

**STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2014**

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

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INDEPENDENT AUDITORS' REPORT

Hector H. Balderas, State Auditor
and the Board of Directors of the
Raton Public Service Company
Raton, New Mexico

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Raton Public Service Company (RPS), as of and the year ended June 30, 2014, 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 comparison for the major enterprise fund presented as supplemental information in the financial statements for the year ended June 30, 2014 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.

Auditors' 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements and budgetary comparison presented as supplementary information referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Raton Public Service Company, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance 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 5 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, and the budgetary comparisons. The "other supplemental information" as identified in the table of contents and presented is for purposes of additional analysis and is not a required part of the basic financial statements.

The Supplementary Information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2014 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.

White & Samaniego & Campbell, LLP

El Paso, Texas
December 1, 2014

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)
FISCAL YEAR ENDED JUNE 30, 2014**

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 \$219,213 which represents a decrease of 2 percent from the prior year.
- Operating revenues accounted for \$6,339,934 in revenue. Non-operating revenues in the form of interest income accounted for \$2,550 in revenue.
- RPS had \$6,293,225 in operating expenses, an increase of 1 percent from the prior fiscal year. Non-operating expenses in the form of interest expenses paid on debt accounted for \$265,922 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, 2014**

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 \$7,608,002 (net position) 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 year ended June 30, 2014.

	As of June 30, 2014	As of June 30, 2013
Current assets	\$ 5,452,149	\$ 6,832,948
Capital assets, net	<u>8,850,512</u>	<u>9,397,456</u>
Total assets	<u>14,302,661</u>	<u>16,230,404</u>
Current liabilities	1,099,006	815,404
Long-term liabilities	<u>5,595,653</u>	<u>6,344,024</u>
Total liabilities	<u>6,694,659</u>	<u>7,159,428</u>
Net investment in capital assets	122,633	3,141,511
Restricted	1,703,040	3,908,442
Unrestricted	<u>5,782,329</u>	<u>2,021,023</u>
Total net position	<u>\$ 7,608,002</u>	<u>\$ 9,070,976</u>

**STATE OF NEW MEXICO RATON PUBLIC SERVICE COMPANY MANAGEMENT'S
DISCUSSION AND ANALYSIS (MD&A) YEAR ENDED JUNE 30, 2014**

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 increase in noncurrent assets of \$546,944 due to capitalized labor associated with voltage conversion.

Changes in net position. RPS's total revenues for the current fiscal year ended were \$6,339,934 . The total cost of all operations was \$6,559,147 . The following table presents a summary of the changes in net position for the fiscal years ended June 30, 2014 and June 30, 2013.

	Fiscal Year Ended June 30, 2014	Fiscal Year Ended June 30, 2013
Revenues:		
Operating revenue:		
Residential sales	\$ 3,084,544	\$ 3,576,301
Commercial sales	1,521,159	1,655,540
Power sales	1,629,414	1,848,524
Discounts forfeited	96,027	111,134
Connection charges	6,240	9,402
Non-operating revenues:		
Investment income	<u>2,550</u>	<u>2,068</u>
Total revenues	<u>6,339,934</u>	<u>7,202,969</u>
Expenses:		
Operating expenses:		
Production	4,588,452	5,260,124
Distribution	691,293	719,329
Consumer contracts	15,643	26,804
Sales promotion	3,533	4,971
Administrations and general	501,953	611,963
Depreciation	492,351	390,346
Non-operating expenses:		
Interest expense	<u>265,922</u>	<u>269,807</u>
Total expenses	<u>6,559,147</u>	<u>7,283,344</u>
Changes in net position	<u>(219,213)</u>	<u>(80,375)</u>
Net position, beginning	9,070,976	9,867,301
Net position, restatement	<u>(1,243,761)</u>	<u>(715,950)</u>
Net position, restated	<u>7,827,215</u>	<u>9,151,351</u>
Net position, ending	<u>\$ 7,608,002</u>	<u>\$ 9,070,976</u>

**STATE OF NEW MEXICO RATON PUBLIC SERVICE COMPANY MANAGEMENT'S DISCUSSION
AND ANALYSIS (MD&A) YEAR ENDED JUNE 30, 2014**

FINANCIAL ANALYSIS (Concl'd)

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

Total revenues decreased by \$863,03, Distribution expenses decreased by \$28,036 and administrative and general expenses decreased by \$110,010 while consumer contracts decreased by \$11,161 as a result of decreased population resulting in less charges for services.

