

**STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2013**

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

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**STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
OFFICIAL ROSTER
JUNE 30, 2013**

BOARD OF DIRECTORS

Kathy McQueary, President

Mark Jansen, Vice President

Frank Ferri, Treasurer

Neil Segotta, Director

Bobby LeDoux, Mayor

Sandy Chavez, Secretary/Finance Officer

David Mitchell, General Manager

**STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
REPORT ON AUDIT OF FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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INDEPENDENT AUDITOR'S REPORT

Mr. Hector H. Balderas
New Mexico State Auditor

Board of Directors
Raton Public Service Company

Report on the Financial Statements

We have audited the accompanying financial statements of Raton Public Service Company (RPS), a component unit of the City of Raton, New Mexico (City), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise 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, 2013, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of RPS, a component unit of the City of Raton, New Mexico, as of June 30, 2013, and the respective changes in financial position and 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 budgetary comparison referred to above presents fairly in all material respects, the budgetary comparison of Raton Public Service Company for the year ended June 30, 2013, 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.

Change in Accounting Principle

As described in Note 1, RPS implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, for the year ended June 30, 2013, which represents a change in accounting principle. Our opinion is not modified with respect to this matter.

Emphasis of Matter

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, 2013, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise RPS's basic financial statements and the budgetary comparison. The other supplementary information is presented for purposes of additional analysis and is not a required part of the basic 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2013, on our consideration of 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* in considering Raton Public Service Company's internal control over financial reporting and compliance.

Heinfeld, Meech & Co., P.C.

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

November 6, 2013

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, 2013**

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 position decreased \$80,375 which represents a decrease of less than 1 percent from the prior year.
- Operating revenues accounted for \$7.2 million in revenue. Non-operating revenues in the form of interest income accounted for \$2,068 in revenue.
- RPS had \$7.0 million in operating expenses, an increase of 2 percent from the prior fiscal year. Non-operating expenses in the form of interest expenses paid on debt accounted for \$269,807 in expenses.

OVERVIEW OF FINANCIAL STATEMENTS

RPS' financial report includes three financial statements:

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

The Statement of Net Position presents the assets, liabilities, and net position of RPS as of the end of the fiscal year. The Statement of Net Position 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 position (assets minus liabilities).

Changes in total net position as presented on the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position. 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.

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 financial statements.

**STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

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 position may serve over time as a useful indicator of a government's financial position. In the case of RPS, total assets exceeded liabilities by \$9.1 million at the current fiscal year end.

A large portion of RPS's total net position reflects its investment in capital assets (e.g., land, franchise, buildings and improvements; and vehicles and equipment), less any related outstanding debt used to acquire those assets. 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.

The following table presents a summary of RPS's net position for the fiscal years ended June 30, 2013 and June 30, 2012.

	As of June 30, 2013	As of June 30, 2012 as restated
Current assets	\$ 6,832,948	\$ 7,655,685
Capital assets, net	9,397,456	8,979,740
Total assets	<u>16,230,404</u>	<u>16,635,425</u>
Current liabilities	815,404	803,881
Long-term liabilities	6,344,024	6,680,193
Total liabilities	<u>7,159,428</u>	<u>7,484,074</u>
Net investment in capital assets	3,141,511	2,399,356
Restricted	3,908,442	4,741,150
Unrestricted	2,021,023	2,010,845
Total net position	<u>\$ 9,070,976</u>	<u>\$ 9,151,351</u>

**STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

FINANCIAL ANALYSIS (Cont'd)

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 Position.

- The principal retirement of \$324,439 of loans.
- The increase in noncurrent assets of \$417,716 due to capitalized labor associated with voltage conversion.

Changes in net position. RPS's total revenues for the current fiscal year ended were \$7.2 million. The total cost of all operations was \$7.3 million. The following table presents a summary of the changes in net position for the fiscal years ended June 30, 2013 and June 30, 2012.

