340)</u>
Ending reserve balance	<u>\$ 2,663,050</u>
Maximum balance	
2011 gross annual revenues	\$ 7,488,864
Multiplied times 2	<u>2</u>
Maximum reserve balance	<u>\$ 14,977,728</u>

**RESERVE ANALYSIS**

	Actual Cash Balance at <u>June 30, 2012</u>	Maximum Required Balance at <u>June 30, 2012</u>	<u>Over (Under) Maximum</u>
60-Day operating reserve fund	\$ 467,530	\$ 409,144	\$ 58,386
Annual overhaul reserve fund	258,774	336,999	(78,225)
Capital improvement and replacement fund	2,663,050	14,977,728	(12,314,678)

**NOTE 9 – RISK MANAGEMENT**

RPS is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Therefore, RPS joined the New Mexico Self-Insurers' Fund Risk Pool (Pool), together with other cities and towns in the State for its property and liability insurance. The Pool is a public entity risk pool currently operating as a common risk management and insurance program for member cities and towns.

**STATE OF NEW MEXICO  
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**NOTE 9 – RISK MANAGEMENT (Concl'd)**

RPS pays an annual premium to the Pool for its general insurance coverage. The agreement provides that the Pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of the annual aggregate per policy for general liability and property claims.

RPS also participates in the New Mexico Self-Insurers' Fund (the "Fund"), which services the RPS's worker's compensation claims. Through this arrangement, RPS retains risks associated with worker's compensation claims up to \$250,000 per accident.

RPS's employees have health and accident insurance coverage with the Risk Management Division of the New Mexico General Services Department (RMD). RMD is a public entity risk pool currently operating as a common risk management and insurance program for governments in the State. The City pays a monthly premium to RMD for employees' health and accident insurance coverage. The agreement provides that RMD will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of specified amounts.

The City carries commercial insurance for all other risks of loss including some property and liability insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**NOTE 10 – PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION**

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

**STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 10 – PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION  
(Concl'd)**

*Funding Policy.* Plan members are required to contribute 13.5% of their gross salary. The RPS is required to contribute 9.15% of the gross covered salary. The contribution requirements of plan members and the RPS are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The RPS's contributions to PERA for the fiscal years ending June 30, 2012, 2011 and 2010 were \$167,686, \$180,268, and \$189,928 respectively, which equal the amount of the required contributions for each fiscal year.

**NOTE 11 – POSTEMPLOYMENT BENEFITS – STATE RETIREE HEALTHCARE PLAN**

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

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

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

**STATE OF NEW MEXICO  
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JUNE 30, 2012**

**NOTE 11 – POSTEMPLOYMENT BENEFITS – STATE RETIREE HEALTHCARE PLAN (Concl’d)**

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

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. During the fiscal year ended June 30, 2012, the statute required each participating employer to contribute 1.834% of each participating employee’s annual salary; each participating employee is required to contribute .917% of their salary. In the fiscal year ending June 30, 2013 the contribution rates for employees and employers will rise as follows.

For employees who are not members of an enhanced retirement plan the contribution rates will be:

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
2013	2.000%	1.000%

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

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

RPS’s contributions to the RHCA for the years ended June 30, 2012, 2011 and 2010 were \$20,686, \$21,577, and \$18,503, respectively, which equal the required contributions for each year.

**STATE OF NEW MEXICO  
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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 12 – RESTATEMENT-ACCOUNTS RECEIVABLE**

RPS restated the previously issued financial statement's net assets in the amount of \$454,433. This correction was made to beginning net assets to exclude July 2011 billings recorded in 2012 which should have been accrued by debiting accounts receivable and crediting revenue at June 30, 2011.

**NOTE 13 – SUBSEQUENT EVENTS**

On October 18, 2012, the Wartsila Unit which was used to generate electricity, tripped off line and was destroyed. While the extent of the loss is not presently determinable, RPS believes that its insurance coverage is adequate to fully cover the amount of the loss.

