

Raton
New Mexico

State of New Mexico
Raton Public Service Company

Annual Financial Report

For the Year Ended June 30, 2015



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INTRODUCTORY SECTION

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STATE OF NEW MEXICO
Raton Public Service Company
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STATE OF NEW MEXICO
Raton Public Service Company
Official Roster
June 30, 2015

<u>Name</u>	<u>Board of Directors</u>	<u>Title</u>
Kathy McQueary		President
Frank Ferri		Vice President
David Swanson		Treasurer
Sandy Mantz		Mayor/Commissioner
Don Giancomo		Commissioner
Monte McGown		RPS Advisory Board Member
Jennifer Portillos		RPS Advisory Board Member
Chris Reed		RPS Advisory Board Member

Administrative Officials

Dan Dible		General Manager
Sandy Chavez		Financial Officer/Secretary to the Board

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FINANCIAL SECTION



Accounting & Consulting Group, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Timothy H. Keller
New Mexico State Auditor
The Board of Directors of
Raton Public Service Company
Raton, New Mexico

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities of Raton Public Service Company (the Company), as of and for the year ended June 30, 2015, and the related notes to the financial statements which collectively comprise the Company's basic financial statements as listed in the table of contents. We also have audited the budgetary comparisons presented as supplementary information, as defined by the Government Accounting Standards Board for the year ended June 30, 2015, 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 of 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 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 Company'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 Company'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 financial statement presentation.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Raton Public Service Company, as of June 30, 2015, 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

Management has omitted the *Management Discussion and Analysis* that accounting principles, generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the Company's financial statements, the combining and individual fund financial statements, and the budgetary comparisons. The Schedule of Expenditures of Federal Awards, as required by Office of Management and Budget *Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations* and Supporting Schedules I through IV required by 2.2.2 NMAC are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards and Supporting Schedules I through IV required by 2.2.2 NMAC are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 Schedule of Expenditures of Federal Awards and Supporting Schedules I through IV required by 2.2.2 NMAC are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2015, on our consideration of the 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 the Company's internal control over financial reporting and compliance.

Accounting + Consulting Group, LLP

Accounting & Consulting Group, LLP
Albuquerque, NM
November 6, 2015

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**BASIC
FINANCIAL STATEMENTS**

STATE OF NEW MEXICO
Raton Public Service Company
Statement of Net Position
June 30, 2015

	Business-Type Activities
Assets	
<i>Current assets</i>	
Cash and cash equivalents	\$ 4,525,958
Accounts receivable (net)	799,889
Inventory	717,339
Prepaid expense	38,716
<i>Total current assets</i>	6,081,902
 <i>Noncurrent assets</i>	
Restricted cash and cash equivalents:	
Sixty day operation reserve fund	399,720
Annual overhaul reserve fund	275,426
Capital improvement and replacement fund	2,431,881
Customer deposits	156,480
Debt service and reserve requirements	1,163,895
Capital assets	17,882,670
Less accumulated depreciation	(9,448,138)
<i>Total noncurrent assets</i>	12,861,934
<i>Total assets</i>	18,943,836
 Deferred outflows of resources	
Employer contributions subsequent to the measurement date	75,487
<i>Total deferred outflows of resources</i>	75,487
<i>Total assets and deferred outflows of resources</i>	\$ 19,019,323

The accompanying notes are an integral part of these financial statements

	Business-Type Activities
Liabilities	
<i>Current liabilities</i>	
Accounts payable	\$ 365,569
Accrued payroll	145,956
Accrued interest	53,938
Compensated absences	11,981
Meter deposits	156,480
Loans payable	350,817
<i>Total current liabilities</i>	<u>1,084,741</u>
<i>Noncurrent liabilities</i>	
Compensated absences	74,968
Net pension liability	709,898
Loans payable	5,233,615
<i>Total noncurrent liabilities</i>	<u>6,018,481</u>
<i>Total liabilities</i>	<u>7,103,222</u>
Deferred inflows of resources	
Change in assumptions	481
Net difference between projected and actual investment earnings on pension plan investments	277,731
<i>Total deferred inflows of resources</i>	<u>278,212</u>
Net position	
Net investment in capital assets	2,850,100
Restricted for:	
Reserve requirements per ordinance	3,107,027
Debt service and reserve requirements	1,163,895
Unrestricted	4,516,867
<i>Total net position</i>	<u>11,637,889</u>
<i>Total liabilities, deferred inflows of resources, and net position</i>	<u>\$ 19,019,323</u>

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STATE OF NEW MEXICO
Raton Public Service Company
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2015

Exhibit B

	Business-Type Activities
<i>Operating revenues</i>	
Residential sales	\$ 3,212,277
Commercial sales	1,586,103
Power sales	1,684,978
Discounts forfeited	111,763
Connection charges	7,128
	6,602,249
 <i>Total operating revenues</i>	 6,602,249
 <i>Operating expenses</i>	
Production	4,176,669
Distribution	805,259
Consumer contracts	30,342
Sales promotion	2,029
Administrative and general	684,562
Depreciation expense	509,002
	5,207,863
 <i>Total operating expenses</i>	 5,207,863
 <i>Operating income</i>	 1,394,386
 <i>Non-operating revenues (expenses)</i>	
Investment income	5,680
Interest expense	(247,896)
Miscellaneous revenue	17,052
Insurance proceeds	3,666,000
	3,440,836
 <i>Total non-operating revenues (expenses)</i>	 3,440,836
 <i>Change in net position</i>	 4,835,222
 <i>Total net position - beginning of year, as previously stated</i>	 2,768,002
 <i>Prior period adjustments (note 10)</i>	 194,665
 <i>Total net position, beginning of year, as restated</i>	 2,962,667
 <i>Total net position, end of year</i>	 \$ 11,637,889

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
Raton Public Service Company
Statement of Cash Flows
For the Year Ended June 30, 2015

