

Eddy-Lea Energy Alliance, LLC

Financial Statements

June 30, 2012



**AXIOM**

*Certified Public Accountants  
and Business Advisors LLC*

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**BOARD OF DIRECTORS**

**June 30, 2012**

Board Members

Johnny Cope, President

John Heaton, Vice President

Jack Volpato, Secretary/Treasurer

Jim Maddox, Director

## INDEPENDENT AUDITOR'S REPORT

Mr. Hector H. Balderas  
New Mexico State Auditor  
Board of Directors  
Eddy Lea Energy Alliance and

We have audited the accompanying balance sheet of Eddy Lea Energy Alliance, LLC ("Alliance") as of and for the year ended June 30, 2012, and the related statements of operations and cash flows for the year then ended. These financial statements are the responsibility of the Alliance's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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, 2012, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2013, 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The logo for Axiom, featuring the word "Axiom" in a stylized, cursive blue font.

Axiom CPA's  
Albuquerque, New Mexico  
April 23, 2013

**Eddy-Lea Energy Alliance**  
**BALANCE SHEET**  
**June 30, 2012**

**ASSETS**

Current assets

Cash and cash equivalents

\$ 3,237

**Total current assets**

3,237

Property and equipment

Land

1,010,440

Property and equipment, net

1,010,440

**Total assets**

\$ 1,013,677

**LIABILITIES AND MEMBERS EQUITY**

Current liabilities

Accounts payable

\$ 25,385

**Total liabilities**

25,385

Members equity

Members contributions

80,000

Members equity

908,292

Total members equity

988,292

**Total liabilities and members equity**

\$ 1,013,677

**Eddy-Lea Energy Alliance**  
**STATEMENT OF OPERATIONS**  
**For the Year Ended June 30, 2012**

	2012
Operating revenue	
Miscellaneous revenue	\$ 3,600
<b>Operating revenue</b>	<b>3,600</b>
Operating cost and expenses	
Consulting	19,846
Legal and accounting	9,571
Insurance	2,109
Advertsing	558
Property Taxes	526
<b>Total expenses</b>	<b>32,610</b>
<b>Net loss from operations</b>	<b>(29,010)</b>
Members equity at beginning of year	1,017,302
<b>Members equity at end of year</b>	<b>\$ 988,292</b>

*See Notes to Financial Statements.*

**Eddy-Lea Energy Alliance**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended June 30, 2012**

**Cash Flows from Operating Activities**

Cash received from user charges	\$	3,600
Cash payments to suppliers		<u>(7,225)</u>
<b>Net cash used by operating activities</b>		<u>(3,625)</u>
<b>Net decrease in cash for year</b>		(3,625)
<b>Cash, beginning of year</b>		<u>6,862</u>
<b>Cash, end of year</b>	\$	<u><u>3,237</u></u>

**Reconciliation of operating loss to net cash used by operating activities**

Net loss	\$	(29,010)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Change in operating assets and liabilities which provide (use) cash:		
Accounts Payable		<u>25,385</u>
<b>Net cash used by operating activities</b>	\$	<u><u>(3,625)</u></u>

*See Notes to Financial Statements.*

**EDDY-LEA ENERGY ALLIANCE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

**NOTE 1 – ORGANIZATION**

**Organization.** Eddy-Lea Energy Alliance, LLC (the Alliance) was established on August 23, 2006 as a limited liability company. The Alliance operates under an Operating Agreement and Joint Powers Agreement entered into by Lea County, Eddy County, the City of Hobbs and the City of Carlsbad. The Alliance has no component units.

**Nature of Operations.** The purpose of the Alliance is to promote and assist energy-related economic development in Eddy and Lea Counties (including, without limitation, by conveyance of land, buildings and infrastructure). In particular, it is currently contemplated that the Alliance will investigate the feasibility of and negotiate a transaction under which the real property owned by the Alliance in Lea County located approximately halfway between the Cities of Carlsbad and Hobbs will be leased or sold for development and use as a nuclear waste storage or reprocessing facility.