**SUPPLEMENTARY INFORMATION**

**STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN  
NET ASSETS - BUDGET AND ACTUAL  
YEAR ENDED JUNE 30, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Non-GAAP Actual</u>	<u>Variance - Positive (Negative)</u>
<b>Operating Revenues:</b>				
Residential sales	\$ 3,706,297	\$ 3,706,297	\$ 3,693,287	\$ (13,010)
Commercial sales	1,842,482	1,842,482	1,755,905	(86,577)
Power sales	1,793,610	1,793,610	1,939,417	145,807
Discounts forfeited	117,000	117,000	114,139	(2,861)
Connection charges	11,000	11,000	10,593	(407)
<b>Total revenues</b>	<u>7,470,389</u>	<u>7,470,389</u>	<u>7,513,341</u>	<u>42,952</u>
<b>Operating Expenses:</b>				
Production	\$ 5,288,615	\$ 5,288,615	5,308,660	(20,045)
Distribution	805,405	805,405	584,749	220,656
Consumer contracts			134,257	(134,257)
Administrative and general	563,264	563,264	481,096	82,168
<b>Total expenses</b>	<u>6,657,284</u>	<u>6,657,284</u>	<u>6,508,762</u>	<u>148,522</u>
<b>Operating income (loss)</b>	<u>813,105</u>	<u>813,105</u>	<u>1,004,579</u>	<u>(105,570)</u>
<b>Non-operating revenues (expense)</b>				
Interest income	<u>7,000</u>	<u>7,000</u>	<u>13,355</u>	<u>(6,355)</u>
<b>Change in net assets- Budgetary basis</b>	<u>\$ 820,105</u>	<u>\$ 820,105</u>	<u>1,017,934</u>	<u>\$ (111,925)</u>
<b>Reconciliation to change in net assets - GAAP basis:</b>				
Interest paid on long-term debt			(281,749)	
Depreciation expense			<u>(361,114)</u>	
<b>Change in net assets - GAAP basis</b>			<u>\$ 375,071</u>	

**OTHER SUPPLEMENTARY INFORMATION**



**STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
SCHEDULE OF DEPOSITS AND PLEDGED COLLATERAL  
JUNE 30, 2012**

Deposit	Account Type	Total Deposits	Reconciling Items	Reconciled Balance
Petty cash		\$	\$	\$ 600
Reserve for Annual Overhaul	Checking, interest bearing	232,517	(39,303)	193,214
Capital Improvement	Checking, non-interest bearing	1,974,952	(399)	1,974,553
Utility System Cap Improve Repl. Fund	Checking, non-interest bearing	20,000		20,000
Debt Service and Bond Reserve	Checking, non-interest bearing	255,995	22,597	278,592
Gross Income Account	Checking, interest bearing	704,369	(214,872)	489,497
Operational Reserve	Checking, interest bearing	182,427	93,579	276,006
Special Fund	Checking, non-interest bearing	153,199	(1,797)	151,402
CD 8129061	Certificate of Deposit	86,550		86,550
CD 8129072	Certificate of Deposit	154,351		154,351
CD 8129090	Certificate of Deposit	311,181		311,181
CD 9129106	Certificate of Deposit	379,347		379,347
CD 9129107	Certificate of Deposit	140,065		140,065
		<u>\$ 4,594,953</u>	<u>\$ (140,195)</u>	<u>\$ 4,455,358</u>

	International Bank
Bank Accounts:	
Checking accounts	\$ 3,523,459
Certificates of deposit	1,071,494
Total amount of deposits	<u>4,594,953</u>
Less: Dodd-Frank Act coverage	3,523,459
Less: FDIC coverage	250,000
Total uninsured public funds	<u>821,494</u>
Collateral requirements (Per 6-10-10 & 6-10-17, NMSA 1978):	
50% of uninsured time and demand accounts	<u>410,747</u>

Pledged collateral at fair market value:				
<u>Type</u>	<u>Description</u>	<u>Maturity</u>	<u>CUSIP Number</u>	
U.S. Agency Note	FHLB	6/13/2014	3133XKTV7	100,000
U.S. Agency Note	FCSB	9/4/2013	31331X2Q4	1,775,000
U.S. Agency Note	FHLB	9/12/2014	313370JS8	50,000
Total collateral				<u>1,925,000</u>
Over / (under) secured				<u>\$ 1,514,253</u>

Location of collateral:  
Federal Reserve Bank, Kansas City

**REPORT ON INTERNAL CONTROL  
AND ON COMPLIANCE**

**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**

Mr. Hector H. Balderas  
New Mexico State Auditor

Board of Directors  
Raton Public Service Company

We have audited the financial statements and the budgetary comparison presented as supplemental information of the Raton Public Service Company, a component unit of the City of Raton, New Mexico as of and for the year ended June 30, 2012, and have issued our report thereon dated November 27, 2012. Our report was modified as the Raton Public Service Company did not maintain adequate records of its 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 Raton Public Service Company is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Raton Public Service Company's 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 Raton Public Service Company's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Raton Public Service Company's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section 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.

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 deficiency described in the accompanying schedule of findings and responses as item 04-05 to be a material weakness.

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 deficiency described in the accompanying schedule of findings and responses as item 11-02 to be a significant deficiency.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Raton Public Service Company's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 04-05.

The Raton Public Service Company's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Raton Public Service Company's responses and, accordingly, we express no opinion the responses.

This report is intended solely for the information and use of management, others within Raton Public Service Company, the Board of Directors, the New Mexico State Auditor, and the New Mexico Legislature, and is not intended to be and should not be used by anyone other than these specified parties.