	<u>Fiscal Year Ended June 30, 2013</u>	<u>Fiscal Year Ended June 30, 2012</u>
Revenues:		
Operating revenue:		
Residential sales	\$ 3,576,301	\$ 3,693,287
Commercial sales	1,655,540	1,755,905
Power sales	1,848,524	1,939,417
Discounts forfeited	111,134	114,139
Connection charges	9,402	10,593
Non-operating revenues:		
Investment income	2,068	13,355
Total revenues	<u>7,202,969</u>	<u>7,526,696</u>
Expenses:		
Operating expenses:		
Production	5,260,124	5,308,660
Distribution	719,329	584,749
Consumer contracts	26,804	134,257
Sales promotion	4,971	3,089
Administration and general	611,963	478,007
Depreciation	390,346	361,114
Non-operating expenses:		
Interest expense	269,807	281,749
Total expenses	<u>7,283,344</u>	<u>7,151,625</u>
Changes in net position	<u>(80,375)</u>	<u>375,071</u>
Net position, beginning	9,867,301	9,037,797
Net position, restatement	<u>(715,950)</u>	<u>454,433</u>
Net position, restated	<u>9,151,351</u>	<u>9,492,230</u>
Net position, ending	<u>\$ 9,070,976</u>	<u>\$ 9,867,301</u>

**STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

FINANCIAL ANALYSIS (Concl'd)

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

- Total revenues decreased by \$310,372 primarily as a result of the closing of two large businesses, including City Market.
- Distribution expenses increased by \$134,580 and administrative and general expenses increased by \$133,956 while consumer contracts decreased by \$107,453 primarily as a result of a reallocation of salary expenses.

BUDGETARY HIGHLIGHTS

RPS's fiscal year 2012-13 operating and capital budget was not revised during the year.

- The unfavorable variance of \$417,959 in production was a result of the Wartsila engine breaking in October 2012 resulting in the purchase of more electricity from outside vendors than originally planned.
- The favorable variance of \$71,985 in distribution was a result of overtime and sick leave pay being under budget as well as savings in the maintenance of the underground system.
- The unfavorable variance of \$36,820 in administrative and general was a result of unexpected legal expenses and insurance costs.

**STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of year end, RPS had invested \$17.7 million capital assets including buildings, facilities, vehicles, computers, and equipment. This amount represents a net increase in capital assets prior to depreciation of \$808,062 from the prior fiscal year. Total depreciation expense for the current fiscal year was \$390,346.

The following schedule presents capital asset balances for the fiscal years ended June 30, 2013 and June 30, 2012.

	As of June 30, 2013	As of June 30, 2012, as restated
Land	\$	\$ 13,841
Buildings and improvements	16,980,781	16,147,878
Vehicles, furniture and equipment	767,644	761,644
Franchise		17,000
Less: Accumulated depreciation	(8,350,969)	(7,960,623)
Total	\$ 9,397,456	\$ 8,979,740

Additional information on RPS's capital assets can be found in Note 4.

Debt Administration. At year-end, RPS had \$6.3 million in long-term debt outstanding, \$331,645 due within one year. The following table presents a summary of RPS's outstanding long-term debt for the fiscal years ended June 30, 2013 and June 30, 2012.

	2013	2012
Loans payable	\$ 6,255,945	\$ 6,580,384
Total	\$ 6,255,945	\$ 6,580,384

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 2013-14 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.

**STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES (Concl'd)

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

Budgeted expenses decreased 1.4 percent to \$6,165,026 in fiscal year 2013-14. No new programs were added to the 2013-14 budget.

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.

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FINANCIAL STATEMENTS

**STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
STATEMENT OF NET POSITION
JUNE 30, 2013**

Assets

Current assets, unrestricted:	
Cash and cash equivalents	\$ 608,249
Accounts receivable, net	1,394,592
Inventory - coal	6,005
Inventory - distribution lines, materials and supplies	648,044
Prepaid items	46,932
Total unrestricted current assets	<u>2,703,822</u>
Current assets, restricted:	
Cash and cash equivalents -	
Sixty day operation reserve fund	409,144
Annual overhaul reserve fund	222,028
Capital improvement and replacement fund	1,907,832
Customer deposits	147,937
Customer advances for construction	72,747
Loan reserve	1,369,438
Total restricted current assets	<u>4,129,126</u>
Noncurrent assets:	
Buildings and improvements	16,980,781
Vehicles and equipment	767,644
Accumulated depreciation	<u>(8,350,969)</u>
Total noncurrent assets	<u>9,397,456</u>
 Total assets	 \$ <u><u>16,230,404</u></u>

**STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
STATEMENT OF NET POSITION
JUNE 30, 2013**

Liabilities and Net Assets

Current liabilities, payable from unrestricted assets:	
Accounts payable	\$ 371,889
Insurance payable	126,685
Payroll taxes payable	2,283
Gross receipts tax payable	32,094
Unearned revenue	7,831
Interest payable	53,938
Loan payable	331,645
Compensated absences	62,574
Total unrestricted current liabilities	<u>988,939</u>
Current liabilities, payable from restricted assets:	
Customer deposits	147,937
Customer advances from construction	72,747
Total restricted current liabilities	<u>220,684</u>
Noncurrent liabilities:	
Loan payable	5,924,300
Compensated absences	25,505
Total noncurrent liabilities	<u>5,949,805</u>
Total liabilities	<u>7,159,428</u>
Net position:	
Net investment in capital assets	3,141,511
Restricted	3,908,442
Unrestricted	2,021,023
Total net position	<u>9,070,976</u>
Total liabilities and net position	<u>\$ 16,230,404</u>

STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013

Operating revenue:	
Residential sales	\$ 3,576,301
Commercial sales	1,655,540
Power sales	1,848,524
Discounts forfeited	111,134
Connection charges	9,402
Total operating revenue	<u>7,200,901</u>
Operating expenses:	
Production	5,260,124
Distribution	719,329
Consumer contracts	26,804
Sales promotion	4,971
Administration and general	611,963
Total operating expenses before depreciation	<u>6,623,191</u>
Depreciation	<u>390,346</u>
Total operating expenses	<u>7,013,537</u>
Operating income	<u>187,364</u>
Non-operating revenue (expense):	
Investment income	2,068
Interest expense	(269,807)
Non-operating income (expense)	<u>(267,739)</u>
Change in net position	(80,375)
Net position, beginning of year	9,867,301
Net position, restatement	<u>(715,950)</u>
Net position, restated	9,151,351
Net position, end of year	<u>\$ 9,070,976</u>

**STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013**

Cash flows from operating activities:	
Cash received from customers and others	\$ 6,777,611
Cash paid to suppliers	(5,844,679)
Cash paid to employees	(792,987)
Net cash provided by operating activities	<u>139,945</u>
Cash flows from capital and related financing activities:	
Principal payments made under loan obligations	(324,439)
Interest payments made under loan obligations	(269,807)
Acquisition of capital assets	(838,903)
Proceeds from sale of capital assets	30,841
Net cash used by financing activities	<u>(1,402,308)</u>
Cash flows from investing activities:	
Investment income	<u>2,068</u>
Net cash used by investing activities	<u>2,068</u>
Net decrease in cash and cash equivalents	(1,260,295)
Cash and cash equivalents, beginning of year	5,528,562
Prior period adjustment	<u>469,108</u>
Cash and cash equivalents, adjusted	5,997,670
Cash and cash equivalents, end of year	<u>\$ 4,737,375</u>

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

Operating income	\$ 187,364
Adjustments to reconcile change in operating income to net cash provided by operating activities	
Depreciation expense	390,346
Changes in operating assets:	
Accounts receivable, net	(427,230)
Inventory - distribution lines, materials and supplies	13,737
Prepaid items	(24,065)
Changes in operating liabilities:	
Accounts payable	(6,016)
Insurance payable	13,486
Payroll taxes payable	(88)
Gross receipts tax payable	(4,596)
Unearned revenue	(373)
Interest payable	4,797
Compensated absences	(11,730)
Customer deposits	4,313
Net cash provided by operating activities	<u>\$ 139,945</u>

**STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

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.

During the year ended June 30, 2013, RPS implemented the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement No. 63 establishes reporting guidance for certain elements of the financial statements which are distinct from assets and liabilities.

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, 2013.

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.

**STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

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 RPS are charges to customers for sales and services. Operating expenses 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.

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

**STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

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

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.

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.

**STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

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

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

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

I. Compensated Absences

RPS's employee vacation and sick leave policies generally provide for granting vacation and sick leave with pay in varying amounts. Only benefits considered vested are recognized in the financial statements.

J. 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.

K. Net Position Flow Assumption

In the financial statements, RPS applies restricted resources first when outlays are incurred for purposes for which either restricted or unrestricted amounts are available.