BUDGETARY HIGHLIGHTS

RPS's fiscal year 2013-14 operating and capital budget was not revised during the year.

- The favorable variance of \$180,686 due to the loss of a number of customers. Residential and commercial sales are down considerably and so are the expenses due to a lower amount of energy being purchased because of the customer demand declining
- The favorable variance of \$90,180 in distribution was due to the retirement of an employee at approximately \$25 per hour plus benefits being replaced by someone at half of the salary and benefits.
- The favorable variance of \$130,694 in administrative and general was considerably due to the loss of the RPS General Manager at the end of December 2013 and position not being replaced until June 2013. Six months of salary and benefits were not paid for that position.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of year end, RPS had invested \$17.8 million capital assets including buildings, facilities, vehicles, computers, and equipment. This amount represents a net increase in capital assets prior to depreciation of \$41,223 from the prior fiscal year. Total depreciation expense for the current fiscal year was \$517,234. An adjustment to depreciation for \$70,932 was made for a net change in depreciation of \$588,167.

The following schedule presents capital asset balances for the fiscal years ended June 30, 2014 and June 30, 2013.

	As of June 30, 2014	As of June 30, 2013
Buildings and improvements	\$ 16,892,771	\$ 16,980,781
Vehicles and equipment	896,877	767,644
Less: Accumulated depreciation	<u>(8,939,136)</u>	<u>(8,350,969)</u>
Total	<u>8,850,512</u>	<u>9,397,456</u>

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, 2014**

Debt Administration. At year-end, RPS had \$5.9 million in long-term debt outstanding, \$350,046 due within one year. The following table presents a summary of RPS's outstanding long-term debt for the fiscal years ended June 30, 2014 and June 30, 2013

	2014	2013
Loans payable	<u>\$ 5,924,299</u>	<u>\$ 6,255,945</u>
Total	<u>5,924,299</u>	<u>6,255,945</u>

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 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 1 percent to \$5,800,874 in fiscal year 2014-15. No new programs were added to the 2014-15 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.

FINANCIAL STATEMENTS

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

**STATEMENT OF NET POSITION
JUNE 30, 2014**

ASSETS:	
Current assets, unrestricted:	
Cash and cash equivalents	\$ 577,848
Accounts receivables, net	878,674
Inventory - distribution lines, materials and supplies	668,195
Prepaid items	<u>49,666</u>
Total unrestricted current assets	2,174,383
Current assets, restricted:	
Cash and cash equivalents	356,676
Sixty day operation reserve fund	328,682
Annual overhaul reserve fund	2,126,687
Capital improvement and replacement fund	161,922
Customer deposits	<u>303,799</u>
Loan reserve	
Total restricted current assets	3,277,766
Noncurrent assets:	
Buildings and improvements	16,892,771
Vehicles and equipment	896,877
Accumulated depreciation	<u>(8,939,136)</u>
Total noncurrent assets	<u>8,850,512</u>
Total assets	<u>\$ 14,302,661</u>

See accompanying notes to financial statements and independent auditors' report.

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

**STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014**

LIABILITIES and NET ASSETS:

Current liabilities, payable from unrestricted assets:	\$ 331,424
Accounts payable	106,941
Insurance payable	2,439
Payroll taxes payable	33,098
Gross receipts tax payable	6,804
Unearned revenue	53,938
Interest payable	350,046
Loan payable	52,394
Compensated absences	<u>52,394</u>
Total unrestricted current liabilities	937,084
Current liabilities, payable from restricted assets:	<u>161,922</u>
Customer deposits	161,922
Total restricted current liabilities	161,922
Non-current liabilities:	5,574,253
Loan payable	21,400
Compensated absences	<u>21,400</u>
Total non-current liabilities	<u>5,595,653</u>
Total liabilities	<u>6,694,659</u>
NET POSITION:	2,926,213
Net investment in capital assets	1,404,023
Unrestricted	<u>3,277,766</u>
Restricted	<u>3,277,766</u>
Total net position	<u>7,608,002</u>
Total liabilities and net position	<u>\$ 14,302,661</u>

See accompanying notes to financial statements and independent auditors' report.