	<u>Business-Type Activities</u>
<i>Cash flows from operating activities</i>	
Cash received from customers	\$ 6,668,788
Cash paid to suppliers for goods and services	(4,722,317)
Cash paid to employees for services	(1,009,830)
<i>Net cash provided by operating activities</i>	<u>936,641</u>
<i>Cash flows from noncapital financing activities</i>	
Miscellaneous income	<u>17,052</u>
<i>Net cash provided by noncapital financing activities</i>	<u>17,052</u>
<i>Cash flows from capital and financing activities</i>	
Acquisition and construction of capital assets	(93,022)
Insurance proceeds	3,666,000
Loan repayments	(339,867)
Interest paid on capital debt	(247,896)
<i>Net cash provided by capital and financing activities</i>	<u>2,985,215</u>
<i>Cash flows from investing activities</i>	
Investment income	<u>5,680</u>
<i>Net cash provided by investing activities</i>	<u>5,680</u>
<i>Net increase in cash and cash equivalents</i>	<u>3,944,588</u>
<i>Cash and cash equivalents - beginning of year, as previously stated</i>	3,855,614
<i>Prior period adjustment (Note 10)</i>	<u>1,153,158</u>
<i>Cash and cash equivalents - beginning of year, as restated</i>	<u>5,008,772</u>
<i>Cash and cash equivalents - end of year</i>	<u><u>\$ 8,953,360</u></u>
<i>Reported on the statement of net position as:</i>	
Cash and cash equivalents	\$ 4,525,958
Restricted cash and cash equivalents:	
Sixty day operation reserve fund	399,720
Annual overhaul reserve fund	275,426
Capital improvement and replacement fund	2,431,881
Customer deposits	156,480
Debt service and reserve requirements	<u>1,163,895</u>
Total cash and cash equivalents and restricted cash	<u><u>\$ 8,953,360</u></u>

The accompanying notes are an integral part of these financial statements

	<u>Business-Type Activities</u>
<i>Reconciliation of operating income to net cash provided by operating activities</i>	
Operating income	\$ 394,386
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	509,002
Pension expense	29,617
Employer contributions to the pension plan	(75,487)
Changes in assets and liabilities:	
Decrease in accounts receivable	71,981
Increase in inventory	(49,144)
Decrease in prepaid expenses	10,950
Decrease in accounts payable	(105,893)
Increase in compensated absences payable	13,155
Increase in accrued wages payable	143,516
Decrease in meter deposits	(5,442)
Net cash provided by operating activities	<u>\$ 936,641</u>

Supplemental non-cash disclosure

In fiscal year 2015 the Company was required to implement GASBS statement 68 which required the Company to recognize its proportionate share of the net pension liability and related pension amounts detailed below:

	<u>June 30, 2015</u>
Net pension liability	\$ 709,898
Deferred outflows-Employer contributions subsequent to the measurement date	\$ 75,487
Deferred inflows-Change in assumptions	\$ 481
Deferred inflows-Net difference between projected and actual investment earnings on pension plan investments	\$ 277,731

STATE OF NEW MEXICO
Raton Public Service Company
Notes to the Financial Statements
June 30, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity.

Raton Public Service Company (Company) 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. The physical assets of the Company's Utility System are the property of the City of Raton. The management of the utility system rests with the Company pursuant to a franchise contract, Ordinance No. 731, amended by Ordinance No. 942, of the City of Raton. Under the terms of Ordinance 942, The City Commission sets, fixes and determines the rate schedules, charges, and rate classifications pertaining to all services to be rendered by the Company. All of the Company's financing is provided by the City through the issuance of municipal revenue bonds. The Company is considered to be a component unit of the City of Raton. The Company has no component units as defined by GASB Statement No. 14 and amended by GASB Statements No. 39 and 61. The Company is managed by the board of five directors, three of whom are elected by the trustees and two of whom are members of the City Commission.

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

Budgetary Comparison Statements. The budgetary comparison statements listed in the table of contents as supplemental information was prepared on an accrual basis of accounting as approved by the Board of Directors and the New Mexico Department of Finance and Administration.

Measurement Focus, Basis of Accounting, and Basis of Presentation. The accounts of the Company are organized on the basis of a proprietary or enterprise fund. Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the Board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. Enterprise funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Enterprise funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Company's enterprise fund are charges to customers for user fees which primarily include residential, commercial and power sales. Investment income is reported as a non-operating item, as this activity is not considered the result of the Company's principal ongoing operations of providing electric power services.

Operating expenses for enterprise funds include the cost of sales and services which primarily include production costs, distribution costs and administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. As a general rule, the effect of internal activity has been eliminated from the statement of revenues, expense and changes in net position.

Government-Wide and Fund Financial Statements. The Company is a single purpose government entity and has only business-type activities. In the government-wide statement of net position, activities are presented on a consolidated basis and are reflected on the full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

STATE OF NEW MEXICO
Raton Public Service Company
Notes to the Financial Statements
June 30, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates in these financial statements include the useful lives of depreciable assets, the current portion of compensated absences, and the allowance for doubtful accounts.

Policy on Use of Restricted and Unrestricted Resources. When both restricted and unrestricted resources are available for use, it is the Company’s policy to use restricted resources first, then unrestricted resources as they are needed.

Cash and Cash Equivalents. For purposes of the statement of cash flows, the Company considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. Certain resources for operation reserves, customer deposits, and loan reserves are classified as restricted assets in the statement of net position because their use is limited by the franchise agreement, debt covenants, or ordinance.

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

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

Prepaid expense. 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 the Company 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 Company; however, since the Company 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:

Assets	Years
Buildings and Improvements	10-50 years
Vehicles and equipment	3-10 years

STATE OF NEW MEXICO
Raton Public Service Company
Notes to the Financial Statements
June 30, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Pensions. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the New Mexico Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, on the economic resources measurement focus and accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

New Accounting Standards Adopted. During the year ended June 30, 2015, the Company adopted GASB Statements No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* ("GASB 68"), and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68* ("GASB 71"). These two Statements are required to be implemented at the same time. GASB 68 addresses accounting and financial reporting for pensions that are provided to the employees of state and local governments through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit plan, plan assets are also legally protected from creditors of the plan members.

GASB 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to pensions. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. As a result of the implementation of GASB 68, the government recognized a net pension liability ("NPL") measured as of a date no later than the end of its prior fiscal year. If the government employer makes a contribution to the pension plan subsequent to the measurement date but prior to the end of the current fiscal year, GASB 68 requires the government to recognize that contribution as a deferred outflow of resources. In addition, GASB 68 requires the recognition of deferred outflows of resources and deferred inflows of resources for changes in the NPL that arise from other types of events, but does not require the government to recognize beginning deferred outflows of resources or deferred inflows of resources if the amounts are not practical to estimate. At transition to Statement 68, Statement 71 requires the employer or nonemployer contributing entity to recognize a beginning deferred outflow of resources for its pension contributions made subsequent to the measurement date of the beginning net pension liability but before the start of the government's fiscal year, thus avoiding possible understatement of an employer or nonemployer contributing entity's beginning net position and expense in the initial period of implementation.

This pronouncement has materially impacted the financial statements and additional disclosures are included in the notes to the financial statements to highlight the effects.

