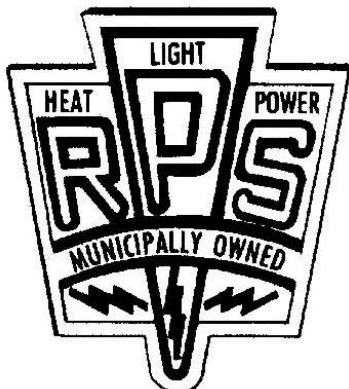




State of  
New Mexico  
Raton Public  
Service Company

Annual Financial Report  
For the Year Ended June 30, 2017



(This page intentionally left blank.)

## **INTRODUCTORY SECTION**

(This page intentionally left blank.)

**STATE OF NEW MEXICO**  
Raton Public Service Company  
Table of Contents  
June 30, 2017

<b>INTRODUCTORY SECTION</b>	<b><u>Exhibit</u></b>	<b><u>Page</u></b>
Table of Contents		5
Official Roster		6
 <b>FINANCIAL SECTION</b>		
Independent Auditors' Report		8-10
 <b>BASIC FINANCIAL STATEMENTS</b>		
Statement of Net Position	A	12-13
Statement of Revenues, Expenses and Changes in Net Position	B	15
Statement of Cash Flows	C	16-17
Notes to the Financial Statements		18-37
 <b>REQUIRED SUPPLEMENTARY INFORMATION</b>		
	<b><u>Schedule</u></b>	
Schedule of Employer's Proportionate Share of the Net Pension Liability of PERA Municipal General Division	I	40
Schedule of Employer Contributions - PERA Municipal General Division	II	41
Notes to the Required Supplementary Information		42
 <b>SUPPORTING SCHEDULES</b>		
Schedule of Deposit Accounts	III	44
Schedule of Collateral Pledged by Depository for Public Funds	IV	45
 <b>COMPLIANCE SECTION</b>		
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>		48-49
Schedule of Findings and Responses	V	50
 <b>OTHER DISCLOSURES</b>		 51

**STATE OF NEW MEXICO**  
Raton Public Service Company  
Official Roster  
June 30, 2017

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

<u>Administrative Officials</u>	
Robert G. Walton II	General Manager
Sandy Chavez	Financial Officer/ Secretary to the Board

## **FINANCIAL SECTION**

## INDEPENDENT AUDITORS' REPORT

Wayne A. Johnson  
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, 2017, and the related notes to the financial statements which collectively comprise the Company's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditors' 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, 2017, and the changes in financial position and 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.

Accounting principles generally accepted in the United States of America require that Schedules I and II and notes to the required supplementary information on pages 40 through 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Company's basic financial statements. The introductory section and Schedules III and IV are required by Section 2.2.2 NMAC are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Schedules III and IV are 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, Schedules III and 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 December 14, 2017, 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.

RPC CPAs + Consultants LLP

RPC CPAs + Consultants, LLP  
Albuquerque, NM  
December 14, 2017

**BASIC  
FINANCIAL STATEMENTS**

**STATE OF NEW MEXICO**  
Raton Public Service Company  
Statement of Net Position  
June 30, 2017

	<b>Business-Type Activities</b>
<b>Assets</b>	
Current assets	
Cash and cash equivalents	\$ 1,085,469
Accounts receivable (net)	753,434
Inventory	795,502
Prepaid expense	7,594
Total current assets	2,641,999
Noncurrent assets	
Restricted cash and cash equivalents:	
Sixty day operation reserve fund	331,629
Annual overhaul reserve fund	300,095
Capital improvement and replacement fund	3,114,540
Customer deposits	174,786
Debt service and reserve requirements	1,184,372
Capital assets	24,149,625
Less accumulated depreciation	(10,411,216)
Total noncurrent assets	18,843,831
<i>Total assets</i>	21,485,830
<b>Deferred outflows of resources</b>	
Changes in assumption	89,281
Differences between expected and actual experience	76,074
Employer contributions subsequent to the measurement date	75,430
Change in proportion	25,759
Net difference between projected and actual investment earnings on pension plan investments	280,151
<i>Total deferred outflows of resources</i>	546,695
<i>Total assets and deferred outflows of resources</i>	\$ 22,032,525

The accompanying notes are an integral part of these financial statements.

	<b>Business-Type Activities</b>
<b>Liabilities</b>	
Current liabilities	
Accounts payable	\$ 338,488
Accrued payroll	8,677
Accrued interest	37,929
Meter deposits	174,786
Loans payable - current	379,693
Compensated absences - current	63,021
Total current liabilities	<u>1,002,594</u>
Noncurrent liabilities	
Loans payable - noncurrent	4,485,118
Net pension liability	1,522,574
Compensated absences - noncurrent	108,478
Total noncurrent liabilities	<u>6,116,170</u>
<i>Total liabilities</i>	<u>7,118,764</u>
<b>Deferred inflows of resources</b>	
Changes in assumptions	253
Differences between expected and actual experience	14,860
Changes in proportion	1,580
<i>Total deferred inflows of resources</i>	<u>16,693</u>
<b>Net position</b>	
Net investment in capital assets	8,873,598
Restricted for:	
Reserve requirements per ordinance	3,746,264
Debt service and reserve requirements	1,184,372
Customer deposits	174,786
Unrestricted	918,048
<i>Total net position</i>	<u>14,897,068</u>
<i>Total liabilities, deferred inflows of resources, and net position</i>	<u>\$ 22,032,525</u>

The accompanying notes are an integral part of these financial statements.