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

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014**

Operating revenue:	\$ 3,084,544
Residential sales	1,521,159
Commercial sales	1,629,414
Power sales	96,027
Discounts forfeited	6,240
Connection charges	<u>6,240</u>
Total operating revenues	6,337,384
Operating expenses	4,588,452
Production	691,293
Distribution	15,643
Consumer contracts	3,533
Sales promotion	501,953
Administrations and general	<u>501,953</u>
Total operating expenses before depreciation	5,800,874
Depreciation	<u>492,351</u>
Total operating expenses	<u>6,293,225</u>
Operating income	<u>44,159</u>
Nonoperating revenues (expenses)	2,550
Investment income	<u>(265,922)</u>
Interest expense	(263,372)
Total nonoperating revenues (expenses)	(263,372)
Change in net position	(219,213)
Net position, beginning of year, as previously stated	9,070,976
Net position, restatement	<u>(1,243,761)</u>
Net position, beginning of year, as restated	7,827,215
Net position, end of year	<u>\$ 7,608,002</u>

See accompanying notes to financial statements and independent auditors' report.

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

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014**

Cash flows from operating activities::	
Cash received from customers and others	\$ 5,549,752
Cash payments to suppliers and employees	<u>(5,866,205)</u>
Net cash used in operating activities	(316,453)
Cash flows from capital and related financing activities:	
Principal payments made under loan obligation	(331,646)
Interest payments made under loan obligations	(265,922)
Adjustments to capital assets	<u>29,710</u>
Net cash used in financing activities	(567,858)
Cash flows from investing activities:	
Change in investment	<u>2,550</u>
Net cash provided by investing activities	<u>2,550</u>
Net decrease in cash and cash equivalents	(881,761)
Cash and cash equivalents, beginning of year	<u>4,737,375</u>
Cash and cash equivalents, end of year	<u>\$ 3,855,614</u>

(Continued)

See accompanying notes to financial statements and independent auditors' report.

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

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014**

Reconciliation of Operating Income to Net Cash

Used in Operating Activities

Operating income	\$	44,159
Adjustment to reconcile operating income to net cash used in operating activities:		
Depreciation		517,234
Restatement		(1,243,761)
Change in operating assets:		
Accounts receivable		515,918
Other assets		(16,880)
Accounts payable		(59,049)
Accrued payable and other liabilities		(59,789)
Accrued compensated absences		<u>(14,285)</u>
Total adjustments		<u>(360,612)</u>
Net cash used in operating activities	\$	<u>(316,453)</u>

(Concluded)

See accompanying notes to financial statements and independent auditors' report.

STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY

NOTES TO BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

I. **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 the rate paying customers within a service area allowed by law.

Reporting Entity

The financial statements of the RPS have been prepared in accordance with general accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements.

GASB Statement No. 14 established criteria for determining the governmental reporting entity and component units that should be included within the reporting entity. Under provisions of this Statement, the Authority is considered a primary government, since it is a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. As used in GASB Statement No. 14, fiscally independent means that the Authority may, without the approval or consent of another governmental entity, determine or modify its own budget, levy its own taxes or set rates or charges and issue bonded debt.

RPS has no component units, defined by GASB Statement No. 14 as other legally separate organizations for which the elected RPS members are financially accountable. There are no other primary governments with which RPS Board Members are financially accountable. There are no other primary governments with which the Authority has a significant relationship.

The accounts of RPS are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

The funds of RPS are classified as a proprietary fund type. The fund classification and a description of the fund type follows below:

Measurement Focus and Basis of Accounting

The proprietary fund financial statements are reported using the economic resources measurement focus.

The proprietary fund is accounted for using the accrual basis of accounting. The revenues are recognized when they are earned and the expenses are recognized when they are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of RPS 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.

