

Raton Public Service Company

ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2018



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RIGGS &
INGRAM

CPAs and Advisors

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Introductory Section

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Raton Public Service Company
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June 30, 2018

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**Raton Public Service Company
Official Roster
June 30, 2018**

<u>Name</u>	<u>Title</u>
<u>Board of Directors</u>	
Kathy McQueary	President
Frank Ferri	Vice President
David Swanson	Treasurer
Don Giancomo	Commissioner
Monty McGown	RPS Advisory Board Member
Jennifer Portillos	RPS Advisory Board Member
<u>Administrative Officials</u>	
Sandy Chavez	General Manager
Jessica Gonzales	Office Manager/Bookkeeper

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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, 2018, 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.

Emphasis of Matter

Adoption of New Accounting Pronouncement

As described in Note 8 to the financial statements, the Company adopted Government Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which resulted in a cumulative effect of change in accounting principle of (\$990,456) to the June 30, 2017 net position for business-type activities. Our opinions are not modified with respect to this matter.

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, 2018, 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 the Public Employees Retirement Association (PERA) Pension Plan Schedules required by GASB, and the New Mexico Retiree Healthcare (NMRHCA) Plan Schedules required by GASB on pages 48 to 54, to 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; the Schedule of Deposit Accounts and the Schedule of Collateral Pledged by Depository for Public Funds presented as supporting schedules 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.

The Supporting Schedules section required by 2.2.2 NMAC are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, The Supporting Schedules section 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, 2018, 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 solely 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 effectiveness of the Company's 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.

Carr, Riggs & Ingram, L.L.C.

Carr, Riggs & Ingram, LLC
Albuquerque, NM
December 14, 2018

Basic Financial Statements

Raton Public Service Company
Statement of Net Position
June 30, 2018

	Business-Type Activities
Assets	
Current assets	
Cash and cash equivalents	\$ 862,297
Accounts receivable (net)	812,210
Inventory	737,171
Prepaid expense	3,434
Total current assets	2,415,112
Noncurrent assets	
Restricted cash and investments:	
Sixty day operation reserve fund	340,453
Annual overhaul reserve fund	296,479
Capital improvement and replacement fund	2,948,951
Customer deposits	133,089
Debt service and reserve requirements	801,623
Investments	386,175
Capital assets	24,827,266
Less: accumulated depreciation	(10,861,300)
Total noncurrent assets	18,872,736
Total assets	21,287,848
Deferred outflows of resources	
Deferred outflows - pension	296,491
Deferred outflows - other post-employment benefits	16,266
Total deferred outflows of resources	312,757
Total assets and deferred outflows of resources	\$ 21,600,605

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

	Business-Type Activities
Liabilities	
Current liabilities	
Accounts payable	\$ 314,040
Accrued payroll	8,242
Accrued interest	37,929
Meter deposits	133,089
Compensated absences - current	64,775
Loans payable - current	398,501
Total current liabilities	956,576
Noncurrent liabilities	
Compensated absences - noncurrent	142,819
Loans payable - noncurrent	4,086,616
Net pension liability	1,235,302
OPEB Liability	833,828
Total noncurrent liabilities	6,298,565
Total liabilities	7,255,141
Deferred inflows of resources	
Deferred inflows - pension	122,999
Deferred inflows - other post-employment benefits	189,777
Total deferred inflows of resources	312,776
Net position	
Net investment in capital assets	9,480,849
Restricted for:	
Reserve requirements per ordinance	3,585,883
Debt service and reserve requirements	801,623
Customer deposits	133,089
Unrestricted	31,244
Total net position	14,032,688
Total liabilities, deferred inflows of resources, and net position	\$ 21,600,605

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

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Raton Public Service Company
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2018

	Business-Type Activities
Operating revenues	
Residential sales	\$ 3,384,418
Commercial sales	1,378,897
Power sales	1,473,995
Discounts forfeited	89,910
Connection charges	9,483
Total operating revenues	6,336,703
Operating expenses	
Production	4,178,534
Distribution	827,299
Consumer contracts	17,196
Sales promotion	1,881
Administrative and general	570,350
Depreciation expense	471,553
Total operating expenses	6,066,813
Operating income	269,890
Non-operating revenues (expenses)	
Investment income	73,729
Interest expense	(217,543)
Total non-operating revenues (expenses)	(143,814)
Change in net position	126,076
Net position - beginning of year, as originally stated	14,897,068
Net position - restatement (note 10)	(990,456)
Net position - beginning of year, as restated	13,906,612
Net position - end of year	\$ 14,032,688

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

Raton Public Service Company
Statement of Cash Flows
For the Year Ended June 30, 2018

	Business-Type Activities
<hr/>	
Cash flows from operating activities	
Cash received from customers	\$ 6,236,230
Cash paid to suppliers for goods and services	(4,552,354)
Cash paid to employees for services	(883,082)
<hr/>	
Net cash provided by operating activities	800,794
<hr/>	
Cash flows from capital and financing activities	
Acquisition and construction of capital assets	(699,110)
Loan repayments	(379,694)
Interest paid on capital debt	(217,543)
<hr/>	
Net cash (used) by capital and financing activities	(1,296,347)
<hr/>	
Cash flows from noncapital and financing activities	
Reclassification from cash to investments	(386,175)
Investment income	73,729
<hr/>	
Net cash (used) by investing activities	(312,446)
<hr/>	
Net (decrease) in cash and cash equivalents	(807,999)
<hr/>	
Cash and cash equivalents - beginning of year	6,190,891
<hr/>	
Cash and cash equivalents - end of year	\$ 5,382,892
<hr/>	
Reported on the statement of net position as:	
Cash and cash equivalents	\$ 862,297
Restricted cash and cash equivalents:	
Sixty day operation reserve fund	340,453
Annual overhaul reserve fund	296,479
Capital improvement and replacement fund	2,948,951
Customer deposits	133,089
Debt service and reserve requirements	801,623
<hr/>	
Total cash and cash equivalents and restricted cash	\$ 5,382,892
<hr/>	

