

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

**JUNE 30, 2008**

Moss Adams LLP  
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# TABLE OF CONTENTS

## STATE OF NEW MEXICO RATON PUBLIC SERVICE COMPANY

### INTRODUCTORY SECTION

Official Roster.....	1
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### FINANCIAL SECTION

Independent Auditors' Report.....	2
Balance Sheet.....	5
Statement of Revenues, Expenses and Changes in Net Assets .....	7
Statement of Cash Flows.....	8
Notes to Financial Statements.....	9

### SUPPLEMENTARY INFORMATION

Budget-to-Actual Schedule.....	24
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### OTHER SUPPLEMENTAL INFORMATION

Supplementary Schedule of Operating Expenses .....	25
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### OTHER INFORMATION

Report on Internal Control Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> .....	27
Summary of Prior Year Audit Findings.....	29
Schedule of Findings and Responses .....	30
Exit Conference.....	36

STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY

Official Roster  
As of June 30, 2008

BOARD OF DIRECTORS

Kathy McQueary	President
Scott Berry	Vice President
Mark Jansen	Treasurer
Joe Apache	Director
Charles Henry	Director
Sandy Chavez	Secretary/Office Manager
Glenn Fisher	General Manager

## Independent Auditors' Report

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

We have audited the accompanying financial statements of the business-type activities and budgetary comparison listed as supplementary information in the table of contents of the Raton Public Service Company (RPS), a component unit of the City of Raton (City), as of and for the year ended June 30, 2008, which collectively comprise RPS's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the RPS' management. 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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the RPS's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of RPS are intended to present the financial position and the changes in financial position and cash flows of RPS. They do not purport to and do not present fairly the financial position of the City as of June 30, 2008, and the changes in its financial position and its cash flows, where applicable, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

As more fully described in Note 3 to the financial statements, RPS has errors in the carrying value of capital assets. In our opinion, capital assets should be recorded at cost, if purchased, or at fair value, if donated or contributed, to conform with accounting principles generally accepted in the United States of America, and those amounts should be depreciated over the estimated useful lives of the assets. The effects on the financial statements resulting from these errors are not reasonably determinable.

In our opinion, except for the effects of the matters discussed in the preceding paragraph the financial statements referred to above present fairly, in all material respects, the financial position of RPS, as of June 30, 2008, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the budget comparison referred to above presents fairly, in all material respects, the budgetary comparison for the year then ended in conformity with the budgetary basis more fully described in Note 1 which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 24, 2008, on our consideration of RPS' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the basic financial statements. The additional schedule listed as "other supplemental information" in the table of contents is presented for the purposes of additional analysis and is not a required part of the basic financial statements of RPS. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

For the year ended June 30, 2008, RPS has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

*Moss Adams LLP*

Albuquerque, New Mexico  
October 24, 2008

STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
BALANCE SHEET  
June 30, 2008

ASSETS

Current Assets, Unrestricted

Cash and cash equivalents	\$ 500,000
Accounts receivable, net of allowance of \$142,144	429,028
Other accounts receivable	20,264
Inventory	
Coal	6,005
Distribution lines, materials and supplies	766,316
Prepaid expenses	7,077
<b>Total unrestricted current assets</b>	<u>1,728,690</u>

Restricted Assets

Sixty day operation reserve fund	396,506
Annual overhaul reserve fund	268,489
Capital improvement and replacement fund	2,768,908
Customer deposits	179,891
Customer advances for construction	72,747
Loan reserve	603,861
<b>Total restricted current assets</b>	<u>4,290,402</u>

Capital Assets

Land	13,841
Utility plant, at cost	14,940,432
Accumulated depreciation	(9,698,660)
<b>Total capital assets, net</b>	<u>5,255,613</u>

<b>Total assets</b>	<u><u>\$ 11,274,705</u></u>
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*See Notes to Financial Statements.*

STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
BALANCE SHEET (CONTINUED)  
June 30, 2008

**LIABILITIES AND NET ASSETS**

Current Liabilities, Payable From Unrestricted Assets

Accounts payable	\$ 388,527
Payroll taxes payable	3,608
Gross receipts tax payable	38,941
Due to water department	22,418
Interest payable	15,277
Loan payable - current portion	111,315
Loan payable - compensated absences	22,000
<b>Total unrestricted current liabilities</b>	<u>602,086</u>

Current Liabilities, Payable From Restricted Assets

Customer deposits	179,891
Customer advances for construction	72,747
<b>Total restricted current liabilities</b>	<u>252,638</u>

Non-Current Liabilities

Loan payable, non-current portion	1,983,776
Compensated absences payable	65,390
	<u>2,049,166</u>
<b>Total liabilities</b>	<u>2,903,890</u>

Net Assets

Invested in capital assets, net of related debt	3,160,522
Unrestricted	5,210,293
<b>Total net assets</b>	<u>8,370,815</u>
<b>Total liabilities and net assets</b>	<u>\$ 11,274,705</u>