Analysis of Impairment

Management review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is determined based upon comparison of future cash flows to the recorded value of the assets. Impairment losses are measured based upon the fair value of the impaired assets. No such impairment losses were recorded during the year ended June 30, 2014.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Authority considers all highly liquid investments with an initial maturity of three months or less 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.

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.

Investment Income

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

Inventory

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

Prepaid Items

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

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.

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

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.

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.

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.

Utility Rates

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

Contractual Agreements

RPS entered into another agreement to purchase power from Twin Eagle Resource Management, LLC during fiscal year 2013.

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.

2. **CASH AND DEPOSITS**

At year end, the carrying amount of RPS's deposits was \$4,237,499 and the bank balance was \$3,855,614. 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	\$ 4,237,499
Less: FDIC	<u>250,000</u>
Total unsecured funds	<u>3,987,499</u>
50% collateral requirement	1,993,750
Pledged securities, fair value	<u>2,075,000</u>
Pledge in excess of requirement	<u>\$ 81,250</u>

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

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 Operational 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.

3. **RECEIVABLES**

Receivable balances, net of allowance for doubtful accounts, as of June 30, 2014 for RPS in the aggregate, were as follows.

Accounts receivable from customers	\$ 979,702
Due from primary government	19,962
Due from other entities	1,148
Allowance for doubtful accounts	<u>(122,138)</u>
Net receivables	<u>\$ 878,674</u>

4. **CAPITAL ASSETS**

A summary of capital asset activity for the current year follows:

	Beginning Balance	Increase	Decreases	Transfers	Adjustment	Ending Balance
Business-type Activities						
Capital Assets, being depreciated						
Buildings and improvements	\$ 6,980,780	\$ -	\$ -	\$ -	\$ (88,010)	\$16,892,770
Vehicle and equipment	<u>767,644</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>129,233</u>	<u>896,877</u>
Total capital assets , being depreciated	<u>7,748,424</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>41,223</u>	<u>17,789,647</u>
Less accumulated depreciation for:						
Buildings and improvements	7,653,024	479,170	-	-	41,303	8,173,497
Vehicle and equipment	<u>697,945</u>	<u>38,064</u>	<u>-</u>	<u>-</u>	<u>29,629</u>	<u>765,638</u>
Total accumulated depreciation	<u>8,350,969</u>	<u>517,234</u>	<u>-</u>	<u>-</u>	<u>70,932</u>	<u>8,939,135</u>
Governmental activities capital assets, net	<u>\$ 9,397,455</u>	<u>\$ 517,234</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 112,155</u>	<u>\$ 8,850,512</u>

Depreciation expense was \$517,234 for the year ended June 30, 2014.

5. **LONG TERM DEBT**

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.

	Original Amount Issued	Interest Rates (Including Fees)	Remaining Maturities	Outstanding Principal June 30, 2014	Due Within One Year
Backup generator	\$ 2,693,610	4.08-4.86%	5/1/15-22	\$ 1,048,815	\$ 111,526
Electric utility substation expansion	1,122,725	1.65-4.95%	5/1/15-29	951,312	47,176
Electric utility Wartsila and Burro Canyon lines	4,619,684	1.65-4.95%	5/1/15-29	<u>3,924,172</u>	<u>191,344</u>
Total				<u>\$ 5,924,299</u>	<u>\$ 350,046</u>

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

Year Ending June 30:	Principal	Interest
2015	\$ 350,046	\$ 244,703
2016	365,346	229,404
2017	381,315	213,435
2018	397,983	196,767
2019	415,380	179,370
2020-2024	2,039,462	605,053
2025-2029	<u>2,027,980</u>	<u>216,200</u>
Totals	<u>\$ 5,977,512</u>	<u>\$ 1,884,932</u>

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ 88,079	\$ 41,235	\$ 55,520	\$ 73,794	\$ 52,394
NMFA Loans payable	<u>6,255,945</u>	<u>-</u>	<u>331,646</u>	<u>5,924,299</u>	<u>350,046</u>
Totals	<u>\$ 6,344,024</u>	<u>\$ 41,235</u>	<u>\$ 387,166</u>	<u>\$ 5,998,093</u>	<u>\$ 402,440</u>

6. 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 \$506,480. 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 \$132,997.