Deferred Outflows of Resources. In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a use of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenditure) until that time. The Company has only one type of item that qualifies for reporting in this category. Accordingly, the item, contributions subsequent to the measurement date, is reported in the Statement of Net Position. This amount is deferred and recognized as a direct reduction of the net pension liability during the next reporting period. The Company has recorded \$75,487 related to contributions subsequent to the measurement date.

STATE OF NEW MEXICO
Raton Public Service Company
Notes to the Financial Statements
June 30, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Deferred Inflows of Resources. In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Revenue must be susceptible to accrual (measurable and available to finance expenditures of the current fiscal period) to be recognized. If assets are recognized in connection with a transaction, but those assets are not yet available to finance expenditures of the current fiscal period, then the assets must be offset by a corresponding deferred inflows of resources. The Company has two types of items considered to be deferred inflows of resources, both of which arise due to the implementation of GASB 68 and the related net pension liability. Accordingly, the items, net difference between expected and actual investment earnings and change in assumptions, are reported on the Statement of Net Position. These amounts are deferred and amortized into pension expense in future reporting periods. The Company has recorded \$481 related to change in assumptions and \$277,731 related to the net difference between expected and actual investment earnings.

Compensated Absences. The Company's employee vacation and sick leave policies generally provide for granting vacation and sick leave with pay in varying amounts based on the numbers years of service to the Company. Only benefits considered vested are recognized in the financial statements.

Net Position. The Statement of Net Position utilize a net position presentation. Net position is categorized as investment in capital assets, restricted and unrestricted. The Company applies restricted resources first when outlays are incurred for purposes for which either restricted or unrestricted amounts are available.

Net Investment in Capital Assets – is intended to reflect the portion of net position which is associated with non-liquid, capital assets less outstanding capital asset related debt.

Restricted Net Position – net position is reported as restricted when constraints placed on net position use are either (1) externally imposed by creditors, grantors, or donors or (2) imposed by law through constitutional provisions or enabling legislation. The Company's restricted net position consists of amounts restricted for debt service and reserve requirements and amounts restricted per the City of Raton's Ordinance 942 for required reserve requirements detailed in Note 12.

Unrestricted Net Position – represents the excess of total assets over total liabilities and net position invested in capital assets at June 30, 2015. These are amounts not restricted for any purpose.

NOTE 2. CASH AND INVESTMENTS

State statutes authorize the investment of Company funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, money market accounts, and United States Government obligations. All invested funds of the Company properly followed State investment requirements as of June 30, 2015.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more banks or savings and loan associations within the geographical boundaries of the City of Raton. Deposits may be made to the extent that they are insured by an agency of the United States or collateralized as required by statute. The financial institution must provide pledged collateral for 50% of the deposit amount in excess of the deposit insurance. The rate of interest in non-demand interest-bearing accounts shall be set by the State Board of Finance, but in no case shall the rate of interest be less than one hundred percent of the asked price on United States treasury bills of the same maturity on the day of deposit.

Excess funds may be temporarily invested in securities which are issued by the State or by the United States government, or by their departments or agencies, and which are either direct obligations of the State or the United States or are backed by the full faith and credit of those governments.

Beginning January 1, 2013, all of the Company's accounts at an insured depository institution, including all noninterest-bearing transaction accounts, will be insured by the FDIC up to the standard maximum deposit insurance amount of \$250,000 for all deposit accounts out of state and up to \$250,000 for all time and saving accounts plus up to \$250,000 for all demand deposit accounts held at a single institution in state.

STATE OF NEW MEXICO
Raton Public Service Company
Notes to the Financial Statements
June 30, 2015

NOTE 2. CASH AND INVESTMENTS-CONTINUED

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Company's deposits may not be returned to it. The Company does not have a deposit policy for custodial credit risk, other than following state statutes as set forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978). At June 30, 2015, \$7,680,793 of the Company's bank balance of \$7,930,793 was exposed to custodial credit risk. Although \$7,680,793 was uninsured, \$5,804,619 was collateralized by collateral held by the pledging bank's trust department, not in the Company's name. \$1,876,174 of the Company's cash balance was uninsured and uncollateralized as of June 30, 2015.

	International Bank
Deposits	\$ 7,930,793
FDIC Coverage	(250,000)
Total uninsured public funds	7,680,793
Collateralized by securities held by pledging institutions or by its trust department or agent in other than the Company's name	
	5,804,619
Uninsured and uncollateralized	\$ 1,876,174
Collateral requirement - deposits (50% of uninsured funds)	
	\$ 3,840,397
Pledged Collateral	5,804,619
Over (Under) collateralized	\$ 1,964,223

The collateral pledged is listed on Schedule V of this report. The types of collateral are limited to direct obligations of the United States Government and bonds issued by an agency district, or political subdivision of the State of New Mexico. The New Mexico Finance Authority (NMFA) holds and invests cash related to debt service and reserve requirements on behalf of the Company and in the Company's name pursuant to the loan agreements. NMFA invest the amounts in U.S. Treasuries and U.S. Agency Securities which have a AAA rating at June 30, 2015 and a weighted average maturity of less than 365 days.

Reconciliation of Cash and Cash Equivalents

Cash and cash equivalents per Exhibit A-1	\$ 4,525,958
Restricted cash and cash equivalents:	
Sixty day operation reserve fund-per Exhibit A-1	399,720
Annual overhaul reserve fund-per Exhibit A-1	275,426
Capital improvement and replacement fund-per Exhibit A-1	2,431,881
Customer deposits-per Exhibit A-1	156,480
Debt service and reserve requirements-per Exhibit A-1	1,163,895
Total cash and cash equivalents	8,953,360
Add: outstanding checks	314,510
Less: deposits in transit	(172,582)
Less: U.S. agencies and treasury notes held with NMFA	(1,163,895)
Less: petty cash	(600)
Bank balance of deposits	\$ 7,930,793

STATE OF NEW MEXICO
Raton Public Service Company
Notes to the Financial Statements
June 30, 2015

NOTE 3. ACCOUNTS RECEIVABLE

Accounts receivable represent billings for user fees to third-party users net of an allowance for uncollectible accounts as detailed below:

User fees	\$ 922,098
Raton Water Works	18,967
Allowance for doubtful accounts	<u>(141,176)</u>
Accounts receivable	<u><u>\$ 799,889</u></u>

NOTE 4. CAPITAL ASSETS

A summary of changes in capital assets for fiscal year ending June 30, 2015 is as follows.