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

	Business-Type Activities
<hr/>	
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 269,890
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	471,553
Noncash pension expense	69,238
Noncash OPEB expense	33,149
Changes in assets, deferred outflows, and liabilities:	
Increase in accounts receivable	(58,776)
Decrease in inventory	58,331
Decrease in prepaid expenses	4,160
Change in subsequent contributions - pension and OPEB	(16,266)
Decrease in accounts payable	(24,448)
Decrease in compensated absences payable	36,095
Increase in accrued wages payable	(435)
Decrease in meter deposits	(41,697)
<hr/>	
Net cash provided by operating activities	<u>\$ 800,794</u>

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

Raton Public Service Company
Notes to the Financial Statements
June 30, 2018

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, 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.

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.

Raton Public Service Company
Notes to the Financial Statements
June 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, the net pension liability and the related deferred inflows and outflows, the other post-employment benefit liability and the related deferred inflows and outflows, 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.

Raton Public Service Company
Notes to the Financial Statements
June 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Company 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

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.

Postemployment Benefits Other Than Pensions (OPEB). For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the New Mexico Retiree Health Care Authority (NMRHCA) and additions to and deductions from NMRHCA’s fiduciary net position have been determined on the same basis as they are reported by NMRHCA. For this purpose, NMRHCA recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value.

During the year ended June 30, 2018, the Company adopted GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, GASB Statement No. 81 *Irrevocable Split-Interest Agreements*, GASB Statement No. 85 *Omnibus*, and GASB Statement No. 86 *Certain Debt Extinguishment Issues*. These four Statements are required to be implemented as of June 30, 2018, if applicable.

Raton Public Service Company
Notes to the Financial Statements
June 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The statement is intended to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OEPB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regards to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. The provisions of this Statement are effective for fiscal years beginning after June 15, 2017 and have a material effect on the financial statements

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 two types of items that qualify for reporting in this category, all of which arise due to the reporting requirements of GASB 68 and the implementation of GASB 75, and the related net pension liability and net OPEB liability, respectively and are reported on the Statement of Net Position. Accordingly, the items, deferred outflows - pension of \$296,491, and deferred outflows - other post-employment benefits of \$16,266 are deferred and recognized as a direct reduction of the net pension liability. These are reported in the Statement of Net Position. See notes 7 and 8 for additional information.

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 two types of items considered to be deferred inflows of resources, all of which arise due to the reporting requirements of GASB 68 and the implementation of GASB 75, and the related net pension liability and net OPEB liability, respectively and 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 \$122,999 for deferred inflows related to pension and \$189,777 for deferred inflows related to other post-employment benefits (OPEB). See note 8 for additional information. See notes 7 and 8 for additional information.

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.

Raton Public Service Company
Notes to the Financial Statements
June 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Unrestricted Net Position – represents the excess of total assets over total liabilities and net position invested in capital assets at June 30, 2018. These are amounts not restricted for any purpose.

Long-term Obligations: In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable business-type activities. Debt issuance costs are expensed as incurred.

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, 2018.

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.

Raton Public Service Company
Notes to the Financial Statements
June 30, 2018

NOTE 2: CASH AND INVESTMENTS (Continued)

All of the Company's accounts are located at 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, 2018, \$4,388,492 of the Company's bank balance of \$4,938,938 was exposed to custodial credit risk. \$220,808 of the Company's cash balance was uninsured and uncollateralized as of June 30, 2018.

	First National Bank	International Bank	Total
Deposits	\$ 3,921,789	\$ 1,017,149	\$ 4,938,938
FDIC coverage	(250,000)	(300,446)	(550,446)
Total uninsured public funds	3,671,789	716,703	4,388,492
Collateralized by securities held by pledging institutions or by its trust department or agent in other than the company's name	3,671,789	495,895	4,167,684
Uninsured and uncollateralized	\$ -	\$ 220,808	\$ 220,808
Collateral requirement - deposits (50% of uninsured funds)	\$ 1,835,895	\$ 358,352	\$ 2,194,247
Pledged collateral	4,400,000	495,895	4,895,895
Over (Under) collateralized	\$ 2,564,105	\$ 137,543	\$ 2,701,648

The collateral pledged is listed on page 58 of this report. The types of collateral are limited to direct obligations of the United States Government and bonds issued by an agency, Company, 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 AA+ or above rating by Standard & Poor at June 30, 2018 and a weighted average maturity of less than 365 days.