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
RATON PUBLIC SERVICE COMPANY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

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 expired during fiscal year 2013. RPS entered into another agreement to purchase power from Twin Eagle Resource Management, LLC 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 \$3,672,552 and the bank balance was \$3,759,192. 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, \$3.5 million 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	\$ 3,759,192
Less: FDIC	<u>250,000</u>
Total unsecured funds	<u>3,509,192</u>
50% collateral requirement	1,754,596
Pledged securities, fair value	<u>2,100,000</u>
Pledged in excess of requirement	<u><u>\$ 345,404</u></u>

**STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

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	60 days	\$1,064,823

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
RATON PUBLIC SERVICE COMPANY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 3 – RECEIVABLES

Receivable balances, net of allowance for doubtful accounts, as of June 30, 2013 for RPS in the aggregate, were as follows.

Accounts receivable from customers	\$ 1,523,537
Due from primary government	22,876
Due from other entities	1,148
Allowance for doubtful accounts	<u>(152,969)</u>
Net receivables	<u>\$ 1,394,592</u>

NOTE 4 – CAPITAL ASSETS

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

<u>Business-type Activities</u>	<u>Beginning Balance, as Restated</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 13,841	\$	\$ 13,841	\$
Franchise	<u>17,000</u>	<u> </u>	<u>17,000</u>	<u> </u>
Total capital assets, not being depreciated	<u>30,841</u>	<u> </u>	<u>30,841</u>	<u> </u>
Capital assets, being depreciated:				
Buildings and improvements	16,147,878	832,903		16,980,781
Vehicles and equipment	<u>761,644</u>	<u>6,000</u>		<u>767,644</u>
Total capital assets being depreciated	<u>16,909,522</u>	<u>838,903</u>		<u>17,748,425</u>
Less total accumulated depreciation for:				
Buildings and improvements	(7,294,949)	(358,075)		(7,653,024)
Vehicles and equipment	<u>(665,674)</u>	<u>(32,271)</u>		<u>(697,945)</u>
Total accumulated depreciated, net	<u>(7,960,623)</u>	<u>(390,346)</u>		<u>(8,350,969)</u>
Total capital assets, being depreciated, net	<u>8,948,899</u>	<u>448,557</u>		<u>9,397,456</u>
Governmental activities capital assets, net	<u>\$ 8,979,740</u>	<u>\$448,557</u>	<u>\$ 30,841</u>	<u>\$ 9,397,456</u>

**STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

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, 2013</u>	<u>Due Within One Year</u>
Backup generator	\$2,693,610	4.08-4.86%	5/1/14-22	\$ 1,185,953	\$ 137,138
Electric utility substation expansion	1,122,725	1.65-4.95%	5/1/14-29	989,319	38,007
Electric utility Wartsila and Burro Canyon lines	4,619,684	1.65-4.95%	5/1/14-29	4,080,673	156,500
Total				<u>\$ 6,255,945</u>	<u>\$ 331,645</u>

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

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 331,645	\$ 260,622
2015	339,869	250,560
2016	350,817	239,556
2017	368,802	227,571
2018	379,693	214,254
2019-23	1,763,100	848,430
2024-28	2,214,641	446,222
2029	507,378	24,794
Total	<u>\$ 6,255,945</u>	<u>\$ 2,512,009</u>

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>
Business-type Activities:					
Compensated absences	\$ 99,809	\$ 83,630	\$ 95,360	\$ 88,079	\$ 62,574
NMFA Loans payable	6,580,384		324,439	6,255,945	331,645
Total	<u>\$ 6,680,193</u>	<u>\$ 83,630</u>	<u>\$ 419,799</u>	<u>\$ 6,344,024</u>	<u>\$ 394,219</u>

**STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 7 – NET POSITION

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 \$581,863. 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. Amount consumed and billed to the City for the current fiscal year was \$181,408.

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. 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.

**STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 7 – NET POSITION (Cont'd)

- 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
RATON PUBLIC SERVICE COMPANY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 7 – NET POSITION (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.

**STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 7 – NET POSITION (Cont’d)

Calculation of Reserve Balances Allowed Under the Franchise Agreement

Calculation of cash revenues for reserve balance:

2012 operating revenue on accrual basis	\$ 7,513,341
Add	
Interest earned	-
Beginning gross receivables	618,267
Less	
Ending gross receivables	(627,050)
Bad debt expense	(13,235)
Add	
Ending allowance for doubtful accounts	142,208
Less	
Beginning allowance for doubtful accounts	(127,218)
Sales to City of Raton/water	(202,272)
Total 2012 gross annual revenue adjusted to cash basis	<u>\$ 7,304,041</u>

Calculation of cash expense for reserve balance:

2012 operating expense on accrual basis	\$ 6,508,762
Add	
Nonoperating expenses	281,749
Beginning accounts payable (exclusive of fuel, ARPA, and sales tax)	516,200
Ending prepaid expenses	22,867
Beginning compensated absences payable	99,322
Ending supplies inventory	667,786
Less	
Purchased power	(4,767,681)
Ending accounts payable (exclusive of fuel, ARPA, and sales tax)	(377,905)
Bad debt expense	13,235
Beginning prepaid expenses	(19,122)
Ending compensated absences payable	(99,809)
Beginning supplies inventory	(705,351)
Total 2012 gross annual expenses adjusted to cash basis	<u>\$ 2,140,053</u>

**STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 7 – NET POSITION (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)	\$ 2,140,053
Divided by days per year	360
	5,945
Times 60 days	60
60-Day operating maximum required reserve	356,676
Beginning reserve balance	467,530
Allowable deposits	29,647
2013 cash outlay	(88,032)
Ending reserve balance	\$ 409,145

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	\$ 258,774
Actual deposits	211,461
2013 cash outlay	(248,207)
Ending reserve balance	\$ 222,028
Maximum balance	
2012 annual gross revenues	\$ 7,304,041
Maximum reserve balance	\$ 328,682
Allowable deposits (2.5% of gross annual revenues)	\$ 182,601

**STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 7 – NET POSITION (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	\$ 6,466,211
Allowable deposits (10% of gross annual revenues)	<u>730,404</u>
Ending allowable reserve balance	<u>\$ 7,196,615</u>
Beginning reserve balance	\$ 2,663,050
Actual deposits	
2013 cash outlay	<u>(755,218)</u>
Ending reserve balance	<u><u>\$ 1,907,832</u></u>
Maximum balance	
2012 gross annual revenues	\$ 7,304,041
Multiplied times 2	<u>2</u>
Maximum reserve balance	<u>\$ 14,608,082</u>

RESERVE ANALYSIS

	Actual Cash Balance at <u>June 30, 2013</u>	Maximum Required Balance at <u>June 30, 2013</u>	Over (Under) <u>Maximum</u>
60-Day operating reserve fund	\$ 409,145	\$ 356,676	\$ 52,469
Annual overhaul reserve fund	222,028	328,682	(106,654)
Capital improvement and replacement fund	1,907,832	14,608,082	(12,700,250)

NOTE 8 – 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
RATON PUBLIC SERVICE COMPANY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 8 – 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 9 – 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.

**STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

**NOTE 9 – 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, 2013, 2012 and 2011 were \$69,907, \$68,804, and \$74,786 respectively, which equal the amount of the required contributions for each fiscal year.

NOTE 10 – 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
RATON PUBLIC SERVICE COMPANY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

**NOTE 10 – 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.

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

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2013, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2013, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

RPS's contributions to the RHCA for the years ended June 30, 2013, 2012 and 2011 were \$23,750, \$20,686, and \$21,577, respectively, which equal the required contributions for each year.

**STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 11 – RESTATEMENTS

RPS restated the previously issued financial statement's net position in the amount of \$469,108. This correction was made to beginning net position to exclude June 2012 billings recorded in 2013 which should have been accrued by debiting accounts receivable and crediting revenue at June 30, 2012. In addition, net position was restated by \$1,185,058 to properly state capital assets as of July 1, 2012.

NOTE 12 – SUBSEQUENT EVENTS

Effective September 1, 2013, RPS no longer was participating in the New Mexico Self-Insurer's Fund Risk Pool or the Risk Management Division for Health Coverage. Commercial insurance was procured.