*See Notes to Financial Statements.*



STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
Year Ended June 30, 2008

Operating Revenue	
Residential sales	\$ 3,163,808
Commercial sales	1,706,667
Power sales	1,701,649
Discounts forfeited	97,723
Connection charges	21,803
<b>Total operating income</b>	<u>6,691,650</u>
Operating Expenses	
Production	4,768,861
Distribution	809,626
Consumer contracts	133,232
Sales promotion	2,966
Administration and general	402,629
<b>Total operating expenses before depreciation</b>	<u>6,117,314</u>
Depreciation	<u>250,412</u>
<b>Total operating expenses</b>	<u>6,367,726</u>
Operating Income	<u>323,924</u>
Non-Operating Income (Expenses)	
Interest income	163,178
Interest expense	(98,241)
<b>Total non-operating income</b>	<u>64,937</u>
<b>Change in net assets</b>	388,861
Net assets, beginning of year as previously stated	<u>7,981,954</u>
<b>Net assets, end of year</b>	<u><u>\$ 8,370,815</u></u>

*See Notes to Financial Statements.*

STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
STATEMENT OF CASH FLOWS  
Year Ended June 30, 2008

Cash Flows From Operating Activities	
Cash received from customers and others	\$ 6,698,570
Cash paid to suppliers	(5,044,034)
Cash paid to employees	(876,373)
<b>Net cash provided by operating activities</b>	<u>778,163</u>
Cash Flows From Capital and Related Financial Activities	
Acquisition and construction of capital assets	(67,828)
Loan principal payments	(109,110)
Loan interest payments	(98,241)
<b>Net cash used by capital and related financial activities</b>	<u>(275,179)</u>
Cash Flows From Investing Activities	
Interest income	163,178
<b>Net cash provided by investing activities</b>	<u>163,178</u>
Net increase in cash	666,162
Cash, beginning of year	<u>4,124,240</u>
<b>Cash, end of year</b>	<u><u>\$ 4,790,402</u></u>
Reconciliation of operating income to Net Cash	
Provided by Operating Activities	
Operating income	\$ 323,924
Adjustments to Reconcile Operating Income to Net Cash	
Provided by Operating Activities	
Depreciation expense	250,412
Changes in assets and liabilities	
Receivables	(19,640)
Inventories	28,641
Prepaid expense	11,877
Accounts payable	130,108
Accrued payables	26,282
Customer deposits	26,559
<b>Net cash provided by operating activities</b>	<u><u>\$ 778,163</u></u>

*See Notes to Financial Statements.*

STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

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

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

*Reporting Entity.* The reporting entity, for financial purposes, is determined using the basic criteria of oversight responsibility. Oversight responsibility includes, but is not limited to, financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. The reporting entity is the RPS, which is managed by a five-member board. RPS had no blended or discrete component units during the fiscal year ended June 30, 2008.

The physical assets of the Utility System are the property of the City of Raton. The management of the Utility System rests with RPS, a New Mexico Corporation, pursuant to a franchise contract, Ordinance No. 942, of the City of Raton. All of the RPS stock is held in trust for the benefit of the City of Raton. The City exercises all rate-making functions, and all financing is provided by the City through the issuance of municipal revenue bonds. Various bond reserves are established by the terms of the City's bond ordinances. RPS is managed by a board of five directors, three of whom are elected by the Trustee and two of who are members of the City Commission.

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

*Measurement Focus, Basis of Accounting and Basis of Presentation.* The accounts of RPS are organized on the basis of a proprietary fund. Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. In accounting and reporting for its proprietary operations, RPS does not apply applicable FASB Statements and Interpretations issued after November 30, 1989. Proprietary funds include the following fund type:

STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

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.

Revenues are recognized when they are earned and expenses are recorded at the time liabilities are incurred.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of RPS enterprise fund are charges to customers. Operating expenses for enterprise funds include the cost of production, administrative expenses, and depreciation on capital assets. All distribution revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

*Government Wide and Fund Financial Statements.* RPS is a single purpose government entity and has only business type activities. In the government-wide Statement of Net Assets, the governmental activities are presented on a consolidated basis and are reflected on the full accrual, economic resource basis, which incorporates long term assets and receivable as well as long-term debt and obligations.

*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.

When both restricted and unrestricted resources are available for use, it is RPS policy to use restricted resources first, then unrestricted resources as they are needed.

*Assets, Liabilities, and Capital.*

*Accounts Receivable.* It is RPS' policy to allow for trade receivables when the customer is no longer a participant in any city services, including power, water or trash service.

*Inventory.* Inventory is valued at lower of cost (first-in, first-out) or market.

*Investment in Arkansas River Power Authority.* The investment reflects RPS' amount of contributions to date for a new generation plant in Arkansas River Power Authority (ARPA).

STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

*Cash and Cash Equivalents.* Amounts reflected as "cash and cash equivalents" on the balance sheet include amounts on hand and in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the Company. Investments, custom investment (savings) accounts and certificates of deposits with financial institutions are stated at cost or amortized cost, which approximates their market value.

*Compensated Absences.* RPS' policy allows employees to accumulate limited amounts of vacation and sick pay, which are payable to the employee upon termination or retirement.

*Utility Rate.* Utility rate schedules are prepared by an outside entity specializing in utility rate studies.

