

Eddy-Lea Energy Alliance, LLC

Financial Statements

June 30, 2017



AXIOM

*Certified Public Accountants
and Business Advisors LLC*

EDDY-LEA ENERGY ALLIANCE, LLC

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EDDY-LEA ENERGY ALLIANCE, LLC

Official Roster

June 30, 2017

Board Members

John Heaton, Chair

Sam Cobb, Vice Chair

Susan Crockett, Secretary

Johnny Cope, Treasurer

INDEPENDENT AUDITOR'S REPORT

Mr. Wayne Johnson
New Mexico State Auditor
and
Board of Directors
Eddy Lea Energy Alliance, LLC

Report on the Financial Statements

We have audited the accompanying financial statements of Eddy Lea Energy Alliance, LLC ("Alliance"), as of and for the year ended June 30, 2017 and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Alliance as of June 30, 2017, and the results of its operations and cash flows 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 Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires 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 financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 15, 2017, on our consideration of the Alliance'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 internal control over financial reporting or on compliance.



Albuquerque, New Mexico
December 15, 2017

EDDY-LEA ENERGY ALLIANCE, LLC
Statement of Net Position
June 30, 2017

ASSETS

Current assets	
Cash and cash equivalents	\$ <u>96,071</u>
Total current assets	<u>96,071</u>
Noncurrent assets	
Land held for sale	<u>1,010,440</u>
Total noncurrent assets	<u>1,010,440</u>
Total assets	\$ <u><u>1,106,511</u></u>

LIABILITIES AND NET POSITION

Liabilities	
Accounts payable	\$ <u>-</u>
Total liabilities	<u>-</u>
Net Position	
Restricted	-
Unrestricted	<u>1,106,511</u>
Total net position	<u>1,106,511</u>
Total liabilities and net position	\$ <u><u>1,106,511</u></u>

See Notes to Financial Statements.

EDDY-LEA ENERGY ALLIANCE, LLC
Statement of Revenue, Expenses, and Changes in Net Position
For the Year Ended June 30, 2017

Operating revenue	
Rental income	\$ 16,850
Grant revenue	43,049
Miscellaneous revenue	298
Operating revenue	<u>60,197</u>
Operating cost and expenses	
Legal and accounting	15,796
Insurance	2,676
Legal publications	615
Total expenses	<u>19,087</u>
Operating Income	41,110
Net position at beginning of year	<u>1,065,401</u>
Net position at end of year	<u><u>\$ 1,106,511</u></u>

See Notes to Financial Statements.

EDDY-LEA ENERGY ALLIANCE, LLC
Statement of Cash Flows
For the Year Ended June 30, 2017

Cash Flows from Operating Activities

Cash received from user charges	\$ 60,197
Cash payments to suppliers	<u>(23,587)</u>
Net cash provided by operating activities	<u>36,610</u>

Cash Flows from Investing Activities

Cash received from Members	<u>-</u>
Net cash provided by investing activities	<u>-</u>
Net increase in cash and cash equivalents for year	36,610
Cash and cash equivalents, beginning of year	<u>59,461</u>
Cash and cash equivalents, end of year	<u><u>\$ 96,071</u></u>

Reconciliation of operating income to net cash used by operating activities

Operating Income	\$ 41,110
Adjustments to reconcile operating income to net cash provided by operating activities:	
Change in operating assets and liabilities which provide (use) cash:	
Accounts Payable	<u>(4,500)</u>
Net cash provided by operating activities	<u><u>\$ 36,610</u></u>

See Notes to Financial Statements.

EDDY-LEA ENERGY ALLIANCE, LLC
Notes to Financial Statements
June 30, 2017

NOTE 1 – ORGANIZATION

Organization. Eddy-Lea Energy Alliance (the Alliance) was established on August 23, 2006 as a limited liability company. The Alliance operates under a joint powers agreement entered into by Lea County and Eddy County with the support of the City of Hobbs and the City of Carlsbad.

Nature of Operations. The purpose of the Alliance is to promote and assist energy-related economic development in Eddy and Lea County. The Alliance is primarily engaged in the investigation of development opportunities related to the real property the Alliance owns in Lea County located approximately mid-way between the Cities of Hobbs and Carlsbad. This property was initially acquired in response to opportunities related to the Global Nuclear Energy Partnership enacted by Congress but that program was discontinued. The ELEA has determined that its economic development mission would be best served by selling real property to a private company.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the Alliance's significant accounting policies consistently applied in the presentation of the accompanying financial statements are as follows:

Basis of Accounting. The Alliance utilizes the accrual basis of accounting, whereby income is recognized as earned and expenses are recognized as obligations are incurred.