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SUPPLEMENTARY INFORMATION

**STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN
NET POSITION - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2013**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Non-GAAP Actual</u>	<u>Variance - Positive (Negative)</u>
Revenues:				
Residential sales	\$ 3,446,163	\$ 3,446,163	\$ 3,576,301	\$ 130,138
Commercial sales	1,753,997	1,753,997	1,655,540	(98,457)
Power sales	1,727,813	1,727,813	1,848,524	120,711
Discounts forfeited	105,408	105,408	111,134	5,726
Connection charges	9,289	9,289	9,402	113
Total revenues	<u>7,042,670</u>	<u>7,042,670</u>	<u>7,200,901</u>	<u>158,231</u>
Operating Expenses:				
Production	\$ 4,842,165	\$ 4,842,165	\$ 5,260,124	\$ (417,959)
Distribution	791,314	791,314	719,329	71,985
Consumer contracts			26,804	(26,804)
Administrative and general	580,114	580,114	616,934	(36,820)
Total expenses	<u>6,213,593</u>	<u>6,213,593</u>	<u>6,623,191</u>	<u>(409,598)</u>
Operating income	<u>829,077</u>	<u>829,077</u>	<u>577,710</u>	<u>(251,367)</u>
Non-operating revenues				
Interest income	<u>7,000</u>	<u>7,000</u>	<u>2,068</u>	<u>4,932</u>
Change in net assets- Budgetary basis	<u>\$ 836,077</u>	<u>\$ 836,077</u>	<u>579,778</u>	<u>\$ (246,435)</u>
Reconciliation to change in net position - GAAP basis:				
Interest paid on long-term debt			(269,807)	
Depreciation expense			<u>(390,346)</u>	
Change in net position - GAAP basis			<u>\$ (80,375)</u>	

OTHER SUPPLEMENTARY INFORMATION

**STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
SCHEDULE OF DEPOSITS AND PLEDGED COLLATERAL
JUNE 30, 2013**

Deposit	Account Type	Total Deposits	Reconciling Items	Reconciled Balance
Petty cash		\$ 600	\$ 600	\$ 600
Reserve for Annual Overhaul	Checking, interest bearing	183,402	30,613	214,015
Capital Improvement	Checking, non-interest bearing	1,219,410	(75)	1,219,335
Utility System Cap Improve Repl. Fund	Checking, non-interest bearing	20,000		20,000
Debt Service and Bond Reserve	Checking, non-interest bearing	296,949	-	296,949
Gross Income Account	Checking, interest bearing	615,075	(117,142)	497,933
Operational Reserve	Checking, interest bearing	217,633	(13)	217,620
Special Fund	Checking, non-interest bearing	184,015	(623)	183,392
CD 8129255	Certificate of Deposit	86,659		86,659
CD 8129256	Certificate of Deposit	104,576		104,576
CD 8129276	Certificate of Deposit	311,506		311,506
CD 8129301	Certificate of Deposit	379,751		379,751
CD 8129302	Certificate of Deposit	140,216		140,216
		<u>\$ 3,759,192</u>	<u>\$ (86,640)</u>	<u>\$ 3,672,552</u>

International
Bank

Bank Accounts:

Checking accounts	\$ 2,736,484
Certificates of deposit	1,022,708
Total amount of deposits	<u>3,759,192</u>
Less: FDIC coverage	250,000
Total uninsured public funds	<u>3,509,192</u>

Collateral requirements (Per 6-10-10 & 6-10-17, NMSA 1978):
50% of uninsured time and demand accounts

1,754,596

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	225,000
Total collateral				<u>2,100,000</u>

Over / (under) secured

\$ 345,404

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, 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, the financial statements of Raton Public Service Company (RPS), a component unit of the City of Raton, New Mexico (City), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise RPS's basic financial statements, and have issued our report thereon dated November 6, 2013. Our report included an emphasis of matter paragraph as to comparability because of the implementation of Governmental Accounting Standards Board Statement No. 63.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered RPS's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of RPS's internal control. Accordingly, we do not express an opinion on the effectiveness of RPS's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 RPS'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 a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as items 11-02 and 2013-1, to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether RPS's financial statements are free from 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

RPS's Response to Findings

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

Purpose of this Report

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

Heinfeld, Meech & Co., P.C.

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

November 6, 2013

**STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2013**

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

Reference Number: 04-05

Type of Finding: Material Weakness

Description: Capital Assets, Inventory

CRITERIA

Management is responsible for establishing and maintaining internal controls that require the reconciliation of subsidiary schedules to the trial balance at year end and the reconciliation of capital expenditures to capital asset additions. All costs of items on the inventory listing should be supported.

CONDITION/CONTEXT

1. At year end, the capital asset balances were not properly recorded on the RPS trial balance by \$299,601.
2. The labor component (approximately \$655,000) of a project completed during the fiscal year was not properly capitalized as part of the cost to put the asset into place.
3. For one of five inventory items reviewed, determined no records were retained to support the cost of the item on the inventory listing. The total value of this item was \$268.