Raton Public Service Company
Notes to the Financial Statements
June 30, 2018

NOTE 2: CASH AND INVESTMENTS (Continued)

Reconciliation of Cash and Cash Equivalents

Cash and cash equivalents per Statement of Net Position	\$	862,297
Restricted cash and cash equivalents:		
Sixty day operation reserve fund-per Statement of Net Position		340,453
Annual overhaul reserve fund-per Statement of Net Position		296,479
Capital improvement and replacement fund-per Statement of Net Position		2,948,951
Customer deposits-per Statement of Net Position		133,089
Debt service and reserve requirements-per Statement of Net Position		801,623
Investments-per Statement of Net Position		386,175
<hr/>		
Total cash and cash equivalents		5,769,067
<hr/>		
Add: outstanding checks		398,081
Less: deposits in transit		(23,154)
Less: New Mexico Finance Authority cash and investments		(1,204,456)
Less: petty cash		(600)
<hr/>		
Bank balance of deposits	\$	4,938,938
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Investments

The Company has investments which are considered restricted held in U.S. Treasury Money Market Mutual Funds at the Bank of Albuquerque in connection with New Mexico Finance Authority (NMFA) loans.

As of June 30, 2018, the Company had the following restricted investments and maturities:

Investment Type	Weighted Average Maturities (F)	Fair Value	Rating**
U.S. Treasury Money Market Mutual Fund	<1 year	\$ 386,175	AA+
Investments per Statement of Net Position		\$ 386,175	

** Based on Standard & Poor's rating

Raton Public Service Company
Notes to the Financial Statements
June 30, 2018

NOTE 2: CASH AND INVESTMENTS (Continued)

The investments are listed on the Schedule of Deposits and Investments of this report. The types of investment, interest rate, maturity date and fair value per security are included in the schedule.

Interest Rate Risk – Investments. The Company does not have a formal policy limiting investment maturities that would help manage its exposure to fair value losses from increasing interest rates.

Concentration Credit Risk – Investments. For an investment, concentration credit risk is when any one issuer is 5% or more of the investment portfolio of the Company. Since the Company only purchases investment with high credit ratings, the additional concentration is not viewed to be an additional risk by the Company. The Company's policy related to concentration credit risk is to comply with the state statute as put forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978).

Fair Value Measurements

The fair value framework uses a hierarchy that prioritizes the inputs to the valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability,
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Raton Public Service Company
Notes to the Financial Statements
June 30, 2018

NOTE 2: CASH AND INVESTMENTS (Continued)

Fair Value Measurements (Continued)

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. See above for discussion of valuation methodologies used to measure fair value of investments.

U.S. Treasury Money Market Mutual Funds are valued at the daily closing price as reported by the fund. These investments held by the Company are open-end funds that are registered with the SEC. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Company are deemed to be actively traded.

The valuation methodologies described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The Company maintained a balance of \$386,175 in restricted investments in *U.S. Treasury Money Market Mutual Funds* at June 30, 2018 which required fair value disclosure. The Company's certificates of deposit investments are not subject to fair value disclosure.

The following table sets forth by level within the fair value hierarchy of the Company's assets at fair value as of June 30, 2018:

Investment Type	June 30, 2018			
	Level 1	Level 2	Level 3	Total
U.S. Treasury Money Market Mutual Fund	\$ 386,175	\$ -	\$ -	\$ 386,175
Total Investments	\$ 386,175	\$ -	\$ -	\$ 386,175

Raton Public Service Company
Notes to the Financial Statements
June 30, 2018

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	\$	952,614
Raton Water Works		3,798
Allowance for doubtful accounts		(144,202)
Accounts receivable	\$	812,210

NOTE 4: CAPITAL ASSETS

A summary of changes in capital assets for fiscal year ending June 30, 2018 is as follows.

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018
Capital assets, not being depreciated				
Construction in Progress	\$ 6,094,820	\$ 593,069	\$ (6,687,889)	\$ -
Total capital assets not being depreciated	6,094,820	593,069	(6,687,889)	-
Capital assets, being depreciated				
Buildings and improvements	16,922,084	6,743,243	-	23,665,327
Vehicles and equipment	1,132,721	50,687	(21,469)	1,161,939
Total capital assets being depreciated	18,054,805	6,793,930	(21,469)	24,827,266
Less accumulated depreciation				
Buildings and improvements	(9,573,436)	(419,884)	-	(9,993,320)
Vehicles and equipment	(837,780)	(51,669)	21,469	(867,980)
Total accumulated depreciation	(10,411,216)	(471,553)	21,469	(10,861,300)
Total capital assets being depreciated, net	\$ 13,738,409	\$ 6,322,377	\$ -	\$ 13,965,966

Depreciation expense for capital assets for the fiscal year ended June 30, 2018 was \$471,553.

Raton Public Service Company
Notes to the Financial Statements
June 30, 2018

NOTE 5: LONG-TERM DEBT

During the year ended June 30, 2018, the following changes occurred in the liabilities reported in the Statement of Net Position:

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018	Due Within One Year
Loans payable	\$ 4,864,811	\$ -	\$ (379,694)	\$ 4,485,117	\$ 398,501
Compensated absences	171,499	100,870	(64,775)	207,594	64,775
Total	\$ 5,036,310	\$ 100,870	\$ (444,469)	\$ 4,692,711	\$ 463,276

Loans outstanding for the Company at June 30, 2018 consisted of the following loans which are secured by the net revenues of electric utility.