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.

- 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, 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.

Calculation of Reserve Balances Allowed Under the Franchise Agreement

Calculation of cash revenues for reserve balance:	
2013 operating revenue on accrual basis	\$ 7,200,901
Add	
Interest earned	-
Beginning gross receivables	627,050
Less	
Ending gross receivables	(1,523,537)
Bad debt expense	(13,200)
Add	
Ending allowance for doubtful accounts	152,969
Less	
Beginning allowance for doubtful accounts	(142,208)
Sales to City of Raton/water	<u>(181,408)</u>
Total 2013 gross annual revenue adjusted to cash basis	<u>\$ 6,120,567</u>

Calculation of cash exopenses for reserve balance:

2013 operating expense on accrual basis	\$ 6,623,191
Add	
Nonoperating expenses	269,807
Begining accounts payable (exclusive of fuel, ARPA, and sales tax)	377,905
Ending prepaid expense	46,932
Begining compensated absences payable	99,809
Ending supplies inventory	654,049
Less	
Purchased power	(4,536,015)
Ending accounts payable (exclusive of fuel, ARPA, and sales tax)	(371,889)
Bad debt expense	13,200
Begining prepaid expenses	(22,867)
Ending compensated absences payable	(88,079)
Begining supplies inventory	<u>(667,786)</u>
Total 2013 gross annual expenses adjusted to cash basis	<u>\$ 2,398,257</u>

60-Day Operation Reserve Fund

60-Day average of the preceding year's cash expenses (exclusive of fuel, purchase power, and energy capacity)	\$ 2,398,257
Divided by days per year	<u>360</u>
	6,662
Times 60 days	60
60-Day operating maximum required reserve	<u>399,720</u>
Begining reserve balance	409,145
Allowable deposits	-
2013 cash outlay	<u>(52,469)</u>
Ending reserve balance	<u>\$ 356,676</u>

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

Begining reserve balance	\$ 222,028
Actual deposit	114,671
2014 cash outlay	<u>(8,017)</u>
Ending reserve balance	<u>\$ 328,682</u>
Maximum balance	
2013 annual gross revenues	\$ 6,120,567
Maximum reserve balance	<u>\$ 275,426</u>
Allowable deposits (2.5% of gross annual revenues)	<u>\$ 153,014</u>

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 revenues

Beginning reserve balance	\$ 7,196,615
Allowable deposits (10% of gross annual revenues)	<u>612,057</u>
Ending allowable reserve balance	<u>\$ 7,808,672</u>
Beginning reserve balance	\$ 1,907,832
Actual deposits	348,927
2013 cash outlay	<u>(130,072)</u>
Ending reserve balance	<u>\$ 2,126,687</u>
Maximum balance	
2013 gross annual revenues	\$ 6,120,567
Multiplied times 2	<u>2</u>
Maximum reserve balance	<u>\$ 12,241,134</u>

RESERVE ANALYSIS

	Actual Cash Balance at June 30, 2014	Maximum Required Balance at June 30, 2013	Over (Under) Maximum
60-Day operating reserve fund	\$ 356,676	\$ 399,720	\$ (43,044)
Annual overhaul reserve fund	328,682	275,426	53,256
Capital improvement and replacement fund	<u>2,126,687</u>	<u>12,241,134</u>	<u>(10,114,447)</u>
Total	<u>2,812,045</u>	<u>12,241,134</u>	<u>(10,114,447)</u>

7. 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.

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.

8. **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.

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, 2014, 2013 and 2012 were \$60,334, \$69,907, and \$68,804, respectively, which equal the amount of the required contributions for each fiscal year.

9. **POST EMPLOYMENT - STATE RETIREE HEALTHCARE PLAN**

Plan Description

RPS contributes to the New Mexico Retiree Health Care Fund, a costsharing 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.

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, 2014, 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, 2014 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, 2014, 2013 and 2012 were \$22,257, \$23,750, and \$20,686, respectively, which equal the required contributions for each year.