(This page intentionally left blank.)

**STATE OF NEW MEXICO**  
Raton Public Service Company  
Statement of Revenues, Expenses and Changes in Net Position  
For the Year Ended June 30, 2017

Exhibit B

	<b>Business-Type Activities</b>
<i>Operating revenues</i>	
Residential sales	\$ 3,284,560
Commercial sales	1,379,200
Power sales	1,496,220
Discounts forfeited	92,498
Connection charges	9,079
	9,079
<i>Total operating revenues</i>	6,261,557
<i>Operating expenses</i>	
Production	4,145,432
Distribution	760,840
Consumer contracts	18,801
Sales promotion	1,948
Administrative and general	573,405
Depreciation expense	487,385
	487,385
<i>Total operating expenses</i>	5,987,811
<i>Operating income</i>	273,746
<i>Non-operating revenues (expenses)</i>	
Investment income	56,362
Interest expense	(227,167)
	(227,167)
<i>Total non-operating revenues (expenses)</i>	(170,805)
<i>Change in net position</i>	102,941
<i>Total net position - beginning of year</i>	14,794,127
<i>Total net position - end of year</i>	\$ 14,897,068

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, 2017

	<b>Business-Type Activities</b>
<i>Cash flows from operating activities</i>	
Cash received from customers	\$ 6,362,912
Cash paid to suppliers for goods and services	(4,565,251)
Cash paid to employees for services	<u>(763,080)</u>
<i>Net cash provided by operating activities</i>	<u>1,034,581</u>
<i>Cash flows from capital and financing activities</i>	
Acquisition and construction of capital assets	(4,825,276)
Loan repayments	(368,802)
Interest paid on capital debt	<u>(227,167)</u>
<i>Net cash (used) by capital and financing activities</i>	<u>(5,421,245)</u>
<i>Cash flows from investing activities</i>	
Investment income	<u>56,362</u>
<i>Net cash provided by investing activities</i>	<u>56,362</u>
<i>Net (decrease) in cash and cash equivalents</i>	(4,330,302)
<i>Cash and cash equivalents - beginning of year</i>	<u>10,521,193</u>
<i>Cash and cash equivalents - end of year</i>	<u>\$ 6,190,891</u>
<i>Reported on the statement of net position as:</i>	
Cash and cash equivalents	\$ 1,085,469
Restricted cash and cash equivalents:	
Sixty day operation reserve fund	331,629
Annual overhaul reserve fund	300,095
Capital improvement and replacement fund	3,114,540
Customer deposits	174,786
Debt service and reserve requirements	<u>1,184,372</u>
<i>Total cash and cash equivalents and restricted cash</i>	<u>\$ 6,190,891</u>

The accompanying notes are an integral part of these financial statements.



	<b>Business-Type Activities</b>
	<hr/>
<i>Reconciliation of operating income to net cash provided by operating activities</i>	
Operating income	\$ 273,746
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	487,385
Noncash pension expense	96,076
Changes in assets, deferred outflows, and liabilities:	
Decrease in accounts receivable	104,831
Increase in inventory	(25,540)
Decrease in prepaid expenses	45,322
Employer contributions subsequent to the measurement date	2,465
Increase in accounts payable	8,170
Increase in compensated absences payable	46,166
Decrease in accrued wages payable	(564)
Decrease in meter deposits	(3,476)
	<hr/>
<i>Net cash provided by operating activities</i>	<u>\$ 1,034,581</u>

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO**  
Raton Public Service Company  
Notes to the Financial Statements  
June 30, 2017

**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, 61 and 80. 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 of 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.* Budgets for the Company are prepared on an accrual basis of accounting as approved by the Board of Directors and the New Mexico Department of Finance and Administration. Budgetary control is at the fund level.

*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, 2017

**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. Inventories are tested for impairment annually and reported at lower of cost or market value.

*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. Information Technology Equipment including software is being capitalized and included in furniture, fixtures and equipment in accordance with NMAC 2.20.1.9 C (5). Depreciation has been provided over the estimated useful lives using the straight-line method. Capital asset inventories are observed annually and reported at the lower of cost or market value to account for any impairment of service capacity.

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, 2017

**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.

During the year ended June 30, 2017, the Company adopted GASB Statements 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* (partial), No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, No. 77, *Tax Abatement Disclosures*, No. 78 *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*, and No. 82, *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73* (partial). These six Statements are required to be implemented as of June 30, 2017, if applicable.