*Heinfeld, Meech & Co., P.C.*

HEINFELD, MEECH & CO., P.C.  
CPAs and Business Consultants

November 27, 2012

**STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2012**

**FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS***

**Reference Number:** 04-05

**Type of Finding:** Material weakness, compliance

**Description:** Capital Assets

**CONDITION**

RPS did not have adequate internal controls in place over capital assets. During our review of capital assets we noted the following:

1. There were no formal policies or procedures for capital assets including disposals of capital assets.
2. A capital asset listing is not maintained including acquisitions, disposals, historical costs, depreciation expense and accumulated depreciation by individual asset.
3. A physical inventory has not been completed since fiscal year 2007. The inventory taken by the outside firm did not agree to the amounts posted in the general ledger for capital assets. Additionally, there were unresolved errors in the detail listings from the physical inventory.
4. Equipment items were not tagged with a unique identifying number.
5. Documentation to support the historical cost of assets is not maintained
6. Depreciation expense is not calculated for individual depreciable assets based on estimated useful lives.

**CRITERIA**

GASB 34 requires governments to report general infrastructure assets in the Statement of Net Assets. State law requires an annual inventory of capital assets be performed. Section 12-6-10, NMSA 1978, requires each agency to conduct an annual physical inventory of items on the inventory list at the end of each fiscal year.

**EFFECT**

RPS's controls over capital assets with respect to financial reporting are not adequate to ensure that a misstatement for capital assets would be prevented and/or detected.

**CAUSE**

Adequate policies and procedures are not in place with regard to capital assets due to resource limitations, resulting in a lack of schedules being maintained for such assets.

**STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2012**

**FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS* (Cont'd)**

**Reference Number:** 04-05

**RECOMMENDATION**

RPS should dedicate resources to design and implement effective internal control procedures to ensure capital assets are properly valued and classified and presented in accordance with generally accepted accounting principles.

**MANAGEMENT RESPONSE**

Management understands that this is a huge undertaking, and one that needs to be completed in collaboration with the City. An outside consultant has been brought in to aid in creating an inventory of all capital related items, as well as a depreciation schedule for these items. Management expects this to be completed during before the end of fiscal year 2013.

**STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2012**

**FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS* (Concl'd)**

**Reference Number:** 11-02

**Type of Finding:** Significant deficiency

**Description:** Disbursement Cycle

CONDITION

RPS did not have adequate procedures and controls over the disbursement cycle. During our review we noted for four of 25 cash disbursements reviewed, a purchase order was not created.

CRITERIA

RPS management is responsible for establishing and maintaining internal controls, including controls for the accounts payable cycle. Controls should include consistent use of purchase orders, proper approval for cash disbursements, and cancellation of purchase documentation upon receipt of goods and subsequent payment.

EFFECT

Improper cash disbursements could be processed, as well as cash disbursements could be made to incorrect vendors or could be made without the receipt of the goods or services.

CAUSE

Management did not always ensure that procedures over the accounts payable cycle were followed and procedures were not designed to ensure that such errors were detected or prevented.

RECOMMENDATION

RPS should enhance controls and procedures over the accounts payable cycle to ensure that all cash disbursements are processed through consistent controls.

MANAGEMENT RESPONSE

RPS has already put in place a new policy regarding the signing and authorization of Purchase Orders. In the new policy, Purchase Orders are reviewed by Management, through a consistent form of control. This new policy has been documented within the written Accounting Policy document and immediate action was taken to ensure that situations like this are captured through the process and a purchase order is issued.

**STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2012**

Reference No. 02-01 Policies and Procedures	Status: Resolved
Reference No. 04-05 Capital Assets	Status: Modified and Repeated
Reference No. 08-03 IT Environment	Status: Resolved
Reference No. 10-01 Bank and Loan Accounts	Status: Resolved
Reference No. 10-02 Late Audit Report	Status: Resolved
Reference No. 11-01 Payroll	Status: Resolved
Reference No. 11-02 Accounts Payable/Disbursement Cycle	Status: Modified and Repeated



**STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
EXIT CONFERENCE  
YEAR ENDED JUNE 30, 2012**

An exit conference was held on November 27, 2012 in a closed meeting, in which the contents of this report were discussed with the following.

**Raton Public Service Company**

Kathy McQueary, President  
Christopher Candelario, Board of Directors  
Sandy Chavez, Secretary/Financial Officer

**Raton Public Service Company**

Pete Kampfer, City Manager

**Heinfeld, Meech & Co.**

Audrey Jaramillo, CPA, CFE, Partner  
Miranda Mascarenas, Senior Associate

**FINANCIAL STATEMENT PREPARATION**

Heinfeld, Meech & Co. assisted in the preparation of the financial statements presented in this report. RPS management has reviewed and approved the financial statements and related notes and they believe that their records adequately support the financial statements.

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