Cash and Cash Equivalents. Cash and cash equivalents include amounts on demand deposits, unrestricted short term investments with an original maturity of three months or less, money market funds and certificates of deposit.

Cash Deposits. The fiscal agent of the Alliance (Lea County) maintains the Alliance's cash in financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). Deposit accounts, at times, may exceed federally insured limits. The Alliance has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Assets Held for Sale. Assets held for sale consist of a parcel of land (960 acres property) located in Southeastern New Mexico. The land is reported at historical cost, or \$1,010,440.

Advertising and Promotion Expenses. Sales and marketing costs are expensed during the year in which they are incurred. Sales and marketing expense for the year ended June 30, 2017 were \$615.

Use of Estimates. In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

EDDY-LEA ENERGY ALLIANCE, LLC
Notes to Financial Statements
June 30, 2017

NOTE 3 - RISK OF LOSS

The Alliance is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the contractor constructing the emergency center facility carries commercial insurance protecting the contractor and the Alliance. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. As of June 30, 2017, the Alliance did not have any probable risks of loss.

NOTE 4 – LAND PURCHASE OPTION

In December of 2016 the Alliance entered into a land purchase option agreement to sell its 960 acres of land to a third party. The third party has agreed to pay an annual amount for the option. The option is for 13 years and the price will be determined on the appraised value of the land at the time that the option would be exercised.

The Alliance has determined to sell the property no less than the fair market value, contingent upon the third party fulfilling requirements. The agreement shall not be effective until the third party has satisfied criteria outlined in the purchase option; the third party must secure a license from the Nuclear Regulatory Commission and obtain an agreement with the Department of Energy (and/or one or more utility companies) indicating the third party has legal right to obtain the property. The Alliance also has the option to repurchase the property from the third party for the purchase price that was paid for by the third party.

NOTE 5 – NEW ACCOUNTING PRONOUNCEMENTS

The following GASB pronouncements have been issued, but are not yet effective at June 30, 2017.

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. 82, Pension Issues (an Amendment of GASB Statements No. 67, No. 68, and No. 73)

GASB Statement No. 83, Certain Asset Retirement Obligations

GASB Statement No. 84, Fiduciary Activities

GASB Statement No. 85, Omnibus

GASB Statement No. 86, Certain Debt Extinguishment Issues

GASB Statement No. 87, Leases

The Alliance will implement the new GASB pronouncements in the fiscal year no later than the required effective date.

NOTE 6 – SUBSEQUENT EVENTS

The Alliance has evaluated subsequent events through December 15, 2017, which is the date the financial statements were available to be issued.

INDEPENDENT AUDITOR'S 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

Mr. Wayne Johnson
New Mexico State Auditor
and
Board of Directors
Eddy Lea Energy Alliance, LLC

We have audited, 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, the financial statements of the Eddy Lea Energy Alliance, LLC ("Alliance") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Alliance's basic financial statements and have issued our report thereon dated December 15, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit, of the financial statements, we considered the Alliance'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 Alliance's internal control. Accordingly, we do not express an opinion on the effectiveness of the Alliance's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 Alliance'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 results of that testing, and not to provide an opinion on the effectiveness of the entity'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 Alliance's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Albuquerque, New Mexico
December 15, 2017

EDDY-LEA ENERGY ALLIANCE, LLC
Schedule of Findings and Responses
June 30, 2017

Section I – Prior Year Findings

None

Section I – Current Year Findings

None

EDDY-LEA ENERGY ALLIANCE, LLC
Exit Conference
June 30, 2017

Exit Conference

An exit conference was held on December 15, 2017 to discuss the current report. The individuals in attendance were as follows:

EDDY-LEA ENERGY ALLIANCE

John Heaton, Board Member
Chip Low, ELEA Fiscal Agent

AXIOM CPAs AND BUSINESS ADVISORS LLC

Bryan Runyan, Assurance Supervisor

Financial Statement Presentation

The financial statements were prepared from the original books and records of Eddy-Lea Energy Alliance as of June 30, 2017 by Axiom. However, the contents of the financial statements remain the responsibility of management.