GASB Statement No. 73 establishes accounting and financial reporting standards for defined benefit pensions and defined contribution pensions that are not provided to employees of state and local government employers and are not within the scope of Statement 68. A portion of this pronouncement was effective and was implemented for the June 30, 2016 year end, and a portion is effective for June 30, 2017 year end. Effective for June 30, 2017 are the provisions of the statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68. This does not have a material effect on the financial statements of the Company, as its pension plan is within the scope of Statement 68.

The objective of GASB Statement No. 74 is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement does not affect the Company's financial statements directly; however, the effects on the Company's OPEB plan, administered through the New Mexico Retiree Health Care Authority, will be seen in future periods.

GASB Statement No. 77 is intended to improve the usefulness of financial statements prepared by state and local governments – which are intended, among other things, to assist users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources came from and how it uses them, and (4) a government's financial position and economic condition and how they have changed after time – by including information about certain limitations on a government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from government programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens – such as the encouragement of economic development. For financial reporting purposes, this Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens.

**STATE OF NEW MEXICO**  
Raton Public Service Company  
Notes to the Financial Statements  
June 30, 2017

**NOTE 1. Summary of Significant Accounting Policies (continued)**

These tax abatements may affect the financial position of the government and its results of operations, including its ability to raise resources in the future. Statement No. 77 requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments that reduce the reporting government's tax revenues. and (2) those that are entered into by other governments that reduce the reporting government's tax revenues.

The Company had no tax abatements to disclose as of June 30, 2017.

The objective of GASB Statement No. 78 is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This Statement amends the scope and applicability of Statement 68 to exclude certain pensions provided to employees of state or local governmental employers. The Company's pension plan does not meet the criteria for exclusion.

The objective of GASB Statement No. 80 is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

GASB Statement No. 82 clarified and adjusted several items from GASB 67 and 68, including the definition of covered payroll, the presentation of payroll-related measures in required supplementary information, the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee contribution requirements.

*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 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 five types of items that qualify for reporting in this category. Accordingly, the items, changes in assumption of \$89,281, difference between expected and actual experience of \$76,074, employer contributions subsequent to the measurement date of \$75,430, changes in proportion of \$25,759 and the net difference between projected and actual investment earnings on pension plan investments of \$280,151 are deferred and recognized as a direct reduction of the net pension liability. These are reported in the Statement of Net Position.

**STATE OF NEW MEXICO**  
Raton Public Service Company  
Notes to the Financial Statements  
June 30, 2017

**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 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 three types of items considered to be deferred inflows of resources, all of which arise due to the implementation of GASB 68 and the related net pension liability. Accordingly, the items, changes in assumptions, difference between expected and actual experience and changes in proportion, 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 \$253 related to changes in assumptions, \$14,860 related to the difference between expected and actual experience and \$1,580 related to changes in proportion.

*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 11.

Unrestricted Net Position – represents the excess of total assets over total liabilities and net position invested in capital assets at June 30, 2017. These are amounts not restricted for any purpose.

**STATE OF NEW MEXICO**  
Raton Public Service Company  
Notes to the Financial Statements  
June 30, 2017

**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, 2017.

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.

All of the Company's accounts at located an insured depository institution, including all noninterest-bearing transaction accounts, which 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.

*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, 2017, \$4,538,777 of the Company's bank balance of \$5,086,663 was exposed to custodial credit risk. None of the Company's cash balance was uninsured and uncollateralized as of June 30, 2017.

	<u>First National Bank</u>	<u>International Bank</u>	<u>Total</u>
Deposits	\$ 4,083,320	\$ 1,003,343	\$ 5,086,663
FDIC Coverage	<u>(250,000)</u>	<u>(297,886)</u>	<u>(547,886)</u>
Total uninsured public funds	<u>3,833,320</u>	<u>705,457</u>	<u>4,538,777</u>
Collateralized by securities held by pledging institutions or by its trust department or agent in other than the Company's name	<u>3,833,320</u>	<u>705,457</u>	<u>4,538,777</u>
Uninsured and uncollateralized	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Collateral requirement - deposits (50% of uninsured funds)	\$ 1,916,660	\$ 352,729	\$ 2,269,389
Pledged Collateral	<u>4,838,957</u>	<u>1,275,000</u>	<u>6,113,957</u>
Over (Under) collateralized	<u>\$ 2,922,297</u>	<u>\$ 922,271</u>	<u>\$ 3,844,568</u>

**STATE OF NEW MEXICO**  
Raton Public Service Company  
Notes to the Financial Statements  
June 30, 2017

**NOTE 2. Cash and Investments (continued)**

The collateral pledged is listed on Schedule IV. 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 invests the amounts in U.S. Treasuries and U.S. Agency Securities which have an AAA rating at June 30, 2017 and a weighted average maturity of less than 365 days.