Description	Date of Issue	Maturity Date	Interest Rate	Original Amount of Issue	Balance June 30, 2018
NMFA-Backup generator	04/05/02	05/01/21	4.08%-4.86%	\$ 2,693,610	\$ 436,315
NMFA-Electric utility substation	10/16/09	05/01/29	1.65%-4.95%	1,122,725	787,834
NMFA-Electric Utility Wartsila and Burro Canon Lines	10/16/09	05/01/29	1.65%-4.95%	4,619,684	3,260,968
Total					\$ 4,485,117

The annual requirements to amortize loans payable for the Company as of June 30, 2018 including interest payments are as follows:

Fiscal Year Ending June 30,	Business-type activities		
	Principal	Interest	Total Debt Service
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	388,319	143,854	532,173
2024-2028	2,214,641	446,224	2,660,865
2029	507,376	24,796	532,172
	\$ 4,485,117	\$ 1,319,432	\$ 5,804,549

Compensated absences: Employees of the Company are able to accrue a limited amount of vacation and other compensatory time during the year. During the fiscal year June 30, 2018, compensated absences increased \$36,095 from the prior year actual.

Raton Public Service Company
Notes to the Financial Statements
June 30, 2018

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 Company's worker's compensation claims. Through this arrangement, the Company 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, 2017 available at <http://www.nmpera.org/assets/uploads/downloads/comprehensive-annual-financial-reports/CAFR-2017-Final.pdf>.

Raton Public Service Company
Notes to the Financial Statements
June 30, 2018

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 page 40 of the PERA FY17 annual audit report at <http://www.nmpera.org/assets/uploads/downloads/comprehensive-annual-financial-reports/CAFR-2017-Final.pdf>. The PERA coverage option that applies to Raton Public Service is: Municipal General Division. Statutorily required contributions to the pension plan from the Raton Public Service were \$75,430 and there were no employer paid member benefits that were “picked up” by the employer for the year ended June 30, 2018.

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, 2016. The PERA pension liability amounts for each division were rolled forward from the valuation date to the Plan year ending June 30, 2017, using generally accepted actuarial principles. Therefore, the employer’s portion was established as of the measurement date June 30, 2017.

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, 2017. Only employer contributions for the pay period end dates that fell within the period of July 1, 2016 to June 30, 2017 were included in the total contributions for a specific employer. Regular and any adjustment contributions that applied to FY 2017 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.

Raton Public Service Company
Notes to the Financial Statements
June 30, 2018

NOTE 7: PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) PENSION PLAN (Continued)

For PERA Fund Municipal General Division, at June 30, 2018, Raton Public Service reported a liability of \$1,235,302 for its proportionate share of the net pension liability. At June 30, 2017, Raton Public Service's proportion was 0.0899 percent, which was a decrease of 0.0054 percent from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, Raton Public Service recognized PERA Fund Municipal General Division pension expense of \$144,644. At June 30, 2018, 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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ 56,966	\$ 12,765
Net difference between projected and actual earnings on pension plan investments	101,349	-
Changes in experience	48,539	63,269
Changes in proportion	14,207	46,965
Raton Public Service Company's contributions subsequent to the measurement date	75,430	-
Total	\$ 296,491	\$ 122,999

\$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, 2017 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:		
2018	\$	(30,204)
2019		(94,856)
2020		(2,621)
2021		29,619
Thereafter		-

Raton Public Service Company
Notes to the Financial Statements
June 30, 2018

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, 2016 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, 2017 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, 2017. These actuarial methods and assumptions were adopted by the PERA's Board of Trustees for use in the June 30, 2016, actuarial valuation.

Actuarial valuation date	June 30, 2016
Actuarial cost method	Entry Age Normal
Amortization method	Level Percentage of Pay
Amortization period	Solved for based on statutory rates
Asset valuation method	4 Year smoothed Market Value
Actuarial assumptions:	
Investment rate of return	7.51% annual rate, net of investment expense
Projected benefit payment	100 years
Payroll growth	2.75% for the first 9 years, then 3.25% annual rate
Projected salary increases	2.75% to 14.00% annual rate
Includes inflation at	2.25% annual rate first 9 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 30, 2016 (economic)

Raton Public Service Company
Notes to the Financial Statements
June 30, 2018

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 7.51 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 7.51% 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 (6.51%) or one percentage point higher (8.51%) than the single discount rate.

PERA Fund Municipal General Division	1% Decrease (6.51%)	Current Discount Rate (7.51%)	1% Increase (8.51%)
Raton Public Service Company's proportionate share of the net pension liability	\$ 1,936,122	\$ 1,235,302	\$ 652,470

Raton Public Service Company
Notes to the Financial Statements
June 30, 2018

NOTE 7: PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) PENSION PLAN (Continued)

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued FY17 PERA financial report. The report is available at <http://www.pera.state.nm.us/publications.html>.

Payables to the pension plan. At June 30, 2018 there were no contributions due and payable to PERA for the Company.

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

General Information about the OPEB

Plan description. Employees of the Company are provided with OPEB through the Retiree Health Care Fund (the Fund)—a cost-sharing multiple-employer defined benefit OPEB plan administered by the New Mexico Retiree Health Care Authority (NMRHCA). NMRHCA was formed February 13, 1990, under the New Mexico Retiree Health Care Act (the Act) of New Mexico Statutes Annotated, as amended (NMSA 1978), to administer the Fund under Section 10-7C-1-19 NMSA 1978. The Fund was created to provide comprehensive group health insurance coverage for individuals (and their spouses, dependents and surviving spouses) who have retired or will retire from public service in New Mexico.

NMRHCA is an independent agency of the State of New Mexico. The funds administered by NMRHCA are considered part of the State of New Mexico financial reporting entity and are OPEB trust funds of the State of New Mexico. NMRHCA's financial information is included with the financial presentation of the State of New Mexico.