10. **RESTATEMENT**

An error resulting in an overstatement of previously reported cash investments was discovered during the current year. Accordingly an adjustment of \$1,243,761 was made during the fiscal year June 30, 2014 to decrease investments (restricted cash).

11. **SUBSEQUENT EVENTS**

The organization has evaluated events through December 1, 2014, the date of the financial statement were available to be issued

SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH
BALANCE - BUDGET AND ACTUAL ON BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2014

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance with Final Budget Favorable (Unfavorable)
Revenues:				
Residential Sales	\$ 3,394,002	\$ 3,394,002	\$3,084,544	\$ (309,458)
Commercial Sales	1,780,161	1,780,161	1,521,159	(259,002)
Power Sales	1,722,829	1,722,829	1,629,414	(93,415)
Discounts forfeited	111,438	111,438	96,027	(15,411)
Connection charges	9,651	9,651	6,240	(3,411)
Total revenues	<u>7,018,081</u>	<u>7,018,081</u>	<u>6,337,384</u>	<u>(680,697)</u>
Operating Expenses:				
Production	4,769,138	4,769,138	4,588,452	180,686
Distribution	781,473	781,473	691,293	90,180
Consumer contracts	20,300	20,300	15,643	4,657
Administrative and general	636,180	636,180	505,486	130,694
Total expenses	<u>6,207,091</u>	<u>6,207,091</u>	<u>5,800,874</u>	<u>406,217</u>
Operating income	<u>810,990</u>	<u>810,990</u>	<u>536,510</u>	<u>(274,480)</u>
Nonoperating revenues				
Interest income	<u>7,000</u>	<u>7,000</u>	<u>2,550</u>	<u>(4,450)</u>
Change in net assets - Budgetary basis	<u>\$ 817,990</u>	<u>\$ 817,990</u>	<u>539,060</u>	<u>\$ (278,930)</u>
Reconciliation to change in net position - GAAP basis:				
Interest paid on long-term debt			(265,922)	
Depreciation expense			<u>(492,351)</u>	
Change in net position - GAAP basis			<u>\$ (219,213)</u>	

See accompanying notes to financial statements and independent auditors' report.

OTHER SUPPLEMENTARY INFORMATION

**STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
SCHEDULE OF DEPOSITS AND PLEDGE COLLATERAL
JUNE 30, 2014**

Deposit	Account Type	Total Deposits	Reconciling Items	Reconciled Balance
Petty cash		\$ -	\$ 600	\$ 600
Reserve for Annual Overhaul	Checking, interest bearing	313,144	(22)	313,122
Capital Improvement	Checking, non-interest bearing	1,316,546	141,644	1,458,190
Utility System Cap Improve Repl. Fund	Checking, non-interest bearing	7,666	-	7,666
Debt Service and Bond Reserve	Checking, non-interest bearing	247,197	48,937	296,134
Gross Income Account	Checking, interest bearing	1,060,101	(572,132)	487,969
Operational Reserve	Checking, interest bearing	165,164	(12)	165,152
Special Fund	Checking, non-interest bearing	177,407	(900)	176,507
CD	Certificate of Deposit	11,431	-	11,431
CD	Certificate of Deposit	191,524	-	191,524
CD	Certificate of Deposit	191,524	-	191,524
CD	Certificate of Deposit	15,560	-	15,560
CD	Certificate of Deposit	63,263	-	63,263
		<u>\$ 3,569,002</u>	<u>\$ (381,885)</u>	<u>\$ (3,187,117)</u>

Bank Accounts:	International Bank
Checking accounts	\$ 3,287,225
Certificates of deposit	<u>950,275</u>
Total amount of deposits	4,237,500
Less: FDIC coverage	<u>250,000</u>
Total uninsures public funds	<u>3,987,500</u>

Collateral requirements (Per 6-10-10 & 6-10-17, NMSA 1978):	
50% of uninsured time and demand accounts	1,993,750
Pledge collateral	<u>2,075,000</u>
Over pledge	<u>\$ 81,250</u>