**Reconciliation of Cash and Cash Equivalents**

Cash and cash equivalents per Exhibit A-1	\$ 1,085,469
Restricted cash and cash equivalents:	
Sixty day operation reserve fund-per Exhibit A-1	331,629
Annual overhaul reserve fund-per Exhibit A-1	300,095
Capital improvement and replacement fund-per Exhibit A-1	3,114,540
Customer deposits-per Exhibit A-1	174,786
Debt service and reserve requirements-per Exhibit A-1	<u>1,184,372</u>
Total cash and cash equivalents	<u>6,190,891</u>
Add: outstanding checks	97,797
Less: deposits in transit	(17,053)
Less: U.S. agencies and treasury notes held with NMFA	(1,184,372)
Less: petty cash	<u>(600)</u>
Bank balance of deposits	<u><u>\$ 5,086,663</u></u>

**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	\$ 888,874
Raton Water Works	5,845
Allowance for doubtful accounts	<u>(141,285)</u>
Accounts receivable	<u><u>\$ 753,434</u></u>



**STATE OF NEW MEXICO**  
Raton Public Service Company  
Notes to the Financial Statements  
June 30, 2017

**NOTE 4. Capital Assets**

A summary of changes in capital assets for fiscal year ending June 30, 2017 is as follows.

	<u>Balance June 30, 2016</u>	<u>Additions</u>	<u>Deletions and Transfers</u>	<u>Balance June 30, 2017</u>
Capital assets, not being depreciated				
Construction in Progress	\$ 1,332,993	\$ 4,761,827	\$ -	\$ 6,094,820
Total capital assets not being depreciated	<u>1,332,993</u>	<u>4,761,827</u>	<u>-</u>	<u>6,094,820</u>
Capital assets, being depreciated				
Buildings and improvements	16,892,770	29,314	-	16,922,084
Vehicles and equipment	<u>1,138,013</u>	<u>34,135</u>	<u>(39,427)</u>	<u>1,132,721</u>
Total capital assets being depreciated	<u>18,030,783</u>	<u>63,449</u>	<u>(39,427)</u>	<u>18,054,805</u>
Less accumulated depreciation				
Buildings and improvements	(9,131,840)	(441,596)	-	(9,573,436)
Vehicles and equipment	<u>(831,418)</u>	<u>(45,789)</u>	<u>39,427</u>	<u>(837,780)</u>
Total accumulated depreciation	<u>(9,963,258)</u>	<u>(487,385)</u>	<u>39,427</u>	<u>(10,411,216)</u>
Total capital assets being depreciated, net	<u>\$ 9,400,518</u>	<u>\$ (423,936)</u>	<u>\$ -</u>	<u>\$ 13,738,409</u>

Depreciation expense for capital assets for the fiscal year ended June 30, 2017 was \$487,385.

**STATE OF NEW MEXICO**  
Raton Public Service Company  
Notes to the Financial Statements  
June 30, 2017

**NOTE 5. Long-term Debt**

During the year ended June 30, 2017, the following changes occurred in the liabilities reported in the Statement of Net Position:

	<b>Balance June 30, 2016</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2017</b>	<b>Due Within One Year</b>
Loans payable	\$ 5,233,613	\$ -	\$ (368,802)	\$ 4,864,811	\$ 379,693
Compensated absences	125,333	109,187	(63,021)	171,499	63,021
Total	<u>\$ 5,358,946</u>	<u>\$ 109,187</u>	<u>\$ (431,823)</u>	<u>\$ 5,036,310</u>	<u>\$ 442,714</u>

Loans outstanding for the Company at June 30, 2017 consisted of the following loans which are secured by the net revenues of electric utility.

<b>Description</b>	<b>Date of Issue</b>	<b>Maturity Date</b>	<b>Interest Rate</b>	<b>Original Amount of Issue</b>	<b>Balance June 30, 2017</b>
NMFA-Backup generator	04/05/02	05/01/21	4.08%-4.86%	\$ 2,693,610	\$ 599,911
NMFA-Electric utility substation	10/16/09	05/01/29	1.65%-4.95%	1,122,725	830,190
NMFA-Electric Utility Wartsila and Burro Canon Lines	10/16/09	05/01/29	1.65%-4.95%	4,619,684	3,434,710

The annual requirements to amortize loans payable for the Company as of June 30, 2017 including interest payments are as follows:

<b>Fiscal Year Ending June 30,</b>	<b>Business-type activities</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total Debt Service</b>
2018	\$ 379,693	\$ 214,253	\$ 593,946
2019	398,501	199,896	598,397
2020	411,358	184,110	595,468
2021	322,296	166,916	489,212
2022	242,626	153,636	396,262
2023-2027	2,118,903	541,961	2,660,864
2028-2029	991,434	72,913	1,064,347
	<u>\$ 4,864,811</u>	<u>\$ 1,533,685</u>	<u>\$ 6,398,496</u>

**STATE OF NEW MEXICO**  
Raton Public Service Company  
Notes to the Financial Statements  
June 30, 2017

**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.

**NOTE 7. Public Employees Retirement Association (PERA) Pension Plan**

**Summary of Significant Accounting Policies**

**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, 2016 available at [http://www.nmpera.org/assets/uploads/downloads/comprehensive-annual-financial-reports/2016-CAFR\\_12.22.2016\\_FINAL-with-corrections.pdf](http://www.nmpera.org/assets/uploads/downloads/comprehensive-annual-financial-reports/2016-CAFR_12.22.2016_FINAL-with-corrections.pdf).