	Beginning Balance <u>June 30, 2014</u>	Additions	Deletions	Ending Balance <u>June 30, 2015</u>
Capital assets, being depreciated:				
Buildings and improvements	\$ 16,892,770	\$ -	\$ -	\$ 16,892,770
Vehicles and equipment	<u>896,878</u>	<u>93,022</u>	<u>-</u>	<u>989,900</u>
Total capital assets being depreciated	<u>17,789,649</u>	<u>93,022</u>	<u>-</u>	<u>17,882,670</u>
Less accumulated depreciation:				
Buildings and improvements	(8,173,497)	(479,172)	-	(8,652,669)
Vehicles and equipment	<u>(765,639)</u>	<u>(29,830)</u>	<u>-</u>	<u>(795,469)</u>
Total accumulated depreciation	<u>(8,939,136)</u>	<u>(509,002)</u>	<u>-</u>	<u>(9,448,138)</u>
Total capital assets being depreciated, net	<u><u>\$ 8,850,513</u></u>	<u><u>\$ (415,980)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 8,434,532</u></u>

Depreciation expense for capital assets for the fiscal year ended June 30, 2015 was \$509,002.

NOTE 5. LONG-TERM DEBT

During the year ended June 30, 2015, the following changes occurred in the liabilities reported in the Statement of Net Position:

	Balance <u>June 30, 2014</u>	Additions	Deletions	Balance <u>June 30, 2015</u>	Due Within One Year
Loans payable	\$ 5,924,299	\$ -	\$ (339,867)	\$ 5,584,432	\$ 350,817
Compensated absences	<u>73,794</u>	<u>65,549</u>	<u>(52,394)</u>	<u>86,949</u>	<u>11,981</u>
Total	<u><u>\$ 5,998,093</u></u>	<u><u>\$ 65,549</u></u>	<u><u>\$ (392,261)</u></u>	<u><u>\$ 5,671,381</u></u>	<u><u>\$ 362,798</u></u>

STATE OF NEW MEXICO
Raton Public Service Company
Notes to the Financial Statements
June 30, 2015

NOTE 5. LONG-TERM DEBT-CONTINUED

Loans outstanding for the Company at June 30, 2015 consisted of the following loans which are secured by the net revenues of electric utility.

Description	Date of Issue	Maturity Date	Interest Rate	Original Amount of Issue	Balance June 30, 2015
NMFA-Backup generator	04/05/02	05/01/22	4.08%-4.86%	\$ 2,693,610	\$ 905,712
NMFA-Electric utility substation	10/16/09	05/01/29	1.65%-4.95%	1,122,725	912,828
NMFA-Electric Utility Wartsila and Burro Canon Lines	10/16/09	05/01/29	1.65%-4.95%	4,619,684	3,765,892

The annual requirements to amortize loans payable for the Company as of June 30, 2015 including interest payments are as follows:

Fiscal Year Ending June 30,	Business-type activities		
	Principal	Interest	Total Debt Service
2016	\$ 350,817	\$ 251,450	\$ 602,267
2017	368,802	239,839	608,641
2018	379,693	226,912	606,605
2019	398,501	212,963	611,464
2020	411,358	197,807	609,165
2021-2025	2,081,020	725,085	2,806,105
2026-2029	1,594,241	233,618	1,827,859
	<u>\$ 5,584,432</u>	<u>\$ 2,087,674</u>	<u>\$ 7,672,106</u>

NOTE 6. RISK MANAGEMENT AND LITIGATION

The Company 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, the Company 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.

The Company 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.

The Company 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.

On June 3, 2015 the Company executed a Release and Settlement Agreement with their former insurance carrier for claims made under the policy in effect during the time in which the Company suffered damage to a spark-ignited reciprocating engine manufactured at the Company's facility. \$3,666,000 in insurance proceeds were received by the Company as a result of the settlement agreement during fiscal year 2015.

STATE OF NEW MEXICO
Raton Public Service Company
Notes to the Financial Statements
June 30, 2015

NOTE 7. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) PENSION PLAN

General Information about the Pension Plan

Plan description. The Public Employees Retirement Fund (PERA Fund) is a **cost-sharing, multiple employer defined benefit pension plan**. This fund has six divisions of members, including State General, State Police/Adult Correction Officer, Municipal General, Municipal Police/Detention Officers, Municipal fire, and State Legislative Divisions, and offers 24 different types of coverage within the PERA plan. All assets accumulated may be used to pay benefits, including refunds of member contributions, to any of the plan members or beneficiaries, as defined by the terms of this plan. Certain coverage plans are only applicable to a specific division. Eligibility for membership in the PERA Fund is set forth in the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). Except as provided for in the Volunteer Firefighters Retirement Act (10-11A-1 to 10-11A-7, NMSA 1978), the Judicial Retirement Act (10-12B-1 to 10-12B-19, NMSA 1978), the Magistrate Retirement Act (10-12C-1 to 10-12C-18, NMSA 1978), and the Educational Retirement Act (Chapter 22, Article 11, NMSA 1978), and the provisions of Sections 29-4-1 through 29-4-11, NMSA 1978 governing the State Police Pension Fund, each employee and elected official of every affiliated public employer is required to be a member in the PERA Fund.

PERA issues a publicly available financial report and a comprehensive annual financial report that can be obtained at <http://saonm.org> using the Audit Report Search function for agency 366.

Benefits provided. For a description of the benefits provided and recent changes to the benefits see Note 1 in the PERA audited financial statements for the fiscal year ended June 30, 2014 available at http://www.pera.state.nm.us/pdf/AuditFinancialStatements/366_Public_Employees_Retirement_Association_2014.pdf.

Contributions. The contribution requirements of defined benefit plan members and the Company are established in state statute under Chapter 10, Article 11, NMSA 1978. The contribution requirements may be amended by acts of the legislature. For the employer and employee contribution rates in effect for FY14 for the various PERA coverage options, for both Tier I and Tier II, see the tables available in the note disclosures on pages 29 through 31 of the PERA FY14 annual audit report at http://osanm.org/media/audits/366_Public_Employees_Retirement_Association_2014.pdf. The PERA coverage option that applies to the Company is: Municipal General Division. Statutorily required contributions to the pension plan from the Company were \$75,487 and there were no employer paid member benefits that were “picked up” by the employer for the year ended June 30, 2015.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: The PERA pension liability amounts, net pension liability amounts, and sensitivity information were based on an annual actuarial valuation performed as of June 30, 2013. The PERA pension liability amounts for each division were rolled forward from the valuation date to the Plan year ending June 30, 2014, using generally accepted actuarial principles. Therefore, the employer’s portion was established as of the measurement date June 30, 2014.