*Jointly Governed Organization.* RPS is a member of Arkansas River Power Authority (ARPA) with six other member cities. ARPA is an independent governmental entity organized under provision of the Colorado Revised Statutes. It operates within Colorado and New Mexico, but is not part of state government nor is it part of its member cities' governments, but is an intergovernmental entity created by its members. ARPA is responsible for providing the wholesale electric power requirements of its member cities. It is governed by an appointed Board and hires a manager to oversee the administration of the authority. ARPA issues a separate, publicly available financial report that includes financial statements and supplementary information. That report may be obtained from ARPA, Lamar, CO 85102.

*Joint Powers Agreement.* RPS, The City of Raton and ARPA have entered into joint powers agreement to jointly finance a Raton Generation Project (Project) and the ownership and operation thereof. ARPA and the City of Raton will finance the Project on a fifty-fifty shared basis. ARPA shall own the Project facilities and be responsible for their protection. Raton's share of the Project cost shall be considered an equity contribution to ARPA of which it is a member and carried on ARPA's books and financial records as equity assigned to Raton. RPS shall operate and maintain the Project upon acceptance in commercial service.

*Budget.* RPS does adopt a budget each year which is approved by the Board of Directors. The budgetary basis is similar to GAAP, except that interest expense and depreciation expense are not included. The budget is not legally binding on RPS, but rather is used as a management tool.

STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

**NOTE 2. DEPOSITS AND INVESTMENTS**

RPS is authorized under the provision of Chapter 6, Article 10, paragraph 10, NMSA 1978, annotated, to deposit its money in banks, savings and loan associations and/or credit unions whose accounts are insured by an agency of the United States.

All money not immediately necessary for the public uses of RPS may be invested in bonds or negotiable securities of the United States, the state or any county, municipality or town, securities that are issued by the United States government or by its agencies or instrumentalities or in contracts with banks, savings and loan associations or credit unions for the present purchase and resale at a specified time in the future of specific securities. If RPS is unable to receive payment on public money at the rate of interest set forth by the State Board of Finance from financial institutions within the geographic boundaries of the governmental unit, the Authority may invest its money as provided under Section 6-10-10.1 NMSA 1978 with the New Mexico State Treasurer's investment pool for a period greater than 181 days. The State Treasurer's investment pool shall be invested as provided for State funds under Section 60-10-10 NMSA 1978.

Cash and investments held by RPS include cash on deposit with financial institutions and certificates of deposit with maturities of three months or less. Deposits are secured by both Federal depository insurance and collateral pledged in RPS' name. Under New Mexico law, all deposits with financial institutions must be collateralized in an amount not less than 50% (102% for overnight deposits) of the uninsured balance. Market values of all cash and deposits approximate the cost of those assets.

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. As of June 30, 2008, RPS' deposits of \$4,289,616, \$4,085,444 were exposed to custodial risk as follows:

Uninsured and collateralized with the collateral held in the financial institutions name	\$ 1,910,444
Uninsured and uncollateralized	<u>2,175,000</u>
Total deposits exposed to custodial credit risk	<u>\$ 4,085,444</u>

STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

NOTE 2. DEPOSITS AND INVESTMENTS (CONTINUED)

Schedule of cash and equivalents is as follows:

Account Name	Bank Type	Maturity Date	Bank Balance	Outstanding Items	Book Balance
Petty Cash			\$ -	-	600
International Bank					
Reserve for annual overhaul	Checking	N/A	203,284	(355)	202,929
Capital improvement	Checking	N/A	1,981,652	115,041	2,096,693
Debt service and bond reserve	Checking	N/A	86,396	17,279	103,675
Gross income account	Checking	N/A	937,542	(535,347)	402,195
Operational reserve	Checking	N/A	125,201	(219)	124,982
Special fund	Checking	N/A	122,036	(1,688)	120,348
Gross income investment	Cert. of Dep.	7/06	97,205	-	97,205
Operational reserve	Cert. of Dep.	7/06	271,524	-	271,524
Capital improvement	Cert. of Dep.	8/06	672,215	-	672,215
Reserve for annual overhaul	Cert. of Dep.	7/06	65,560	-	65,560
Customers advance for construction	Cert. of Dep.	9/06	68,575	-	68,575
Special fund	Cert. of Dep.	8/06	59,543	-	59,543
Bank of America					
Customers advance for construction	Checking	N/A	4,172	-	4,172
Total cash deposits			4,694,905	(405,289)	4,289,616
Bank of Albuquerque					
NMFA reserves	US Treasury T-Bills	N/A	500,186	-	500,186
Total cash deposits and investments			<u>\$ 5,195,091</u>	<u>(405,289)</u>	<u>4,790,402</u>

STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

NOTE 2. DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits were collateralized at June 30, 2008 as follows:

	Book Balance	Bank Balance
International Bank	\$ 4,285,444	4,690,696
FDIC Insurance		<u>200,000</u>
Uninsured deposits		<u>4,490,696</u>
50% Collateralization		<u>2,245,348</u>
Collateralization held by Federal Reserve Bank, Kansas City		
US Treasury Notes, 4.25%, due 11/09, CUSIP No. 3133MUGP4		\$ 50,000
US Treasury Notes, 4.875%, due 06/10, CUSIP No. 3133XCSY0		75,000
US Treasury Notes, 4.75%, due 6/10, CUSIP No. 3133XDTA9		100,000
US Treasury Notes, 4.875%, due 12/12, CUSIP No. 3133XDTE7		75,000
US Treasury Notes, 4.875%, due 06/14, CUSIP No. 3133XKTV7		100,000
US Treasury Notes, 5.00%, due 09/13, CUSIP No. 3133X2Q4		<u>1,775,000</u>
Total pledged collateral		<u>2,175,000</u>
Under collateralized amount		<u>\$ 70,348</u>
Bank of America		
Fully insured demand deposits	\$ <u>4,172</u>	\$ <u>4,172</u>

Description of restricted assets follows:

*Capital Improvements and Replacement Fund.* Monies restricted to pay, in whole or in part, periodic inspection, overhaul and repair, and the costs of additions, extensions and improvements to the energy utility system.



STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

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

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

*Annual Overhaul Reserve Fund.* Monies restricted to pay, in whole or in part, periodic repairs, inspection, and overhaul costs of the boilers and generation equipment.

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

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

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

RPS' investments were \$500,186 at June 30, 2008. Investments are carried at fair value in the balance sheet. Investments consist of U.S. Treasury T-Bills.

**NOTE 3. CAPITAL ASSETS**

Capital Assets - Capital assets are stated at cost. The capitalization policy included all items with a cost of \$5,000 or more and a useful life greater than one year. The City of Raton owns the physical assets of the RPS. However, since the RPS has responsibility for the operation and maintenance of the utility system and since separate management of the utility is vested in the RPS by franchise granted under ordinance number 731, the assets have been included in the report. Purchased software is capitalized with the related computers in the equipment category. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings	25-50 years
Improvements	10-20 years
Equipment	3-10 years

STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

NOTE 3. CAPITAL ASSETS (CONTINUED)

Major classes of capital assets and related depreciation are as follows:

	Balance June 30, 2007	Additions	Deletions	Balance June 30, 2008
Non-depreciable land	\$ 13,841	-	-	13,841
Depreciable				
Intangible Asset	2,240,057	-	-	2,240,057
Buildings and improvements	11,179,144	-	-	11,179,144
Equipment, furniture and fixtures	1,436,403	67,828	-	1,504,231
Franchise	17,000	-	-	17,000
<b>Total depreciable</b>	<b>14,872,604</b>	<b>67,828</b>	<b>-</b>	<b>14,940,432</b>
Accumulated depreciation	(9,448,248)	(250,412)	-	(9,698,660)
Net depreciable	5,424,356	(182,584)	-	5,241,772
<b>Total capital assets</b>	<b>\$ 5,438,197</b>	<b>(182,584)</b>	<b>-</b>	<b>5,255,613</b>

RPS and ARPA have entered into a memorandum of understanding whereby RPS and ARPA financed the construction of a power generation facility on a fifty-fifty share basis. ARPA shall own the building and is responsible for its operation. In the event the ARPA is dissolved, the facility will be transferred to the City of Raton. Previously, RPS's portion of this facility was reported as an investment in ARPA. However, during 2007 this amount was reclassified as an intangible asset as shown above and will be depreciated over the estimated useful life of the project facilities of 35 years.

During the current year a physical inventory of capital assets was completed at or near year end by an outside firm. However, RPS discovered that there were errors in the detail listing from the physical inventory. The effects on the financial statements resulting from this error are not reasonably determinable.

NOTE 4. EMPLOYEE BENEFITS

*Vacation Pay.* Accumulated unpaid vacation, sick pay, and other employee benefit amounts are accrued when incurred (using the accrual basis of accounting). The applicable amounts do not exceed a normal year's accumulations.

STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

**NOTE 4. EMPLOYEE BENEFITS (CONTINUED)**

*Retirement Plan.*

Plan Description - Substantially all of the RPS full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (chapter 10, Article 11 NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries.

Funding Policy - Plan members are required to contribute 13.15% of their gross salary. RPS is required to contribute 9.15%. The contribution requirements of plan members and the RPS are established under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. RPS contributions to PERA for the years ending June 30, 2008, 2007 and 2006 were \$186,511, \$74,052, and \$91,063, respectively, equal to the amount of the required contributions. PERA issues separate financial statements which may be obtained by writing to PERA, PO Box 2123, Santa Fe, NM 87504-2123.

**NOTE 5. LONG-TERM DEBT**

Long-term debt as of June 30, 2008, consists of the following:

Note payable to New Mexico Finance Authority, original amount of \$2,693,610, due in annual installments through May 1, 2022, interest rate 2.06% to 4.86%.	\$ 2,095,091
Less current portion	<u>(111,315)</u>
Long-term portion of note payable	<u>\$ 1,983,776</u>

The loan from New Mexico Finance Authority (NMFA) is an obligation of the City of Raton with future revenues of RPS pledged as collateral. The purpose is to finance an electric generation plant in a joint powers agreement with Arkansas River Power Authority. The interest rate fluctuates based on the remaining life of the loan. The interest rate at June 30, 2008 was 4.479%.

STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

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

The following is a summary of loan transactions of RPS for the year ended June 30, 2008:

	Loans	Compensated Absences
Beginning balance	\$ 2,204,201	66,002
Additions	-	25,150
Deletions	<u>(108,785)</u>	<u>(3,762)</u>
<b>Ending balance</b>	<b><u>\$ 2,095,416</u></b>	<b><u>87,390</u></b>
Amount due within one year	<u>\$ 111,315</u>	<u>22,000</u>

The annual requirement to amortize the principal of all debt outstanding as of June 30, 2008 is as follows:

Year Ended June 30,	Principal	Interest	Total
2009	\$ 111,315	90,803	202,118
2010	112,677	89,441	202,118
2011	116,929	85,481	202,410
2012	121,492	81,221	202,713
2013	126,359	76,670	203,029
2014-2018	717,604	302,756	1,020,360
2019-2022	<u>789,040</u>	<u>129,881</u>	<u>918,921</u>
	<u>\$ 2,095,416</u>	<u>856,253</u>	<u>2,951,669</u>

**NOTE 6. NET ASSETS**

*Municipal Uses.* RPS shall furnish to the City all electric energy needed by the City for the lighting of its municipal offices, for street lighting, and for general municipal purposes within the City's electric utility service area, all without requiring payment therefore from the City. The amount consumed and not billed to the City for the year ended June 30, 2007 was \$402,571. Estimated cost of other services furnished to the City for maintenance of street lighting and signals, Christmas lighting and decorations, and other services, which was provided in 2008 at no charge, was \$42,357. For all power an electric energy taken by the City and its departments for its proprietary purposes, including but not limited to water treatment and pumping and sewage proprietary purposes, the City shall pay to RPS the actual cost thereof, computed as the rolling three-month average of fuel and purchased energy costs of the energy furnished.

STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

NOTE 6. NET ASSETS (CONTINUED)

*Rate and Income Requirements and Disposition of System Revenues.*

1. RPS shall set aside the entire gross income and revenues of the utility system into a special fund to be known as the "City of Raton Utility System Gross Income Fund", the operational, reserve and debt payments below described. After payment of which monies, then RPS each year shall transfer and pay over to the City Treasurer all remaining income and revenues derived from the operation of the System for any lawful purpose of purposes then required or permitted under the constitution of the State of New Mexico and the bond ordinances and other ordinances of the City.
2. So long as the franchise shall remain in force and effect, the City shall set the utility system expended in the following priorities, to-wit:
  - a. RPS shall first set aside each month into a fund called "Operation and Maintenance Fund", monies sufficient to pay current expenses of the operation of the utility System, excluding depreciation and amortization expenses as they become due and payable. At June 30, 2008 the cash balance in this Fund was \$500,000.
  - b. From remaining income, RPS shall next set aside funds as required for debt service and bond reserves, under any ordinances of the City creating and issuing energy utility system bonds for improvements, replacements, or expansion of the City's energy utility system. The City shall continue to retain full authority to create and issue system lawful for such system bonds.
  - c. From any remaining income, the RPS shall next set aside each month into a reserve called "Operation Reserve Fund", an accumulation of cash reserves adequate to permit the payment of the average cash expenses (exclusive of fuel and purchased power and energy capacity) required for a sixty day period. Upon execution of this Ordinance, the sum of \$75,000 shall be set aside into such a fund, for the amount of the fiscal year ending June 30, 1985. Thereafter, this reserve is to be maintained at an amount determined to be a sixty day average of the preceding year's cash expenses (exclusive of fuel and purchased power and capacity) or \$75,000, whichever is greater.
  - d. From any remaining income, RPS shall next set aside, each month, on-twelfth (1/12<sup>th</sup>) of two and one-half percent (2.5%) of the immediately preceding fiscal year's gross annual revenues into the "Reserve for Annual Overhaul, Inspection and Repair of Boilers and Generation Equipment" reserve. As used throughout this Ordinance, "gross annual revenues" shall mean all revenues paid to the Company by rate payers for the retail sale of energy and earned interest, but shall not include (1) taxes or surcharges; (2) insurance proceeds; (3) payments from other utilities, co-generators, producers or

STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

NOTE 6. NET ASSETS (CONTINUED)

transmitters of energy; (4) damage awards; (5) proceeds from sale of assets; (6) payments from the city of Raton for energy consumed; or (7) other revenues received from sources other than sales to rate paying customers, and earned interest. Amounts in said fund shall be used to pay, in whole or in part, periodic repairs, inspection, and overhaul costs of the coils and generation equipment; provided, however, that such fund shall be established when the accumulated balance of the amounts set aside equals four and one-half percent (4.5%) of the gross annual revenues for the immediately preceding fiscal year. Upon execution of this Ordinance, the sum of \$75,000 shall be set aside into such fund for the amount of the fiscal year ending June 30, 1985.