**STATE OF NEW MEXICO**  
Raton Public Service Company  
Notes to the Financial Statements  
June 30, 2017

**NOTE 7. Public Employees Retirement Association (PERA) Pension Plan (continued)**

**Contributions.** The contribution requirements of defined benefit plan members and the Raton Public Service 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 FY17 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 FY15 annual audit report at [http://www.nmpera.org/assets/uploads/downloads/comprehensive-annual-financial-reports/2016-CAFR\\_12.22.2016\\_FINAL-with-corrections.pdf](http://www.nmpera.org/assets/uploads/downloads/comprehensive-annual-financial-reports/2016-CAFR_12.22.2016_FINAL-with-corrections.pdf). The PERA coverage options that apply to Raton Public Service are: Municipal General Division and Municipal Police Division. Statutorily required contributions to the pension plan from Raton Public Service were \$75,430 for the year ended June 30, 2017.

**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, 2015. The PERA pension liability amounts for each division were rolled forward from the valuation date to the Plan year ending June 30, 2016, using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date June 30, 2016.

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. Raton Public Service 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, 2016. Only employer contributions for the pay period end dates that fell within the period of July 1, 2015 to June 30, 2016 were included in the total contributions for a specific employer. Regular and any adjustment contributions that applied to FY 2016 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.

**STATE OF NEW MEXICO**  
Raton Public Service Company  
Notes to the Financial Statements  
June 30, 2017

**NOTE 7. Public Employees Retirement Association (PERA) Pension Plan (continued)**

**For PERA Fund Municipal General Division**, at June 30, 2017, Raton Public Service reported a liability of \$1,522,574 for its proportionate share of the net pension liability. At June 30, 2016, Raton Public Service's proportion was 0.0953 percent, which was an increase of 0.0002 percent from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, Raton Public Service recognized PERA Fund Municipal General Division pension expense of \$173,971. At June 30, 2017, Raton Public Service reported PERA Fund Municipal General Division deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Changes of assumptions	\$ 89,281	\$ 253
Net difference between projected and actual earnings on pension plan investments	280,151	-
Changes in experience	76,074	14,860
Changes in proportion	25,759	1,580
Raton Public Service Company's contributions subsequent to the measurement date	75,430	-
Total	<u>\$ 546,695</u>	<u>\$ 16,693</u>

\$75,430 reported as deferred outflows of resources related to pensions resulting from Raton Public Service's contributions subsequent to the measurement date June 30, 2016 will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2017	\$ (104,888)
2018	(104,888)
2019	(173,958)
2020	(70,838)
Thereafter	-

**STATE OF NEW MEXICO**  
Raton Public Service Company  
Notes to the Financial Statements  
June 30, 2017

**NOTE 7. Public Employees Retirement Association (PERA) Pension Plan (continued)**

**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, 2015 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, 2016 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, 2016. These actuarial methods and assumptions were adopted by the PERA's Board of Trustees for use in the June 30, 2015, actuarial valuation.

Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay, open
Amortization period	Solved for based on statutory rates
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	7.48% annual rate, net of investment experience
Projected benefit payment	100 years
Payroll growth	2.75% for the first 10 years, then 3.25% all other years
Projected salary increases	2.75% to 14.25% annual rate
Includes inflation at	2.25% annual rate first 10 years, 2.75% all other years
Mortality assumption	RP-2000 Mortality Tables (Combined table for healthy post-retirement, Employee table for active members, and Disabled table for disabled retirees before retirement age) with projection to 2018 using Scale AA.
Experience study dates	July 1, 2008 to June 30, 2013 (demographic) and July 1, 2010 through June 20, 2015 (economic)

**STATE OF NEW MEXICO**  
Raton Public Service Company  
Notes to the Financial Statements  
June 30, 2017

**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
Global Equity	43.50%	7.39%
Risk Reduction & Mitigation	21.50	1.79
Credit Oriented Fixed Income	15.00	5.77
Real Assets	20.00	7.35
Total	100.00%	

**Discount rate:** The discount rate used to measure the total pension liability was 7.48 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 7.48% 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 Raton Public Service's net pension liability in each PERA Fund Division that Raton Public Service participates in, under the current single rate assumption, as if it were calculated using a discount rate one percentage point lower (6.48%) or one percentage point higher (8.48%) than the single discount rate.