The assets of the PERA fund are held in one trust, but there are six distinct membership groups (municipal general members, municipal police members, municipal fire members, state general members, state police members and legislative members) for whom separate contribution rates are determined each year pursuant to chapter 10, Article 11 NMSA 1978. Therefore, the calculations of the net pension liability, pension expense and deferred inflows and outflows were performed separately for each of the membership groups: municipal general members; municipal police members; municipal fire members; state general members; state police members and legislative members. The Company’s proportion of the net pension liability for each membership group that the employer participates in is based on the employer contributing entity’s percentage of that membership group’s total employer contributions for the fiscal year ended June 30, 2014. Only employer contributions for the pay period end dates that fell within the period of July 1, 2013 to June 30, 2014 were included in the total contributions for a specific employer. Regular and any adjustment contributions that applied to FY 2014 are included in the total contribution amounts. In the event that an employer is behind in reporting to PERA its required contributions, an estimate (receivable) was used to project the unremitted employer contributions. This allowed for fair and consistent measurement of the contributions with the total population. This methodology was used to maintain consistent measurement each year in determining the percentages to be allocated among all the participating employers.

For PERA Fund Municipal General Division, at June 30, 2015, the Company reported a liability of \$709,898 for its proportionate share of the net pension liability. At June 30, 2014, the Company’s proportion was 0.0910 percent, which was unchanged from its proportion measured as of June 30, 2013, due to the insignificance of the difference.

STATE OF NEW MEXICO
Raton Public Service Company
Notes to the Financial Statements
June 30, 2015

NOTE 7. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) PENSION PLAN-CONTINUED

For the year ended June 30, 2015, the Company recognized PERA Fund Municipal General Division pension expense of \$29,617. At June 30, 2015, the Company reported PERA Fund Municipal General Division deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ -	\$ 481
Net difference between projected and actual earnings on pension plan investments	-	277,731
Raton Public Service Company's contributions subsequent to the measurement date	<u>75,487</u>	<u>-</u>
Total	<u><u>\$ 75,487</u></u>	<u><u>\$ 278,212</u></u>

\$75,487 reported as deferred outflows of resources related to pensions resulting from the Company's contributions subsequent to the measurement date June 30, 2014 will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:		
2016	\$	(69,552)
2017		(69,552)
2018		(69,552)
2019		(69,552)
2020		(4)
Thereafter		-

Actuarial assumptions. As described above, the PERA Fund member group pension liabilities and net pension liabilities are based on actuarial valuations performed as of June 30, 2013 for each of the membership groups. Then each PERA Fund member group pension liability was rolled forward from the valuation date to the Plan year ending June 30, 2014 using generally accepted actuarial principles. There were no significant events or changes in benefit provisions that required an adjustment to the roll-forward liabilities as of June 30, 2014. These actuarial methods and assumptions were adopted by the PERA for use in the June 30, 2014 actuarial valuation.

Actuarial valuation date	June 30, 2013
Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay
Amortization period	Solved for based on statutory rates
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	7.75% annual rate, net of investment expense
Payroll growth	3.50% annual rate
Projected salary increases	3.50 to 14.25% annual rate
Includes inflation at	3.00% annual rate

STATE OF NEW MEXICO
Raton Public Service Company
Notes to the Financial Statements
June 30, 2015

NOTE 7. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) PENSION PLAN-CONTINUED

The long-term expected rate of return on pension plan investments was determined using a statistical analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and most recent best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

ALL FUNDS - Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US Equity	21.10%	5.00%
International Equity	24.80	5.20
Private Equity	7.00	8.20
Core and Global Fixed Income	26.10	1.85
Fixed Income Plus Sectors	5.00	4.80
Real Estate	5.00	5.30
Real Assets	7.00	5.70
Absolute Return	4.00	4.15
Total	100.00%	

Discount rate: The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that future contributions will be made in accordance with statutory rates. On this basis, the pension plan's fiduciary net position together with the expected future contributions are sufficient to provide all projected future benefit payments of current plan members as determined in accordance with GASBS 67. Therefore, the 7.75% assumed long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate. The following tables show the sensitivity of the net pension liability to changes in the discount rate. In particular, the tables present the Company's net pension liability in each PERA Fund Division that the Company participates in, under the current single rate assumption, as if it were calculated using a discount rate one percentage point lower (6.75%) or one percentage point higher (8.75%) than the single discount rate.

PERA Fund Municipal General Division	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Raton Public Service Company's proportionate share of the net pension liability	\$ 1,338,317	\$ 709,898	\$ 224,414

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued FY14 Restated PERA financial report. The report is available at <http://www.pera.state.nm.us/publications.html>.

Payables to the pension plan. There were no amounts owed to PERA at June 30, 2015. Contractually required contributions are remitted to PERA monthly for the previous month's withholdings. Accrued payroll includes the employer's portion of retirement contributions related to employee services rendered as of June 30, 2015 but paid in July 2015.

STATE OF NEW MEXICO
Raton Public Service Company
Notes to the Financial Statements
June 30, 2015

NOTE 8. POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN

Plan Description. The Company 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.

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 not members of an enhanced retirement plan during the fiscal year ended June 30, 2015, 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.

The Company's contributions to the RHCA for the years ended June 30, 2015, 2014, and 2013 were \$15,809, \$22,257, and \$23,750, respectively, which equal the required contributions for each year.

NOTE 9. SUBSEQUENT EVENTS

The date to which events occurring after June 30, 2015, the date of the most recent statement of net position, have been evaluated for possible adjustment to the financial statements or disclosures is November 16, 2015, which is the date on which the financial statements were available to be issued. No events were noted for disclosure.

STATE OF NEW MEXICO
Raton Public Service Company
Notes to the Financial Statements
June 30, 2015

NOTE 10. NET POSITION RESTATEMENT

The Company has recorded a prior period adjustment in the amount of \$(1,026,075) to record the beginning balance of the net pension liability and a prior period adjustment of \$67,582 to record a beginning deferred outflow for employer contributions after the beginning measurement date of June 30, 2013 but before July 1, 2014. These adjustments were required for implementation of GASBS 68 and GASBS 71.

In addition, the Company has recorded a prior period adjustment in the amount of \$1,153,158 to record cash held at the New Mexico Finance Authority in the name of the Company as of June 30, 2014 that was previously unrecorded.

The effect of the prior period adjustments above total \$194,665 which equals the total prior period adjustments reported in the Statement of Revenues, Expenses and Changes in Net Position.

NOTE 11. SUBSEQUENT PRONOUNCEMENTS

In February 2015, GASB Statement No. 72 Fair Value Measurement and Application, was issued. Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2015. Earlier application is encouraged. The Company will implement this standard during the fiscal year ended June 30, 2016. The Company is still evaluating how this pronouncement will affect the financial statements.