Benefits provided. The Fund is a multiple employer cost sharing defined benefit healthcare plan that provides eligible retirees (including terminated employees who have accumulated benefits but are not yet receiving them), their spouses, dependents and surviving spouses and dependents with health insurance and prescription drug benefits consisting of a plan, or optional plans of benefits, that can be contributions to the Fund and by co-payments or out-of-pocket payments of eligible retirees.

Raton Public Service Company
Notes to the Financial Statements
June 30, 2018

NOTE 8: OTHER POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN (Continued)

Employees covered by benefit terms – At June 30, 2017, the Fund’s measurement date, the following employees were covered by the benefit terms:

Plan Membership	
Current retirees and surviving spouses	51,208
Inactive and eligible for deferred benefit	11,478
Current active members	97,349
	160,035
<hr/>	
Active membership	
State general	19,593
State police and corrections	1,886
Municipal general	21,004
Municipal police	3,820
Municipal FTRE	2,290
Educational Retirement Board	48,756
	97,349

Contributions – Employer and employee contributions to the Fund total 3% for non-enhanced retirement plans and 3.75% of enhanced retirement plans of each participating employee’s salary as required by Section 10-7C-15 NMSA 1978. The contributions are established by statute and are not based on an actuarial calculation. All employer and employee contributions are non-refundable under any circumstance, including termination of the employer’s participation in the Fund. Contributions to the Fund from the Company were \$16,266 for the year ended June 30, 2018.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the Company reported a liability of \$833,828 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Company’s proportion of the net OPEB liability was based on actual contributions provided to the Fund for the year ending June 30, 2018. At June 30, 2018, the Company’s proportion was 0.01840 percent.

Raton Public Service Company
Notes to the Financial Statements
June 30, 2018

NOTE 8: OTHER POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN (Continued)

For the year ended June 30, 2018, the recognized OPEB expense of \$33,149. At June 30, 2018 the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ -	\$ 145,784
Net difference between projected and actual earnings on pension plan investments	-	11,995
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Company's contributions subsequent to the measurement date	16,266	-
Difference between expected and actual experience	-	31,998
Total	\$ 16,266	\$ 189,777

Deferred outflows of resources totaling \$16,266 represent the Company's contributions to the Fund made subsequent to the measurement date and will be recognized as a reduction of net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ended June 30:	
2019	\$ (40,348)
2020	(40,348)
2021	(40,348)
2022	(40,348)
2023	(28,385)
Total	\$ (189,777)

Raton Public Service Company
Notes to the Financial Statements
June 30, 2018

NOTE 8: OTHER POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN (Continued)

Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation using the following actuarial assumptions:

Actuarial valuation date	June 30, 2017
Actuarial cost method	Entry age normal, level percent of pay, calculated on individual employee basis
Asset valuation method	Market value of assets
Actuarial assumptions:	
Inflation	2.50% for ERB; 2.25% for PERA
Projected payroll increases	3.50%
Investment rate of return	7.25%, net of OPEB plan investment expense and margin for adverse deviation including inflation
Health care cost trend rate	8% graded down to 4.5% over 14 years for Non-Medicare medical plan costs and 7.5% graded down to 4.5% over 12 for Medicare medical plan costs

Rate of Return. The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which the expected future real rates of return (net of investment fees and inflation) are developed for each major asset class. These returns 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, adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumptions.

The best estimates for the long-term expected rate of return is summarized as follows:

<u>Asset Class</u>	<u>Long-Term Rate of Return</u>
U.S. core fixed income	4.1%
U.S. equity - large cap	9.1
Non U.S. - emerging markets	12.2
Non U.S. - developed equities	9.8
Private equity	13.8
Credit and structured finance	7.3
Real estate	6.9
Absolute return	6.1
U.S. equity - small/mid cap	9.1

Raton Public Service Company
Notes to the Financial Statements
June 30, 2018

NOTE 8: OTHER POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN (Continued)

Discount Rate. The discount rate used to measure the Fund’s total OPEB liability is 3.81% as of June 30, 2017. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at rates proportional to the actuary determined contribution rates. For this purpose, employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries are not included. Based on those assumptions, the Fund's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members through the fiscal year ending June 30, 2028. Thus, the 7.25% discount rate was used to calculate the net OPEB liability through 2029. Beyond 2029, the index rate for 20-year, tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher. Thus, 3.81% is the blended discount rate.

Sensitivity of the net OPEB liability to changes in the discount rate and healthcare cost trend rates. The following presents the net OPEB liability of the Company, as well as what the Company’s net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.81 percent) or 1-percentage-point higher (4.81 percent) than the current discount rate:

1% Decrease (2.81%)	Current Discount Rate (3.81%)	1% Increase (4.81%)
\$ 1,011,420	\$ 833,828	\$ 694,491

The following presents the net OPEB liability of the Company, as well as what the Company’s net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

1% Decrease	Current Trend Rates	1% Increase
\$ 709,228	\$ 833,828	\$ 930,985

OPEB plan fiduciary net position. Detailed information about the OPEB plan’s fiduciary net position is available in NMRHCA’s audited financial statements for the year ended June 30, 2017.

Payable Changes in the Net OPEB Liability. At June 30, 2018, the Company reported no payables outstanding due to NMRHCA for the year ended June 30, 2018.

Raton Public Service Company
Notes to the Financial Statements
June 30, 2018

NOTE 9: CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Company expects such amount, if any, to be immaterial.

The Company is involved in various claims and lawsuits arising in the normal course of business. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the Company's legal counsel that resolution of these matters will not have a material adverse effect on the financial condition of the Company.