PERA Fund Municipal General Division	1% Decrease (6.48%)	Current Discount Rate (7.48%)	1% Increase (8.48%)
Raton Public Service Company's proportionate share of the net pension liability	\$ 2,270,018	\$ 1,522,574	\$ 902,604

**Pension plan fiduciary net position.** Detailed information about the pension plan's fiduciary net position is available in the separately issued FY16 PERA financial report. The report is available at [http://www.nmpera.org/assets/uploads/downloads/comprehensive-annual-financial-reports/2016-CAFR\\_12.22.2016\\_FINAL-with-corrections.pdf](http://www.nmpera.org/assets/uploads/downloads/comprehensive-annual-financial-reports/2016-CAFR_12.22.2016_FINAL-with-corrections.pdf).

**Payables to the pension plan.** At June 30, 2017 there were no contributions due and payable to PERA for the Company.

**STATE OF NEW MEXICO**  
Raton Public Service Company  
Notes to the Financial Statements  
June 30, 2017

**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](http://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, 2017, 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, 2017, 2016, and 2015 were \$15,600, \$16,315 and \$15,809, respectively, which equal the required contributions for each year.



**STATE OF NEW MEXICO**  
Raton Public Service Company  
Notes to the Financial Statements  
June 30, 2017

**NOTE 9. Subsequent Events**

The date to which events occurring after June 30, 2017, the date of the most recent statement of net position, have been evaluated for possible adjustment to the financial statements or disclosures is December 14, 2017, which is the date on which the financial statements were available to be issued. No events were noted for disclosure.

**NOTE 10. Subsequent Pronouncements**

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 this pronouncement to have a material effect on the financial statements.

In December 2015, GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plan* was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged. The Company is still evaluating how this pronouncement will affect the financial statements.

In March 2016, GASB Statement No. 81, *Irrevocable Split-Interest Agreements* was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2016. Earlier application is encouraged. The Company is still evaluating how this pronouncement will affect the financial statements.

In November 2016, GASB Statement No. 83, *Certain Asset Retirement Obligations* was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. The Company is still evaluating how this pronouncement will affect the financial statements.

In January 2017, GASB Statement No. 84, *Fiduciary Activities* was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The Company is still evaluating how this pronouncement will affect the financial statements.

In March 2017, GASB Statement No. 85, *Omnibus 2017* was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The Company is still evaluating how this pronouncement will affect the financial statements.

In May 2017, GASB Statement No. 86, *Certain Debt Extinguishment Issues* was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. This Statement addresses a variety of topics including issues related to in-substance defeasance of debt using only existing resources. The Company does not expect the pronouncement to have a material effect on the financial statements.

In June 2017, GASB Statement No. 87 *Leases* was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The Company is still evaluating how this pronouncement will affect the financial statements.

**STATE OF NEW MEXICO**  
Raton Public Service Company  
Notes to the Financial Statements  
June 30, 2017

**NOTE 11. 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, 2017 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.

<b>Calculation of cash expenses for reserve balances:</b>	
2016 operating expense on an accrual basis	\$ 5,922,943
Adjustments	
Noncash expenses	(515,120)
Nonoperating expenses	240,554
Change in accounts payable	35,451
Change in prepaid expenses	(14,740)
Change in inventory	52,623
Change in accrued payroll	136,715
Change in compensated absences	(21,782)
Change in deferred inflows	(38,384)
Change in deferred outflows	<u>29,214</u>
Total 2016 gross annual expenses adjusted to cash basis	5,827,474
Less fuel, purchased power, and energy capacity	<u>(3,784,755)</u>
Adjusted 2016 gross annual expenses for 60-day operation reserve calculation	<u><u>\$ 2,042,719</u></u>

**STATE OF NEW MEXICO**  
Raton Public Service Company  
Notes to the Financial Statements  
June 30, 2017

**NOTE 11. 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)	\$ 2,042,719
Divided by days per year	<u>360</u>
Average per day	5,674
Times 60 days	<u>60</u>
60-Day operating maximum required reserve	<u><u>\$ 340,453</u></u>
Beginning reserve balance	\$ 340,852
Allowable deposits and interest income	-
2016 cash transfers out	<u>(9,223)</u>
Ending reserve balance	<u><u>\$ 331,629</u></u>

**Calculation of cash revenues for reserve balances:**

2016 operating revenue on an accrual basis	\$ 6,663,398
Adjustments	
Change in accounts receivable	(70,014)
Change in allowance for doubtful accounts	11,638
Change in meter deposits	<u>21,782</u>
Total 2016 gross annual revenue adjusted to cash basis	<u><u>\$ 6,588,420</u></u>

**STATE OF NEW MEXICO**  
Raton Public Service Company  
Notes to the Financial Statements  
June 30, 2017

**NOTE 11. 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	\$	308,399
Interest income		-
2016 cash transfers		<u>(8,304)</u>
Ending reserve balance	\$	<u>300,095</u>
Maximum balance		
2015 annual gross revenues	\$	6,588,420
Maximum reserve balance		
(4.5% of 2015 annual gross revenue)	\$	<u>296,479</u>
Allowable deposits		
(2.5% of annual gross revenues)	\$	<u>164,711</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	\$	2,680,570
Cash transfers		547,247
2016 cash outlay		<u>(113,277)</u>
Ending reserve balance	\$	<u>3,114,540</u>
Maximum balance		
2015 gross annual revenues	\$	6,588,420
Multiplied times 2		<u>2</u>
Maximum reserve balance	\$	<u>13,176,840</u>