In June 2015, GASB Statement No. 73 Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, was issued. Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2016. Earlier application is encouraged. The Company is still evaluating how this pronouncement will affect the financial statements.

In June 2015, GASB Statement No. 74 Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, was issued. Effective Date: The provisions of this Statement are effective for fiscal years beginning after June 15, 2016. This pronouncement will not effect the Company's financial statements.

In June 2015, GASB Statement No. 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, was issued. Effective Date: The provisions of this Statement are effective for fiscal years beginning after June 15, 2017. The standard will be implemented during the fiscal year ended June 30, 2018. The Company expects the pronouncement to have a material effect on the financial statements.

In June 2015, GASB Statement No. 76 The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, was issued. Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2015. Earlier application is encouraged. The Company will implement this standard during the fiscal year ended June 30, 2016. The Company expects the pronouncement to have a material effect on the financial statements.

In August 2015, GASB Statement No. 77 Tax Abatement Disclosures, was issued. Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2015. Earlier application is encouraged. The Company will implement this standard during the fiscal year ended June 30, 2017. The Company is still evaluating how this pronouncement will effect the financial statements.

STATE OF NEW MEXICO
Raton Public Service Company
Notes to the Financial Statements
June 30, 2015

NOTE 12. RESTRICTED NET POSITION

On October 11, 2005 the Company entered into an agreement through Ordinance No. 942 with the City of Raton relating to the Company's operation of the electric utility pursuant to an existing franchise agreement with the City of Raton. The agreement is considered to be a binding contract between the City and the Company per section 24 of Ordinance No. 942. Encompassed in that agreement are certain reserve fund requirements that restrict the Company's use of income derived from its operation of the electric utility. The amounts detailed below are considered restricted by enabling legislation for financial reporting purposes.

The calculation of the restricted funds in comparison with actual amounts as of June 30, 2015 are described and detailed below. The calculation of restricted funds is based on the cash basis revenues and expenses which are also shown below.

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

Annual Overhaul Reserve Fund. Monies are 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.

Calculation of cash expenses for reserve balances:	
2014 operating expense on an accrual basis	\$ 6,293,225
Add	
Nonoperating expenses	265,922
Beginning accounts payable	371,889
Beginning insurance payable	126,685
Beginning payroll taxes payable	2,283
Beginning compensated absences payable	88,079
Beginning interest payable	53,938
Ending prepaid expense	49,666
Ending inventory	668,195
Less	
Fuel, purchased power, and energy capacity	(4,611,260)
Ending accounts payable	(331,424)
Ending insurance payable	(106,941)
Ending payroll taxes payable	(2,439)
Ending compensated absences payable	(73,794)
Ending interest payable	(53,938)
Beginning prepaid expenses	(46,932)
Beginning inventory	(648,044)
	<hr/>
Total 2014 gross annual expenses adjusted to cash basis	<u><u>\$ 2,045,110</u></u>

STATE OF NEW MEXICO
Raton Public Service Company
Notes to the Financial Statements
June 30, 2015

NOTE 12. RESTRICTED NET POSITION -CONTINUED

60- Day Operation Reserve Fund

60-day average of the preceding year's cash expenses (exclusive of fuel, purchase power, and energy capacity)	\$ 2,045,110
Divided by days per year	<u>360</u>
Average per day	5,681
 Times 60 days	 <u>60</u>
 60-Day operating maximum required reserve	 <u>\$ 340,852</u>
 Beginning reserve balance	 \$ 356,676
Allowable deposits and interest income	43,199
2015 cash outlay	<u>(155)</u>
 Ending reserve balance	 <u>\$ 399,720</u>

Calculation of cash revenues for reserve balances:

2014 operating revenue on an accrual basis	\$ 6,337,384
Add	
Beginning gross receivables	1,547,561
Less	
Ending gross receivables	(1,000,812)
Add	
Ending allowance for doubtful accounts	122,138
Less	
Beginning allowance for doubtful accounts	<u>(152,969)</u>
Total 2014 gross annual revenue adjusted to cash basis	<u>\$ 6,853,302</u>

STATE OF NEW MEXICO
Raton Public Service Company
Notes to the Financial Statements
June 30, 2015

NOTE 12. RESTRICTED NET POSITION -CONTINUED

Annual Overhaul Reserve Fund

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

Beginning reserve balance	\$ 328,682
Interest income	246
2015 cash outlay	<u>(53,502)</u>
Ending reserve balance	<u><u>\$ 275,426</u></u>
Maximum balance	
2014 annual gross revenues	6,853,302
Maximum reserve balance	
(4.5% of 2014 annual gross revenue)	<u><u>\$ 308,399</u></u>
Allowable deposits	
(2.5% of annual gross revenues)	<u><u>\$ 171,333</u></u>

Capital Improvement 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	\$ 2,126,687
Actual deposits	510,541
2015 cash outlay	<u>(205,347)</u>
Ending reserve balance	<u><u>\$ 2,431,881</u></u>
Maximum balance	
2014 gross annual revenues	\$ 6,853,302
Multiplied times 2	<u>2</u>
Maximum reserve balance	<u><u>\$ 13,706,604</u></u>

STATE OF NEW MEXICO
Raton Public Service Company
Notes to the Financial Statements
June 30, 2015

NOTE 12. RESTRICTED NET POSITION -CONTINUED

	Reserve Analysis		
	Actual Cash Balance at June 30, 2015	Maximum Required Balance at June 30, 2015	Over (Under) Maximum
60-day operating reserve fund	\$ 399,720	\$ 340,852	\$ 58,868
Annual overhaul reserve fund	275,426	308,399	(32,973)
Capital improvements and replacement fund	2,431,881	13,706,604	(11,274,723)
Total	\$ 3,107,027	\$ 14,355,854	\$ (11,248,827)

In addition, the Company has amounts restricted for debt service and reserve requirements pursuant to loan agreements with the New Mexico Finance Authority, which total \$1,163,895 at June 30, 2015.

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REQUIRED SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO

Schedule I

Raton Public Service Company

Schedule of Employer's Proportionate Share of the Net Pension Liability of PERA Municipal General Division

Public Employees Retirement Association (PERA) Plan

Last 10 Fiscal Years*

	2015 Measurement Date As of and for the Year Ended <u>June 30, 2014</u>
Raton Public Service Company's proportion of the net pension liability	0.0910%
Raton Pubic Service Company's proportionate share of the net pension liability	\$ 709,898
Raton Public Service Company's covered-employee payroll	\$ 738,601
Raton Public Service Company's proportionate share of the net pension liability as a percentage of its covered-employee payroll	96.11%
Plan fiduciary net position as a percentage of the total pension liability	81.29%

* The amounts presented were determined as of June 30. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, Raton Public Service Company will present information for those years for which information is available.