NOTE 10: RESTATEMENT OF NET POSITION

The Company had a prior period adjustment of (\$990,456) which was required for implementation of GASB Statement No. 75. The adjustment reflects a beginning other post-employment benefit liability of (\$1,006,253) and a beginning deferred outflow of resources –employer contributions subsequent to the measurement date of \$15,797.

NOTE 11: SUBSEQUENT PRONOUNCEMENTS

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 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.

In April 2018, GASB Statement No. 88 *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* 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.

Raton Public Service Company
Notes to the Financial Statements
June 30, 2018

NOTE 11: SUBSEQUENT PRONOUNCEMENTS (Continued)

In June 2018, GASB Statement No. 89 *Accounting for Interest Cost Incurred before the End of a Construction Period* 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.

In June 2018, GASB Statement No. 90 *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*) 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.

NOTE 12: RESTRICTED NET POSITION

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

The calculation of the restricted funds in comparison with actual amounts as of June 30, 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.

Raton Public Service Company
Notes to the Financial Statements
June 30, 2018

NOTE 12: RESTRICTED NET POSITION (Continued)

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

Calculation of cash revenues for reserve balances:	
2017 operating revenue on an accrual basis	\$ 6,261,557
Adjustments	
Change in accounts receivable	116,360
Change in allowance for doubtful accounts	(11,529)
Change in meter deposits	3,476
Total 2017 gross annual revenue adjusted to cash basis	\$ 6,361,530
Calculation of cash expenses for reserve balances:	
2017 operating expense on an accrual basis	\$ 5,987,811
Adjustments	
Noncash expenses	(487,385)
Nonoperating expenses	227,167
Change in accounts payable	(8,370)
Change in prepaid expenses	45,322
Change in inventory	(25,540)
Change in accrued payroll	564
Change in compensated absences	(46,166)
Change in deferred inflows	(8,334)
Change in deferred outflows	(441,994)
Total 2017 gross annual expenses adjusted to cash basis	\$ 5,243,075
Less fuel, purchased power, and energy capacity	(3,747,465)
Adjusted 2017 gross annual expenses for	
60-day operation reserve calculation	\$ 1,495,610

Raton Public Service Company
Notes to the Financial Statements
June 30, 2018

NOTE 12: RESTRICTED NET POSITION (Continued)

60- Day Operation Reserve Fund

60-day average of the preceding year's cash expenses (exclusive of fuel, purchase power, and energy capacity)	\$ 1,495,610
Divided by days per year	360
Average per day	4,154
Times 60 days	60
60-Day operating maximum required reserve	\$ 249,268
Beginning reserve balance	\$ 331,629
Allowable deposits and interest income	-
2017 cash transfers out	8,824
Ending reserve balance	\$ 340,453

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	\$ 300,095
Interest income	-
2017 cash transfers	(3,616)
Ending reserve balance	\$ 296,479
Maximum balance	
2016 annual gross revenues	\$ 6,361,530
Maximum reserve balance (4.5% of 2016 annual gross revenue)	\$ 286,269
Allowable deposits (2.5% of annual gross revenues)	\$ 159,038

Raton Public Service Company
Notes to the Financial Statements
June 30, 2018

NOTE 12: RESTRICTED NET POSITION (Continued)

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	\$ 3,114,540
Cash transfers	325,655
2017 cash outlay	(491,244)
Ending reserve balance	<u>\$ 2,948,951</u>
Maximum balance	
2016 gross annual revenues	\$ 6,361,530
Multiplied times 2	2
Maximum reserve balance	<u>\$ 12,723,060</u>

	Reserve Analysis		
	Actual Cash Balance at June 30, 2017	Maximum Required Balance at June 30, 2017	Over (Under) Maximum
60-day operating reserve fund	\$ 340,453	\$ 249,268	\$ 91,185
Annual overhaul reserve fund	296,479	286,269	10,210
Capital improvements and replacement fund	2,948,951	12,723,060	(9,774,109)
Total	\$ 3,585,883	\$ 13,258,597	\$ (9,672,714)

In addition, the Company has amounts restricted for debt service and reserve requirements pursuant to loan agreements with the New Mexico Finance Authority, and customer deposits which total \$1,187,798 and \$133,089, respectively, at June 30, 2018.

NOTE 13: TAX ABATEMENTS

The Company had no tax abatements requiring separate disclosure under GASB Statement No. 77.



**Raton Public Service Company
Notes to the Financial Statements
June 30, 2018**

NOTE 14: 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, 2018, which is the date on which the financial statements were available to be issued. No events were noted for disclosure.

Required Supplementary Information

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*

	2018	2017
	Measurement	Measurement
	Date	Date
	(As of and for	(As of and for
	the Year Ended	the Year Ended
	June 30, 2017)	June 30, 2016)
Raton Public Service Company's proportion of the net pension liability	0.0899%	0.0953%
Raton Pubic Service Company's proportionate share of the net pension liability	\$ 1,235,302	\$ 1,522,574
Raton Public Service Company's covered payroll	\$ 789,842	\$ 815,655
Raton Public Service Company's proportionate share of the net pension liability as a percentage of its covered payroll	156.40%	186.67%
Plan fiduciary net position as a percentage of the total pension liability	73.74%	69.18%

* 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.