- e. From any remaining income RPS shall next set aside monthly payments of one-twelfth each, to the "City of Raton Utility System, Capital Improvement and Replacement Fund", a cash reserve as will be equal during each fiscal year to ten percent (10%) of the Company's present Capital Improvement Reserve shall be available to pay, in whole or in part, periodic inspection, overhaul and repair, and the costs of additions, extensions and improvements to the energy utility system; provided, however that such fund equal two hundred percent (200%) of the gross annual revenues of RPS for the preceding fiscal year. Thereafter, the maximum amount in such fund may be increased by the City, from year to year, by Resolution of the City Commission.
  - f. From any remaining income RPS shall next pay to the City, in monthly payments of one-twelfth each, an amount equal to three percent (3%) of the immediately preceding fiscal year's gross annual revenues, as defined above.
3. The residue of the revenues of RPS shall be paid to the City, annually. Such payment was made during the year ended June 30, 2008.

STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2008

NOTE 6. NET ASSETS (CONTINUED)

Calculation of Reserve Balances Allowed Under the Franchise Agreement

Calculation of cash revenues for reserve balance

2007 operating revenue on accrual basis	\$	6,369,733
Add		
Interest earned		172,705
Beginning gross receivables		625,712
Less		
Ending gross receivables		(557,597)
Bad debt expense		(13,200)
Add		
Ending allowances for doubtful accounts		130,944
Less		
Beginning allowances for doubtful accounts		(117,744)
Sales to City of Raton/water		(113,945)
Total 2007 gross annual revenue adjusted to cash basis	\$	<u>6,496,608</u>

Calculation of cash revenues for reserve balance

2007 operating expenses on accrual basis	\$	6,117,314
Add		
Non-operating expenses		101,503
Beginning accounts payable (exclusive of fuel, ARPA, and sales tax)		284,833
Ending prepaid expenses		18,954
Beginning accrued vacation payable		59,385
Beginning accrued sick leave payable		11,725
Ending supplies inventory		800,962
Less		
Purchased power		(3,694,212)
Ending accounts payable (exclusive of fuel, ARPA, and sales tax)		(284,833)
Bad debt expense		(13,200)
Beginning prepaid expenses		(15,617)
Ending accrued vacation payable		(63,630)
Ending accrued sick leave payable		(2,372)
Beginning supplies inventory		(755,619)
Total 2007 gross annual expenses adjusted to cash basis	\$	<u>2,565,193</u>

60-Day Operating Reserve

60-Day average of the preceding years cash expenses (exclusive of fuel, purchase power, and energy capacity OR \$75,000, whichever is greater)	\$	2,565,193
Divided by days per year		<u>360</u>
		7,126
Times sixty days		<u>60</u>
60-Day operating maximum required reserve	\$	<u>427,532</u>
Beginning reserve balance	\$	396,506
Allowable deposits		67,828
2008 cash outlay		(67,828)
Ending reserve balance	\$	<u>396,506</u>

STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2008

NOTE 6. NET ASSETS (CONTINUED)

Reserve for Annual Overhaul

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

Beginning reserve balance	\$ 246,028
Actual deposits	90,289
2008 cash outlay	<u>(67,828)</u>

Ending reserve balance	<u>\$ 268,489</u>
------------------------	-------------------

Maximum balance	
2007 annual gross revenues	6,496,608
	4.5%
Maximum reserve balance	<u>\$ 292,347</u>

Allowable deposits (2.5% of gross annual revenues)	162,415
--	---------

Capital improvements and replacement reserve

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

Beginning reserve balance	\$ 2,995,600
Allowable deposits (10% of gross annual revenues)	<u>649,661</u>

Ending allowable reserve balance	<u>\$ 3,645,261</u>
----------------------------------	---------------------

Beginning reserve balance	\$ 2,043,204
Actual deposits	793,532
2007 cash outlay	<u>(67,828)</u>

Ending reserve balance	<u>\$ 2,768,908</u>
------------------------	---------------------

Maximum balance	
2007 gross annual revenues	\$ 6,496,608
Multiplied times 2	<u>2</u>

Maximum reserve balance	<u>\$ 12,993,216</u>
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Reserve analysis

	Actual Cash Balance at June 30, 2008	Maximum Required Balance at June 30, 2008	Over (Under) Maximum
Sixty day operating revenue fund	\$ 396,506	427,532	(31,026)
Annual overhaul reserve fund	268,489	292,347	(23,858)
Capital improvement and replacement fund	2,768,908	12,993,216	(10,224,308)



STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

**NOTE 7. INSURANCE**

RPS is a member of the New Mexico Insurance Authority through the City of Raton. Risk of loss equates purchase of commercial insurance. RPS is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which RPS carries commercial insurance.

STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
BUDGET-TO-ACTUAL SCHEDULE  
YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
Operating revenues				
Charges for sales and services	\$ 7,004,694	7,004,694	6,691,650	(313,044)
Operating expenses				
Production	5,805,382	5,805,382	4,902,093	903,289
Distribution & maintenance	799,615	799,615	809,626	(10,011)
General and administrative	550,442	550,442	405,595	144,847
Total Operating Expenses	7,155,439	7,155,439	6,117,314	1,038,125
Operating Income (loss)	(150,745)	(150,745)	574,336	725,081
Nonoperating revenues (expenses)				
Interest income	108,000	108,000	163,178	55,178
Net Income (Loss)	(42,745)	(42,745)	737,514	780,259
Cash to Balance	42,745	42,745	-	-
Change in net assets	\$ -	-	737,514	-
Unbudgeted expenditures				
Interest on Debt Service			98,241	
Depreciation			250,412	
Net Income GAAP Basis			\$ 388,861	

STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
SUPPLEMENTAL SCHEDULE OF OPERATING EXPENSES  
Year Ended June 30, 2008

Operating Expenses

Production

Salaries	\$ 220,745
Vacation pay expense	21,004
Sick leave pay expense	21,930
Employee benefits	93,469
Purchased power	4,224,115
ARPA services	105,654
Maintenance	
Structures and improvements	37,651
Generating and electric equipment	13,309
Station equipment	24,866
Station supplies and expense	4,250
Training	1,278
Transportation	590
	<hr/>
<b>Total production expenses</b>	<b>4,768,861</b>

Distribution

Operation of lines	113,153
Services on customers' premises	43,217
Maintenance	
Overhead and underground systems	195,909
Line transformers and devices	86,859
Service	16,073
Meters	41,220
Street lighting and signal system	26,588
Other distribution expenses	21,567
Christmas lighting	11,796
Record system	20,129
General property	6,169
Employee benefits	131,594
Vacation pay expense	23,967
Sick leave pay expense	12,369
Training	22,402
Transportation	36,614
	<hr/>
<b>Total distribution expenses</b>	<b>809,626</b>

STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
SUPPLEMENTAL SCHEDULE OF OPERATING EXPENSES (CONTINUED)  
Year Ended June 30, 2008

Consumer Contracts	
Meter reading	\$ 40,441
Customer records and collections	92,791
	<hr/>
<b>Total consumer contracts</b>	<b>133,232</b>
	<hr/>
Sales and Promotions	
General advertising	2,966
	<hr/>
Administrative and General Expenses	
Salaries - executives	77,196
Salaries - general office	43,338
Vacation pay	12,341
Sick leave pay	4,730
Employee benefits	67,069
Directors fees	10,105
General office supplies and expense	22,906
General office maintenance	5,432
Insurance	87,533
Legal and audit	55,381
Transportation	829
Special services	2,132
Bad debt	13,637
	<hr/>
<b>Total administrative and general expenses</b>	<b>402,629</b>
	<hr/>
<b>Total operating expenses</b>	<b>\$ 6,117,314</b>
	<hr/> <hr/>

**Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial  
Statements Performed in Accordance With *Government Auditing Standards***

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

We have audited the financial statements of the business-type activities and budgetary comparison listed as supplementary information in the table of contents of the Raton Public Service Company (RPS) a component unit of the City of Raton, as of and for the year ended June 30, 2008, which collectively comprise RPS's basic financial statements as listed in the table of contents and have issued our report thereon dated October 24, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered RPS' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of RPS' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of RPS' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of RPS's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and

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

responses to be significant deficiencies in internal control over financial reporting, 02-01, 04-05, 07-01, and 08-01.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the RPS's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses, and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 04-05 to be a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether RPS' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 04-05, 08-02 and 08-03.

The RPS's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the organization's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within RPS, the Commissioners, the State Auditor, and the New Mexico State Legislature and is not intended to be and should not be used by anyone other than those specified parties.

*Moss Adams LLP*

Albuquerque, New Mexico  
October 24, 2008

STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
Year Ended June 30, 2008

<u>Comment</u>	<u>Current Status</u>
02-01 Policy and Procedures Manual – RPS	Updated and Included
04-05 Capital Assets	Updated and Included
06-01 Inventory Tracking System	Resolved
07-01 Reconciliation of cash accounts	Resolved

STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended June 30, 2008

**02-01 Polices and Procedures Manual**

CONDITION

There are no written policies and procedures for accounting and purchasing.

CRITERIA

Policies and procedures should be maintained to ensure proper accounting and ensure that internal control structure is adequate and in operation.

CAUSE

Due to the size of RPS and the fact that the majority of transactions are routine, management has not determined it cost effective to develop formal polices and procedures for accounting.

EFFECT

Without policies and procedures, there may be inconsistencies on how items are processed and may lead to improper accounting method utilization.

RECOMMENDATION

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

MANAGEMENT RESPONSE

RPS implemented a purchasing policy on July 24, 2002. This policy will be reviewed and updated as necessary. RPS is working to implement an accounting policy.



STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
Year Ended June 30, 2008

04-05 Capital Assets

CONDITION

During our testwork of capital assets, the following was noted:

- A physical inventory was completed at or near year-end by an outside firm. However, the inventory taken by the firm did not agree to amounts posted in the general ledger for fixed assets. Additionally, there are unresolved errors in the detail listing from the physical inventory.
- Movable assets, such as computers, are not tagged with unique identifying numbers.
- RPS does not have policies and procedures related to the disposition of fixed assets.