**STATE OF NEW MEXICO**  
Raton Public Service Company  
Notes to the Financial Statements  
June 30, 2017

**NOTE 11. Restricted Net Position (continued)**

	<b>Reserve Analysis</b>		
	<b>Actual Cash Balance at June 30, 2016</b>	<b>Maximum Required Balance at June 30, 2016</b>	<b>Over (Under) Maximum</b>
60-day operating reserve fund	\$ 331,629	\$ 340,453	\$ (8,824)
Annual overhaul reserve fund	300,095	296,479	3,616
Capital improvements and replacement fund	3,114,540	13,176,840	(10,062,300)
Total	\$ 3,746,264	\$ 13,813,772	\$ (10,067,508)

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 \$1,184,372 at June 30, 2017.

(This page intentionally left blank.)

**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\*

	<b>2017 Measurement Date (As of and for the Year Ended June 30, 2016)</b>	<b>2016 Measurement Date (As of and for the Year Ended June 30, 2015)</b>	<b>2015 Measurement Date (As of and for the Year Ended June 30, 2014)</b>
Raton Public Service Company's proportion of the net pension liability	0.0953%	0.0955%	0.0910%
Raton Public Service Company's proportionate share of the net pension liability	\$ 1,522,574	\$ 976,705	\$ 709,898
Raton Public Service Company's covered payroll	\$ 815,655	\$ 790,438	\$ 738,601
Raton Public Service Company's proportionate share of the net pension liability as a percentage of its covered payroll	186.67%	123.57%	96.11%
Plan fiduciary net position as a percentage of the total pension liability	69.18%	76.99%	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  
PERA Municipal General Division  
Public Employees Retirement Association (PERA) Plan  
Last 10 Fiscal Years\*

Schedule II

	<b>As of and for the Year Ended June 30, 2017</b>	<b>As of and for the Year Ended June 30, 2016</b>	<b>As of and for the Year Ended June 30, 2015</b>
Contractually required contributions	\$ 75,430	\$ 77,895	\$ 75,487
Contributions in relation to the contractually required contribution	<u>(75,430)</u>	<u>(77,895)</u>	<u>(75,487)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Raton Public Service Company's covered-employee payroll	\$ 789,842	\$ 815,655	\$ 790,438
Contributions as a percentage of covered-employee payroll	9.55%	9.55%	9.55%

\* 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, 2017

***Changes of benefit terms.*** The PERA Fund COLA and retirement eligibility benefits changes in recent years are described in Note 1 of the PERA FY15 audit available at [http://www.nmpera.org/assets/uploads/downloads/comprehensive-annual-financial-reports/2016-CAFR\\_12.22.2016\\_FINAL-with-corrections.pdf](http://www.nmpera.org/assets/uploads/downloads/comprehensive-annual-financial-reports/2016-CAFR_12.22.2016_FINAL-with-corrections.pdf)

***Changes of assumptions.*** The Public Employees Retirement Association (PERA) of New Mexico Annual Actuarial Valuation as of June 30, 2016 report is available at <http://s3.amazonaws.com/boardaudio/Final-Version-2016-PERA-GASB-68-Report.pdf>. See the notes to the financial statements on the CAFR pages 74-76 which summarizes actuarial assumptions and methods effective with the June 30, 2016 valuation.

See independent auditors' report.