2016	2015
Measurement	Measurement
Date	Date
(As of and for	(As of and for
the Year Ended	the Year Ended
June 30, 2015)	June 30, 2014)
0.0955%	0.0910%
\$ 976,705	\$ 709,898
\$ 790,438	\$ 738,601
123.57%	96.11%
76.99%	81.29%

*See independent auditors' report.
See notes to required supplementary information.*

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

	As of and for the Year Ended June 30, 2018	As of and for the Year Ended June 30, 2017
Contractually required contributions	\$ 75,430	\$ 75,430
Contributions in relation to the contractually required contribution	(75,430)	(75,430)
Contribution deficiency (excess)	\$ -	\$ -
Raton Public Service Company's covered-employee payroll	\$ 823,556	\$ 789,842
Contributions as a percentage of covered-employee payroll	9.16%	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.*

As of and for the Year Ended June 30, 2016	As of and for the Year Ended June 30, 2015
\$ 77,895	\$ 75,487
<u>(77,895)</u>	<u>(75,487)</u>
<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
\$ 815,655	\$ 790,438
9.55%	9.55%

*See independent auditors' report.
See notes to required supplementary information.*

Raton Public Service Company
Schedule of Employer's Proportionate Share of the Net OPEB Liability of New
Mexico Retiree Health Care Act Plan
New Mexico Retiree Health Care Authority (NMRHCA) Plan
Last 10 Fiscal Years*

		2018
		Measurement
		Date
		(As of and for
		the Year Ended
		June 30, 2017)
Raton Public Service Company's proportion of the net OPEB liability		0.01840%
Raton Public Service Company's proportionate share of the net OPEB liability	\$	833,828
Raton Public Service Company's covered-employee payroll	\$	789,842
Raton Public Service Company's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll		105.57%
Plan fiduciary net position as a percentage of the total OPEB liability		11.34%

* 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.

**Raton Public Service Company
Schedule of Employer Contributions
New Mexico Retiree Health Care Authority (NMRHCA) Plan
Last 10 Fiscal Years***

		As of and for the Year Ended June 30, 2018
Contractually required contributions	\$	16,266
Contributions in relation to the contractually required contribution		(16,266)
Contribution deficiency (excess)	\$	-
Raton Public Service Company's covered-employee payroll	\$	789,842
Contributions as a percentage of covered-employee payroll		2.00%

* 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.*

Raton Public Service Company
Notes to Required Supplementary Information
June 30, 2018

Public Employees Retirement Association (PERA) Plan

Changes of benefit terms. The PERA Fund COLA and retirement eligibility benefits changes in recent years are described in Note 1 of the PERA FY17 CAFR available at <https://www.saonm.org>

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://www.nmpera.org/>

Retiree Health Care Authority (RHCA) Plan

Changes of benefit terms. The NMRHCA eligibility benefits changes in recent years are described in Note 1 of the NMRHC FY17 audit available at http://nmrhca.org/uploads/FileLinks/5fccea70107e4b9fa9b1a47723691d2a/NM_RHCA_Audited_FS_6.30.17.pdf.

Changes of assumptions. The New Mexico Retiree Healthcare Authority (NMRHCA) Actuarial Valuation as of June 30, 2017 report is available at http://nmrhca.org/uploads/FileLinks/5fccea70107e4b9fa9b1a47723691d2a/NMRHCA_5507316_Final_per_Auditor_update_Final_Report_11.21.17.pdf. See the notes to the financial statements beginning on page 24 which summarizes actuarial assumptions and methods effective with the June 30, 2017 valuation.

See independent auditors' report.

Supporting Schedules

Raton Public Service Company
Schedule of Deposit Accounts
June 30, 2018

Bank Name/Account Name	Account Type	Bank Balance	Deposits in Transit
First National Bank			
Gross Income account	Checking	\$ 554,398	\$ -
Operation Reserve Fund	Checking	149,148	-
Reserve for annual overhaul	Checking	281,332	-
Special Acct - mter deposits	Checking	157,124	525
Payroll acct	Checking	1,378	-
General fund	Checking	271,982	22,629
Debt Service & Bond Res	Checking	299,421	-
Capital Improvement Fund	Checking	2,207,006	-
Total First National Bank		3,921,789	23,154
International Bank			
Checking - gross income	Checking	30,446	-
Improvement replacement fund	Checking	20,000	-
Certificate of Deposit	CD	316,508	-
Certificate of Deposit	CD	386,733	-
Certificate of Deposit	CD	142,796	-
Certificate of Deposit	CD	120,666	-
Total International Bank		1,017,149	-
New Mexico Finance Authority			
NMFA-Debt Service	Trust	474,579	-
NMFA-Reserve	Trust	729,877	-
Total Wells Fargo Bank		1,204,456	-
Petty cash		-	-
Total deposits		\$ 6,143,394	\$ 23,154

Deposits and investments per financial statements:

Cash and cash equivalents - Statement of Net Position

Restricted cash and cash equivalents:

Sixty day operation reserve fund-per Statement of Net Position

Annual overhaul reserve fund-per Statement of Net Position

Capital improvement and replacement fund-per Statement of Net Position

Customer deposits-per Statement of Net Position

Debt service and reserve requirements-per Statement of Net Position

Investments-per Statement of Net Position

Total deposits

See independent auditors' report.