See independent auditors' report
See notes to required supplementary information

STATE OF NEW MEXICO
Raton Public Service Company
Schedule of Employer Contributions
Public Employees Retirement Association (PERA) Plan
PERA Municipal General Division
Last 10 Fiscal Years*

Schedule II

	As of and for the Year Ended <u>June 30, 2015</u>
Contractually required contributions	\$ 75,487
Contributions in relation to the contractually required contribution	(75,487)
Contribution deficiency (excess)	<u>\$ -</u>
Raton Public Service Company's covered-employee payroll	\$ 790,438
Contributions as a percentage of covered-employee payroll	10%

* The amounts presented were determined as of June 30. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, Raton Public Service Company will present information for those years for which information is available.

See independent auditors' report
See notes to required supplementary information

STATE OF NEW MEXICO
Raton Public Service Company
Notes to Required Supplementary Information
June 30, 2015

Changes of benefit terms. The PERA Fund COLA and retirement eligibility benefits changes in recent years are described in Note 1 of the PERA FY14 audit available at http://www.pera.state.nm.us/pdf/AuditFinancialStatements/366_Public_Employees_Retirement_Association_2014.pdf.

Changes of assumptions. The Public Employees Retirement Association (PERA) of New Mexico Annual Actuarial Valuation as of June 30, 2014 report is available at http://www.pera.state.nm.us/pdf/Investments/RetirementFundValuationReports/6-30-2014%20PERA%20Valuation%20Report_FINAL.pdf.

The summary of Key Findings for the PERA Fund (on page 2 of the report) states “based on a recent experience study for the five-year period ending June 30, 2013, the economic and demographic assumptions were updated for this valuation. The changes in assumptions resulted in a decrease of \$30.8 million to Fund liabilities and an increase of 0.13% to the funded ratio. For details about changes in the actuarial assumptions, see Appendix B on page 60 of the report.

See independent auditors’ report

SUPPLEMENTARY INFORMATION

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STATE OF NEW MEXICO

Schedule III

Raton Public Service Company

Statement of Revenues, Expenses and Changes in Net Position

Budget (GAAP Basis) and Actual

For the Year Ended June 30, 2015

	Budget Amounts		Actual	Variances Favorable
	Original	Final	(GAAP basis)	(Unfavorable)
<i>Operating revenues</i>				
Charges for services	\$ 6,743,873	\$ 6,743,873	\$ 6,602,249	\$ (141,624)
<i>Total operating revenues</i>	<u>6,743,873</u>	<u>6,743,873</u>	<u>6,602,249</u>	<u>(141,624)</u>
<i>Operating expenses</i>				
Production	4,414,777	4,414,777	4,176,669	238,108
Distribution	851,166	851,166	805,259	45,907
Consumer contracts	32,071	32,071	30,342	1,729
Sales promotion	2,145	2,145	2,029	116
Administrative and general	765,588	765,588	684,562	81,026
Depreciation	848,400	848,400	509,002	339,398
<i>Total operating expenses</i>	<u>6,914,147</u>	<u>6,914,147</u>	<u>6,207,863</u>	<u>706,284</u>
<i>Operating income (loss)</i>	<u>(170,274)</u>	<u>(170,274)</u>	<u>394,386</u>	<u>564,660</u>
<i>Non-operating revenues (expenses)</i>				
Interest income	2,672	2,672	5,680	3,008
Interest expense	(587,243)	(587,243)	(247,896)	339,347
Miscellaneous revenue	35,000	35,000	17,052	(17,948)
Insurance proceeds	-	-	3,666,000	3,666,000
<i>Total non-operating revenues (expenses)</i>	<u>(549,571)</u>	<u>(549,571)</u>	<u>3,440,836</u>	<u>3,990,407</u>
<i>Change in net position</i>	<u>\$ (719,845)</u>	<u>\$ (719,845)</u>	<u>3,835,222</u>	<u>\$ 4,555,067</u>
<i>Net position - beginning of year, as previously stated</i>			7,608,002	
<i>Prior period adjustments (Note 10)</i>			<u>194,665</u>	
<i>Net position - beginning of year, restated</i>			<u>7,802,667</u>	
<i>Net position - end of year</i>			<u>\$ 11,637,889</u>	

The accompanying notes are an integral part of these financial statements

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SUPPORTING SCHEDULES

STATE OF NEW MEXICO
Raton Public Service Company
Schedule of Deposit Accounts
June 30, 2015

Schedule IV

Bank Name/Account Name	Account Type	Bank Balance	Deposits in Transit	Outstanding Checks	Book Balance
International Bank					
Checking - Gross Income Acct	Checking	\$ 586,476	\$ -	\$ (98,654)	\$ 487,822
Operational Reserve	Checking	208,215	-	(19)	208,196
Capital Improvement	Checking	1,871,392	-	(108,008)	1,763,384
Res. Annual Overhaul	Checking	259,889	-	(23)	259,866
Operating & Maintenance	Checking	-	37,481	(37,481)	-
Debt Service & Bond Res	Checking	210,606	134,726	(49,198)	296,134
Special Fund/Meter Deposit	Checking	177,793	375	(21,127)	157,041
Payroll account	Checking	-	24,100	(24,100)	-
Certificate of Deposit	CD	311,665	-	-	311,665
Certificate of Deposit	CD	118,537	-	-	118,537
Certificate of Deposit	CD	140,284	-	-	140,284
Certificate of Deposit	CD	379,936	-	-	379,936
Certificate of Deposit	CD	2,000,000	-	-	2,000,000
Certificate of Deposit	CD	1,666,000	-	-	1,666,000
Total International Bank		7,930,793	196,682	(338,610)	7,788,865
New Mexico Finance Authority					
NMFA-Debt Service	Trust	432,503	-	-	432,503
NMFA-Reserve	Trust	731,392	-	-	731,392
Total Wells Fargo Bank		1,163,895	-	-	1,163,895
Petty cash					600
Total deposits		\$ 9,094,688	\$ 196,682	\$ (338,610)	\$ 8,953,360
Deposits and investments per financial statements:					
Cash and cash equivalents - Exhibit A-1					\$ 4,525,958
Restricted cash and cash equivalents:					
Sixty day operation reserve fund-per Exhibit A-1					399,720
Annual overhaul reserve fund-per Exhibit A-1					275,426
Capital improvement and replacement fund-per Exhibit A-1					2,431,881
Customer deposits-per Exhibit A-1					156,480
Debt service and reserve requirements-per Exhibit A-1					1,163,895
Total deposits					\$ 8,953,360