CRITERIA

Sound accounting requirements require a detailed asset listing, which should be in agreement with the general ledger. In addition, RPS is not in compliance with 1 NMAC 1.2.1, Accounting and Control of Fixed Assets since the assets are not tagged.

CAUSE

Adequate policies and procedures are not in place to help monitor this situation.

EFFECT

RPS is not in compliance with 1 NMAC 1.2.1 and assets could be stolen or misplaced without RPS's knowledge.

RECOMMENDATION

Develop and implement policies and procedures that incorporate tagging all assets and calls for a complete physical inventory at or near year-end and proper disposal of assets. Reconcile all capital assets to the general ledger. Management should consider grouping capital assets within their system as they are presented in the financial statements.

MANAGEMENT RESPONSE

RPS has agreed to work with the City of Raton to reconcile and update the asset records for both organizations, including the tagging of assets. RPS has begun work on the policies and procedures governing the maintenance of asset records, including but not limited to additions, inventory control and disposition of assets.

STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
Year Ended June 30, 2008

08-01 Expensing of Inventory used in Operations

CONDITION

The unadjusted inventory balance reflected on the general ledger did not agree to the total balance on the detailed schedule at year end.

CRITERIA

Inventory items consumed in the course of operations should be expensed according to the first-in first-out method in accordance with RPS' accounting policies.

CAUSE

The ending inventory balance reflected on the detailed listing was appropriately calculated using the first-in first-out method while inventory consumed during the year was incorrectly expensed at average cost.

EFFECT

The general ledger ending inventory balance was understated and related operating expenses were overstated.

RECOMMENDATION

We recommend establishing procedures to ensure that inventory items used during the year is expensed using the first-in-out method.

MANAGEMENT RESPONSE

The inventory tracking software has been adjusted to expense items on a first-in first-out basis.

STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
Year Ended June 30, 2008

08-02 Aged Accounts Receivable Finding

CONDITION

There was an immaterial discrepancy between the accounts receivable balance reflected on the aged listing and the general ledger accounts receivable balance.

CRITERIA

The total accounts balance per the aged accounts receivable listing should agree to the general ledger balance at year end.

CAUSE

Receivables that have been written-off are not being removed from the aged accounts receivable listing.

EFFECT

The accounts receivable balance reflected on the aged listing was overstated and not representative of the actual account receivable balance on the general ledger at year end.

RECOMMENDATION

We recommend establishing procedures to ensure that the accounts receivable balance on the aged listing agrees to the general ledger balance at year end.

MANAGEMENT RESPONSE

RPS will begin running a process to write off aged accounts and remove them from the accounts receivable balance.

STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
Year Ended June 30, 2008

08-03 IT Finding

CONDITION

During our testing of internal controls relating to information technology controls we noted the following opportunities for the County to improve controls and overall system security:

- RPS does not have a change management program in place for implementing software application programming or other technology changes. It was noted that the A/R system was modified by an external consultant. Modified applications bear an increased risk of lost or damaged data, or the introduction of processing errors.
- Currently, Raton Public Service does not have a password policy in place. Even access to non-critical systems can be a risk for RPS.
- Security access has not been tested over the past year.

CRITERIA

There should be proper safeguards and controls over information technology to ensure proper financial reporting and safeguarding of County information.

EFFECT

The safeguarding of important and confidential information can be compromised. Also, once weak passwords are exploited, a determined hacker can use other systems within the network to launch attacks or intrusion attempts against critical systems.

CAUSE

There are no established policies and procedures for the application of implementing new software and passwords. Additionally, there has not been any testing by an outside security expert.

STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
Year Ended June 30, 2008

08-03 IT Finding

RECOMMENDATION

We recommend the County implement the following:

- A process should be developed to document and manage all technology changes at RPS, including those performed by external consultants. Change management should at a minimum document the review and approval of the proposed change, developing and testing changes in a non-production environment, rollback procedures, and approval to migrate the change to production. Development documentation, performed by an external consultant, should be retained in-house by RPS. Such proactive measures will help ensure the expected performance of the system, and help anticipate any unforeseen problems.
- A password policy should be uniform across the organization regardless of the employee's status or role. Everyone should be required to adhere to a regular schedule of changing their passwords for access to the network. This policy should be clearly defined with the following parameters: requiring users to change their passwords every 90 days, maintaining password uniqueness, and having at least 8 alphanumeric characters in their password. In addition, the system should lock out an account after three failed login attempts.
- RPS should establish policies and procedures to ensure that a security assessment will be conducted annually and that penetration testing be added to the quarterly maintenance routines.

MANAGEMENT'S RESPONSE

RPS will work with the City and its consultants to develop and implement a more thorough network security policy.

STATE OF NEW MEXICO  
RATON PUBLIC SERVICE COMPANY  
EXIT CONFERENCE  
Year Ended June 30, 2008

An exit conference was held on November 25, 2008. Attending were the following:

Representing RPS:

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

Representing Moss Adams LLP:

James Hartogenesis, CPA Senior Manager

The financial statements were prepared with the assistance of Moss Adams LLP.