Outstanding Checks	Book Balance
\$ (24,568)	\$ 529,830
(219)	148,929
(413)	280,919
(24,560)	133,089
-	1,378
(268,501)	26,110
(50,253)	249,168
(12,909)	2,194,097
<u>(381,423)</u>	<u>3,563,520</u>
-	30,446
-	20,000
-	316,508
-	386,733
-	142,796
-	120,666
<u>-</u>	<u>1,017,149</u>
(16,658)	457,921
-	729,877
<u>(16,658)</u>	<u>1,187,798</u>
-	600
<u>\$ (398,081)</u>	<u>\$ 5,769,067</u>
	\$ 862,297
	340,453
	296,479
	2,948,951
	133,089
	801,623
	386,175
	<u>\$ 5,769,067</u>

See independent auditors' report.

Raton Public Service Company
Schedule of Collateral Pledged by Depository for Public Funds
June 30, 2018

Name of Depository	Description of Pledged Collateral	Maturity	CUSIP Number	Fair Market Value June 30, 2018
First National Bank				
	LOC3577000262	7/27/2018	NA	\$ 4,400,000
Total First National Bank				4,400,000
Name and location of safekeeper for above pledged collateral: Federal Home Loan Bank, Dallas, TX				
International Bank				
	Fed Home Loan Bank	12/13/2019	313381DN2	495,895
Total International Bank				495,895
Name and location of safekeeper for above pledged collateral: Bankers Bank of the West, Denver, CO				
Total Pledged Collateral				\$ 4,895,895

See independent auditors' report.

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, 2018, 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, 2018.

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 first paragraph of this section 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 weakness. 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*.

We noted matters that are required to be reported per section 12-6-5 NMSA 1978 that we have described in the accompanying schedule of Section 12-6-5 NMSA 1978 Findings as items NM 2018-001 and NM 2018-002.

Raton Public Service Company's Responses to Findings


Raton Public Service Company's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. Raton Public Service Company's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Carr, Riggs & Ingram, L.L.C.

Carr, Riggs & Ingram, LLC
Albuquerque, NM
December 14, 2018



**Raton Public Service Company
Schedule of Findings and Responses
June 30, 2018**

SECTION I – 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 |

SECTION II – FINANCIAL STATEMENT FINDINGS

None noted.

Raton Public Service Company
Schedule of Findings and Responses
June 30, 2018

SECTION III – SECTION 12-6-5 NMSA 1978 FINDINGS

NM 2018-001 – Placing of Construction in Progress into Service (Finding that does not rise to the level of significant deficiency)

Condition: The Company classified completed construction projects as non-depreciable construction in progress instead of buildings and improvements. This resulted in an adjustment to depreciation expense and accumulated depreciation of \$9,748.

Criteria: Generally Accepted Accounting Principles (GAAP) state that capital assets must be depreciated over the asset's useful life, starting with the date the asset was placed into service.

Effect: The capital asset rollforward did not reflect the completed project in buildings and equipment and depreciation was understated.

Cause: The Company did not transfer completed projects out of construction in progress of the power plant upon completion. The Company was expecting to capitalize the recently completed power plant until the Department of Finance and Administration (DFA) authorized the removal of the old power plant, rather than upon completion of the project.

Auditors' Recommendations: The Company should adjust its capital asset records to reflect the correct in-service date. Additionally, the Company should carefully review the completion dates of projects and treat each asset individually, to ensure that completed projects are placed in service as capital assets on the correct date.

Agency Response: RPS will update our capital asset records to reflect the date the Construction in Progress Project was completed and put into service. Going forward we will ensure that completed projects are recorded as capital assets on the date they are placed in service.

**Raton Public Service Company
Schedule of Findings and Responses
June 30, 2018**

SECTION III – SECTION 12-6-5 NMSA 1978 FINDINGS (Continued)

NM 2018-002 — Certified Procurement Officer’s (CPO) Involvement in the Company’s Purchases (Other Non-Compliance)

Condition: The Company’s CPO doesn’t have involvement in the daily small purchases (those below the \$60,000 competitive procurement threshold).

Criteria: NMAC 1.4.1(D) States the duties of the Chief Procurement Officer as the following:

“Chief procurement officer duties, responsibilities and obligations. On and after July 1, 2015, only certified chief procurement officers may:

- (1) make determinations, including determinations regarding exemptions, pursuant to the Procurement Code;
- (2) issue purchase orders and authorize small purchases pursuant to the Procurement Code; and
- (3) approve procurement pursuant to the Procurement Code;
- (4) provided that, persons using procurement cards may continue to issue purchase orders and authorize small purchases.”

Effect: The Company is not in compliance with regulations by the State of New Mexico pertaining to the involvement of the CPO in small purchases.

Cause: The Company’s purchases, other than those performed through competitive procurement, has a process separate from the City of Raton, whose CPO the Company uses.

Auditors’ Recommendations: The Company should have a certified Chief Procurement Officer separate from the City of Raton to oversee purchases that fall below the competitive bid threshold and day to day purchases.

Agency’s Response: RPS has scheduled CPO training for its Office Manager/Bookkeeper, Jessica Gonzales, in February 2019 in Albuquerque through NM Edge. She will assume the responsibilities of CPO for RPS thus keeping us in compliance with NMAC 1.4.1(D) by separating this process from the City of Raton.

SECTION IV – PRIOR YEAR AUDIT FINDINGS

None noted.

**Raton Public Service Company
Other Disclosures
June 30, 2018**

EXIT CONFERENCE

An exit conference was held on December 13, 2018. In attendance were the following:

Representing City of Raton and Raton Public Service Company:

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

Representing Carr, Riggs & Ingram, LLC:

Ray Roberts, CPA	Partner
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AUDITOR PREPARED FINANCIAL STATEMENTS

Carr, Riggs & Ingram, LLC 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.