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. Audit adjustments were necessary to properly state the financial statements.

CAUSE

Adequate training and resources have not been allocated to the area of capital assets. The finding regarding inventory was due to a clerical oversight.

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. Upon recommendation, the company promptly corrected the errors.

**STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2013**

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

Reference Number: 04-05

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

Having had a “capital assets” finding for many years, in fiscal year 2013, RPS completed a full asset inventory and implemented a Fixed Asset Management Program that successfully resolves this finding. Unfortunately, owing to the age of some of the items in our inventory (from 1955 and 1963, for example), we had to use estimated historical cost, rather than the original purchase orders. We would like it noted that the capital asset balances are now properly recorded on the RPS trial balance. Furthermore, the labor component (\$655,000) is now properly capitalized. Both of these issues were immediately resolved, within minutes, while the Auditors were on site.

**STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2013**

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

Reference Number: 11-02

Type of Finding: Significant Deficiency

Description: Disbursement Cycle

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 prior to receipt of goods/services. Policies governing small dollar purchases should be followed. Goods and services received subsequent to year end should be reviewed for proper recording.

CONDITION/CONTEXT

RPS did not have adequate procedures and controls over the disbursement cycle. During our review we noted for two of 25 cash disbursements reviewed, a purchase order was created after the goods/services were received. The total value of these disbursements was \$5,186. In addition, for three of five purchases reviewed, three quotes were not obtained. The total value for these purchases was \$29,199. Lastly, for one of 21 fiscal year 2013-14 expenses reviewed, an expense of \$118,340 was paid for in fiscal year 2013-14; however, the goods and services were received prior to June 30, 2013.

EFFECT

Improper cash disbursements could be processed, as well as cash disbursements could be made in the incorrect fiscal year.

CAUSE

Management did not always ensure that procedures over the accounts payable and procurement 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.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

RPS has an accounting policy in place that should appropriately cover these necessary controls. Management will ensure this policy is followed closely. Management will ensure that appropriate procedures are followed for all professional service agreements and, where needed, that sole source letters are approved by the Board. It should be noted that the \$118,340 was paid in July 2014 because although the item was delivered in the middle of June, the payment was not due until July 2014. This expense reporting has been corrected.

**STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2013**

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

Reference Number: 2013-1

Type of Finding: Significant Deficiency

Description: Internal Controls

CRITERIA

Management is responsible for ensuring proper segregation of duties over cash handling procedures. Additionally, the entity should ensure sufficient controls are in place over recording long-term debt payments and removing stale dated line items from the financial statements at year end.

CONDITION/CONTEXT

Management did not have adequate segregation of duties over cash handling procedures. Further, the entity did not have procedures in place to reconcile outstanding loan balances to the trial balance. Lastly, stale dated accounting items on the trial balance were not disposed of in a timely manner.

EFFECT

Internal controls over accounting records and financial reporting and the trial balance were not adequate to ensure misstatements would be prevented.

CAUSE

The small size, limited resources and illnesses of staff contributed to difficulties in establishing proper segregation of duties and controls over year end trial balance preparation.

RECOMMENDATION

Proper segregation of duties should be implemented for cash handling procedures. Year end close out procedures should include a reconciliation between loan agreements and the amounts recorded on the financial statements. Lastly, management should design and implement effective internal control procedures to ensure the general ledger does not include stale dated accounts.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

RPS's current accounting policy had previously been deemed appropriate for cash handling procedures. However, that accounting policy will be immediately tweaked to include an additional segregation. Obviously, we only have a certain number of employees, so segregating every detail is difficult. But, management takes this on board and has already made the necessary changes.

**STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2013**

Reference No. 04-05
Capital Assets

Status: Modified and Repeated

Reference No. 11-02
Disbursement Cycle

Status: Modified and Repeated

**STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
EXIT CONFERENCE
YEAR ENDED JUNE 30, 2013**

An exit conference was held on November 19, 2013 in a closed meeting, in which the contents of this report were discussed with the following.

Raton Public Service Company

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

City of Raton

Butch McGowen, City Manager

Heinfeld, Meech & Co., P.C.

Jill A. Shaw, CPA, Partner

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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