## **SUPPORTING SCHEDULES**

**STATE OF NEW MEXICO**  
Raton Public Service Company  
Schedule of Deposit Accounts  
June 30, 2017

Schedule III

<u>Bank Name/Account Name</u>	<u>Account Type</u>	<u>Bank Balance</u>	<u>Deposits in Transit</u>	<u>Outstanding Checks</u>	<u>Book Balance</u>
<b>First National Bank</b>					
Gross Income account	Checking	\$ 537,174	\$ 15,974	\$ (19,125)	\$ 534,023
Operation Reserve Fund	Checking	140,225	-	(120)	140,105
Reserve for annual overhaul	Checking	284,776	-	(241)	284,535
Special Acct - mter deposits	Checking	175,121	450	(786)	174,785
Payroll acct	Checking	1,988	-	-	1,988
General fund	Checking	62,066	629	(21,171)	41,524
Debt Service & Bond Res	Checking	298,405	-	(49,715)	248,690
Capital Improvement Fund	Checking	2,355,716	-	(1,963)	2,353,753
Capital Projects insurance proceeds	Checking	227,849	-	(4,676)	223,173
<i>Total First National Bank</i>		<u>4,083,320</u>	<u>17,053</u>	<u>(97,797)</u>	<u>4,002,576</u>
<b>International Bank</b>					
Checking - gross income	Checking	27,886	-	-	27,886
Improvement replacement fund	Checking	20,000	-	-	20,000
Certificate of Deposit	CD	313,146	-	-	313,146
Certificate of Deposit	CD	382,063	-	-	382,063
Certificate of Deposit	CD	141,071	-	-	141,071
Certificate of Deposit	CD	119,177	-	-	119,177
<i>Total International Bank</i>		<u>1,003,343</u>	<u>-</u>	<u>-</u>	<u>1,003,343</u>
<b>New Mexico Finance Authority</b>					
NMFA-Debt Service	Trust	450,093	-	-	450,093
NMFA-Reserve	Trust	734,279	-	-	734,279
<i>Total Wells Fargo Bank</i>		<u>1,184,372</u>	<u>-</u>	<u>-</u>	<u>1,184,372</u>
Petty cash					<u>600</u>
<i>Total deposits</i>		<u>\$ 6,271,035</u>	<u>\$ 17,053</u>	<u>\$ (97,797)</u>	<u>\$ 6,190,891</u>
Deposits and investments per financial statements:					
Cash and cash equivalents - Exhibit A-1					\$ 1,085,469
Restricted cash and cash equivalents:					
Sixty day operation reserve fund-per Exhibit A-1					331,629
Annual overhaul reserve fund-per Exhibit A-1					300,095
Capital improvement and replacement fund-per Exhibit A-1					3,114,540
Customer deposits-per Exhibit A-1					174,786
Debt service and reserve requirements-per Exhibit A-1					<u>1,184,372</u>
<i>Total deposits</i>					<u>\$ 6,190,891</u>

See independent auditors' report.

**STATE OF NEW MEXICO**  
Raton Public Service Company  
Schedule of Collateral Pledged by Depository for Public Funds  
June 30, 2017

Schedule IV

<u>Name of Depository</u>	<u>Description of Pledged Collateral</u>	<u>Maturity</u>	<u>CUSIP Number</u>	<u>Fair Market Value June 30, 2017</u>
<b>First National Bank</b>				
	FHLMC Pool #C91324	8/1/2030	3128P7PH0	\$ 319,412
	ALAMOGORDO NM MUNI SCH DIST #1	8/1/2029	011464KG8	519,545
	LOC3577000227	7/28/2017	NA	4,000,000
	<i>Total First National Bank</i>			<u>4,838,957</u>
	Name and location of safekeeper for above pledged collateral: Federal Home Loan Bank, Dallas, TX			
<b>International Bank</b>				
	Fed Home Loan Bank	12/13/2019	313381DN2	<u>1,275,000</u>
	<i>Total International Bank</i>			<u>1,275,000</u>
	Name and location of safekeeper for above pledged collateral: Bankers Bank of the West, Denver, CO			
	<i>Total Pledged Collateral</i>			<u>\$ 6,113,957</u>

See independent auditors' report.

(This page intentionally left blank.)

## **COMPLIANCE SECTION**



**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**

Wayne A. Johnson  
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 (the Company) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Company's basic financial statements and have issued our report thereon dated December 14, 2017.

**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.

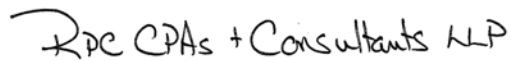


## **Compliance and Other Matters**

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **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.



RPC CPAs + Consultants, LLP  
Albuquerque, NM  
December 14, 2017

**STATE OF NEW MEXICO**  
Raton Public Service Company  
Schedule of Findings and Responses  
June 30, 2017

Schedule V

**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 FINANCIAL STATEMENT FINDINGS**

**NONE NOTED**

**C. CURRENT YEAR SECTION 12-6-5 NMSA FINDINGS**

**NONE NOTED**

**D. PRIOR YEAR AUDIT FINDINGS**

FS CU 2015-001 Missing Purchase Order Requisition Form (Resolved)

NM CU 2016-001 Backdating of Cash Disbursements (Resolved)

NM CU 2016-002 Old Meter Deposits (Resolved)

**STATE OF NEW MEXICO**  
Raton Public Service Company  
Other Disclosures  
June 30, 2017

**OTHER DISCLOSURES**

**Exit Conference**

An exit conference was held on December 13, 2017. In attendance were the following:

**Representing City of Raton and Raton Public Service Company:**

Sandy Mantz	Mayor
Scott Berry	City Manager
Michael Anne Antonucci	Treasurer
Dan Campbell	Raton Water Works, Manager
Geneva Trujillo	Raton Water Works, Office Manager
Allen Litchfield	Raton Water Works, Board Chairman
Sandy Chavez	Raton Public Service General Manager
Kathy McQueary	Raton Public Service Board Chair

**Representing RPC CPAs + Consultants, LLP:**

Ray Roberts, CPA	Partner
------------------	---------

**Auditor Prepared Financial Statements**

RPC CPAs + Consultants, 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.