**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 utilized 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 Alliance maintains its 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.

**Capital Assets.** There were no additions or deletions to the capital assets during fiscal year 2012.

**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, 2012 were \$558.



**EDDY-LEA ENERGY ALLIANCE**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2012**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

**Subsequent Events.** Subsequent events are events or transactions that occur after the balance sheet date but before the consolidated financial statements are issued or are available to be issued. The Company recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated balance sheet, including the estimates inherent in the process of preparing the consolidated financial statements. The Company's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before consolidated financial statements are available to be issued.

The Alliance has evaluated subsequent events through April 23, 2013, which is the date the financial statements are available to be issued.

**Restricted Assets.** Restricted assets are assets which have third-party limitations on their use. When both restricted and unrestricted resources are available for use, it is the government's policy to use the restricted resources first, the unrestricted resources as they are needed.

**Budget.** The Alliance did not have budget for fiscal year 2012.

**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, 2012, the Alliance did not have any probable risks of loss.

## **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. Hector H. Balderas  
New Mexico State Auditor  
Board of Directors  
Eddy Lea Energy Alliance and

We have audited the financial statements of the Eddy Lea Energy Alliance, LLC (“Alliance”) as of and for the year ended June 30, 2013, and have issued our report thereon dated April 23, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

Management of the Alliance is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Alliances internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the agency’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Alliances internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Alliances 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 also noted certain other matters that are required to be reported pursuant to Government Auditing Standards paragraphs 5.14 and 5.16, and pursuant to Section 12-6-5, NMSA 1978, which are described in the accompanying schedule of findings and responses as findings 2013-1.

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

This report is intended solely for the information and use of management, *the Board of Directors*, others within the entity, the State Auditor, the New Mexico Legislature, and applicable federal grantors, and is not intended to be and should not be used by anyone other than these specified parties.



Axiom CPA's  
Albuquerque, New Mexico  
April 23, 2013

**EDDY-LEA ENERGY ALLIANCE  
SCHEDULE OF FINDINGS  
June 30, 2012**

**Prior Year Findings  
None**

## **Current Year Findings**

### **Late Audit Report (Other Matters)**

**CONDITION:** The audit report as of and for the year ended June 30, 2012 was not submitted by the deadline of November 15, 2012.

**CRITERIA:** 2.2.2 NMAC Audit Rule 2012 specifies the deadline for the submission of audit reports. Section 2.2.2.9 A(1)(c) stipulates that the County's reports are due no later November 15<sup>th</sup>. Further, Section 2.2.2.9 A(2) requires that submission of a late audit report shall be reported as a current year finding in the audit report.

**EFFECT:** The Alliance is not in compliance with Section 2.2.2.9 A(1)(C) of the NMAC, Audit Rule 2012 which may impact future funding.

**CAUSE:** The Alliance completed the procurement process for the audit late as a result in the change in Alliance management.

**RECOMMENDATION:** The Alliance should ensure that its accounting records are reconciled and ready for audit in a timely manner.

**ALLIANCE RESPONSE:** The Alliance will ensure that the fiscal 2013 audit will be completed timely.

**EDDY-LEA ENERGY ALLIANCE  
OTHER DISCLOSURES  
June 30, 2012**

**FINANCIAL STATEMENT PRESENTATION**

The financial statements were prepared from the original books and records of Eddy-Lea Energy Alliance as of June 30, 2012 by Axiom. However, the contents of the financial statements remain the responsibility of management.

**EXIT CONFERENCE**

An exit conference was held on April 23, 2013, which was attended by the following:

**Alliance**

James M. Maddox, ELEA Chairman

John Heaton, ELEA Vice Chairman

Jack Volpato, ELEA Treasurer

Johnny Cope, ELEA Secretary

Lisa Hardison, ELEA Staff Support

**Axiom**

Chris Garner, CPA, Principal