See independent auditors' report

STATE OF NEW MEXICO
Raton Public Service Company
Schedule of Collateral Pledged by Depository for Public Funds
June 30, 2015

Schedule V

<u>Name of Depository</u>	<u>Description of Pledged Collateral</u>	<u>Maturity</u>	<u>CUSIP Number</u>	<u>Fair Market Value June 30, 2015</u>
International Bank				
	FHLB 0.625	12/28/2016	3130A0C65	\$ 250,093
	FNMA 1.250	1/30/2017	3135G0GY3	3,736,386
	FNMA 1.200	12/20/2018	3136G12K4	147,969
	FNMA 1.200	12/20/2018	3136G12K4	172,631
	FNMA 1.200	12/20/2018	3136G12K4	246,616
	FHLB 1.460	12/13/2019	31338JDN2	<u>1,250,924</u>
Total Pledged Collateral				<u><u>\$ 5,804,619</u></u>

Name and location of safekeeper for above pledged collateral:
Bankers Bank of the West, Denver Colorado

See independent auditors' report

STATE OF NEW MEXICO

Schedule VI

Raton Public Service Company

Schedule of Vendor Information for Purchases Exceeding \$60,000 (excluding GRT)

For the Year Ended June 30, 2015

Prepared by: Raton Public Service Company

Title: Financial Officer

Date: September 21, 2015

<u>RFP#/ RFB#</u>	<u>Type of Procurement</u>	<u>Awarded Vendor</u>	<u>\$ Amount of Awarded Contract</u>	<u>\$ Amount of Amended Contract</u>	<u>Name and Physical Address per the Procurement Documentation, of <u>ALL</u> Vendors that Responded</u>	<u>In-State/Out-of- State Vendor (Y or N) (Based on Statutory Definition)</u>	<u>Was the Vendor In- State and Chose Veteran's Preference (Y or N) For Federal Funds Answer N/A</u>	<u>Brief Description of the Scope of Work</u>
None								

See independent auditors' report

COMPLIANCE SECTION



Accounting & Consulting Group, LLP
Certified Public Accountants

**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**

INDEPENDENT AUDITORS' REPORT

Timothy Keller
New Mexico State Auditor
The Board of Directors of
Raton Public Service Company
Raton, 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 activities of Raton Public Service Company (Company) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Company's basic financial statements, and related budgetary comparison of the Company presented as supplementary information and have issued our report thereon dated November 16, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company'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 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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items FS CU 2015-001 and FS CU 2015-002.

The Company's Response to Findings

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

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.

Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP
Albuquerque, NM
November 16, 2015

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements:

1. Type of auditors' report issued	Unmodified
2. Internal control over financial reporting:	
a. Material weaknesses identified?	None noted
b. Significant deficiencies identified not considered to be material weaknesses?	None noted
c. Noncompliance material to the financial statements noted?	None noted

B. CURRENT YEAR AUDIT FINDINGS

RATON PUBLIC SERVICE COMPANY

FS CU 2015-001 Missing Purchase Order Requisition Form (RPS)-(finding that does not rise to the level of significant deficiency)

Condition: During our test of controls surrounding the cash disbursement process at Raton Public Service we noted 1 out of 40 disbursements tested in the amount of \$977.93 for legal services did not have a signed purchase order requisition form attached to the invoice (check #29724).

Criteria: Raton Public Service internal processes required the disbursement to be preceded by an approved purchase order requisition form that is signed by the general manager.

Effect: The potential outcome is that fraud or unauthorized purchase could occur if purchase requests are not approved.

Cause: It could not be determined if the purchase order requisition form was lost or misplaced or was even there to begin with.

Auditor's Recommendation: We recommend management be more vigilant in ensuring all purchases are preceded by an approved purchase order requisition form and ensure the form is attached to each invoice packet to preserve a clear audit trail that evidences the approval.

View of responsible officials and proposed corrective action: We concur with the finding. The General Manager is responsible for approving all purchase requests. We estimate corrective action will occur by June 30, 2016.

RATON PUBLIC SERVICE COMPANY

FS CU 2015-002 No Verifications of Inventory Counts (RPS) (finding that does not rise to the level of significant deficiency)

Condition: During our process of gaining an understanding of internal controls surrounding Raton Public Service's warehouse inventory we noted no one is independently verifying the Warehouse Supervisor's inventory counts. Also the Warehouse Supervisor can delete obsolete items from the Orders Plus inventory system without any independent verification. Warehouse inventory totaled \$717,339 at June 30, 2015.

Criteria: Good internal control practices require separate verification of inventory counts and deletions from the inventory system to ensure inventory count are accurate and reflect the items on-hand on the date of the count.

Effect: The potential outcome is that the Warehouse Supervisor could steal inventory and conceal the theft through manipulation of the inventory counts. Without verification the theft would go undetected.

Cause: Raton Public Service's normal procedures and policies do not require an independent verification of inventory counts or verification of deleted obsolete items.

Auditor's Recommendation: We recommend Raton Public Service draft and approve a policy that requires independent verification of inventory accounts and independent approval of inventory item deletions.

View of responsible officials and proposed corrective action: We concur with the finding. Raton Public Service will draft a policy that requires independent verification of inventory counts and independent review of inventory item deletions. The General Manager will ensure this is completed no later than June 30, 2016.

STATE OF NEW MEXICO
Raton Public Service Company
Schedule of Findings and Responses
June 30, 2015

Schedule VII
Page 3 of 3

C. PRIOR YEAR AUDIT FINDINGS

FS 2004-005 – Capital Asset Inventory (RPS) – Resolved

FS 2014-001 –Cash and Cash Equivalentents (RPS)– Resolved

STATE OF NEW MEXICO
Raton Public Service Company
Other Disclosures
June 30, 2015

OTHER DISCLOSURES

Exit Conference

An exit conference was held on November 23, 2015. In attendance were the following:

Representing Raton Public Service Company:

Kathy McQueary, Board President
Dan Dible, General Manager
Sandy Chavez, Finance Officer

Representing Accounting & Consulting Group, LLP:

Morgan Browning, CPA, CGFM, Audit Manager

Auditor Prepared Financial Statements

Accounting and Consulting Group, LLP prepared the GAAP-basis financial statements and footnotes of Raton Public Service Company from the original books and records provided to them by the management of the Company. The responsibility for the financial statements remains with the Company.