Cash and cash equivalents	\$ 500,000
Restricted cash	<u>3,355,614</u>
Total	<u>\$ 3,855,614</u>

Pledge collateral at fair market value:

Type	Description	Maturity	CUSIP Number	
U.S. Agency Note	FHLB	09/12/14	313370JS8	225,000
U.S. Agency Note	FHOR	12/13/19	313381DN2	1,275,000
U.S. Agency Note	FNNT	12/20/19	3136G12K4	<u>575,000</u>
Total collateral				<u>\$ 2,075,000</u>

**INDEPENDENT AUDITORS 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**

Hector H. Balderas, State Auditor
and the Board of Directors of the
Raton Public Service Company, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type and budgetary comparison presented as supplementary information of the Raton Public Service Company (the Authority) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Raton Public Service Company's basic financial statements, and have issued our report thereon dated December 1, 2014.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses, that we considered to be significant deficiencies. (2004-005 [04-05], 2014-001)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Management Responses to Findings

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

Purpose of this Report

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

White & Samaniego & Campbell, LLP

El Paso, Texas

December 1, 2014

**STATE OF NEW MEXICO
RATON PUBLIC SERVICE COMPANY
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

STATUS OF PRIOR YEAR FINDINGS

		Current Status
11-02	Disbursement Cycle	Resolved
13-01	Internal Controls	Resolved
04-05	Capital Assets, Inventory	Revised and repeated

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

**SCHEDULE OF AUDIT FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2014**

Capital Assets Inventory 2004-005 [04-05] - Significant Deficiency

CONDITION	<p>1. At year end, the capital asset balances were not properly recorded on the RPS' books, an adjustment of \$304,171 had to be made. 2. A vehicle (approximately \$23,778) was not properly removed from the books.</p>
CRITERIA	<p>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.</p>
EFFECT	<p>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.</p>
CAUSE	<p>Adequate training and resources have not been allocated to the area of capital assets. The finding regarding inventory was due to a clerical oversight.</p>
RECOMMENDATION	<p>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.</p>
RESPONSE	<p>With a proper fixed asset listing created with the help of RCI asset management software and personnel, RPS will have the tools to maintain the fixed asset acquisitions and disposals to ensure proper reconciliation of both the fixed assets and trial balance going forward.</p>

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

**SCHEDULE OF AUDIT FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2014**

Cash and Cash Equivalents (2014-001) - Significant Deficiency

CONDITION	Five investment accounts were not removed from the accounting system after depletion of funds. As a result restricted cash accounts were overstated by a net amount of \$1,064,823, resulting in a restatement of prior year fund balance.
CRITERIA	Section 6-6-3 NMSA, 1978 discusses good accounting practices and require that bank reconciliations be performed monthly to ensure that cash receipts and cash disbursements are recorded in a correct and timely manner and that differences or errors be followed up and corrected in a timely manner.
EFFECT	Investments and restricted cash were overstated.
CAUSE	After the audit of 2013 RPS recorded the purchased capital assets in the RCI system. However, the Company was not sure how to expense investment accounts, in the respective year.
RECOMMENDATION	We recommend that RPS seek proper training for key accounting staff.
RESPONSE	Due to the depletion of these funds, RPS will properly remove the cash accounts from the accounting system via a prior period adjustment as to not overstate the cash account balances going forward.

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

**EXIT CONFERENCE
FOR THE YEAR ENDED JUNE 30, 2014**

An exit conference was conducted November 26, 2014 in a closed meeting of the Company pursuant to Section 12-6-5 NMSA, 1978 with the following individuals in attendance:

Raton Public Service Company

Kathy McQueary	President
Dan Dible	General Manager
Sandy Chavez	Finance Officer

White + Samaniego + Campbell, LLP

Dahlia Garcia	Audit Supervisor
Gina Bañuelos	Audit Staff

FINANCIAL STATEMENT PREPARATION

The combined financial statements of the Authority as of, and for the year ended, June 30, 2014 were prepared by White + Samaniego + Campbell, LLP, with the aid of responsible Authority personnel. Official responsible personnel agree that the presentations are made with their knowledge and agreement.