

STATE OF NEW MEXICO
NEW MEXICO RENEWABLE ENERGY TRANSMISSION AUTHORITY
ANNUAL FINANCIAL REPORT
JUNE 30, 2009

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INTRODUCTORY SECTION

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STATE OF NEW MEXICO
New Mexico Renewable Energy Transmission Authority
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June 30, 2009

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STATE OF NEW MEXICO
New Mexico Renewable Energy Transmission Authority
Official Roster
June 30, 2009

GOVERNING BODY

Robert Busch	Chairman
Mark Valdes	Treasurer Chair of Finance and Audit Committee
Rory McMinn	Chair of Transmission Corridor Committee
Joanna Prukop	Secretary
Beatriz Rivera	Member
William Kersting	Member
Gary Bland	Member
Laura Sanchez, Esq.	Member

MANAGEMENT

Jeremy Turner	Executive Director
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FINANCIAL SECTION



Accounting & Consulting Group, LLP

INDEPENDENT AUDITOR'S REPORT

The Honorable Hector H. Balderas
New Mexico State Auditor
and
New Mexico Renewable Energy Transmission Authority

We have audited the accompanying financial statements of the governmental activities of the general fund of the New Mexico Renewable Energy Transmission Authority (the Authority), a component unit of the State of New Mexico, as of and for the year ended June 30, 2009, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the New Mexico Renewable Energy Transmission Authority'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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Authority are intended to present the financial position and the changes in the financial position of only that portion of the financial reporting entity of the State of New Mexico that is attributable to the transactions of the Authority. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2009, and the respective changes in the financial position and cash flows, where applicable, thereof, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Authority, as of June 30, 2009, and the respective changes in financial position thereof, 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 August 31, 2009 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Certified Public Accountants

2700 San Pedro Northeast [87110-333] – P.O. Box 3130, Albuquerque, New Mexico 87190-3130
866.307.2727 – 505.883.2727 – Fax 505.884.6719 – albuquerque.office@acgnm.com – www.acgnm.com

Alamogordo – Albuquerque – Carlsbad – Clovis – Hobbs – Lubbock

The Management Discussion and Analysis on pages 10 thru 13 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary schedule as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Accounting & Consulting Group, L.L.P.

Accounting & Consulting Group, LLP
Albuquerque, New Mexico
August 31, 2009

STATE OF NEW MEXICO
New Mexico Renewable Energy Transmission Authority
Management's Discussion and Analysis
For the Year Ended June 2009

The New Mexico Renewable Energy Transmission Authority's (Authority) discussion and analysis is designed to assist the reader in focusing on significant financial issues, provide an overview of the Authority's financial activity, identify changes in the Authority's financial position (ability to address future year challenges), identify any material deviations from the financial plan, and identify any fund issues of concern.

The Management's Discussion and Analysis (MD&A) is designed to focus on the past year's activities, resulting changes and currently known facts; please read it in conjunction with the transmittal letter at the front of this report and the Authority's financial statements and notes which follow this section.

Financial Highlights

- The Authority's government-wide net assets decreased by \$334,000 during the fiscal year 2009.
- The Authority's total revenues were \$250,000 during fiscal year 2009.
- The total expenses incurred to conduct the Authority programs was \$588,084.

Authority Purpose and Highlights

The Authority was created in 2007 based on the Laws of 2007. This is the second year of operations for the Authority. The purpose of the New Mexico Renewable Energy Transmission Authority Act (Act) is to create a governmental instrumentality to finance or plan the acquisition, maintenance and operation of certain electric transmission facilities and storage facilities within the State of New Mexico. The financing or acquisition of an eligible project would be accomplished through the issuance of renewable energy transmission revenue bonds or other debt instruments.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements consist of a statement of net assets and a statement of activities. These statements should report all of the assets, liabilities, revenues, expenses, and gains and losses of the government. Fiduciary activities whose resources are not available to finance the government's programs are excluded from the government-wide statements. There were no fiduciary activities in fiscal year 2009.

GASB #34 requires that infrastructure assets (roads, bridges, traffic signals, etc.) be valued and reported within the Governmental column of the Government-wide Statements. Additionally, the government must elect to either depreciate these assets over their estimated useful life or develop a system of asset management designed to maintain the service delivery potential. The Authority does not own a material interest in any infrastructure assets nor any other capital assets as of June 30, 2009, and, therefore, is not required to implement this portion of GASB #34.

The government-wide financial statements of the Authority consist of governmental activities (General Fund) of the Authority, established pursuant to NMSA 1978, Section 62-16A-13.

STATE OF NEW MEXICO
 New Mexico Renewable Energy Transmission Authority
 Management's Discussion and Analysis
 For the Year Ended June 2009

Overview of Financial Statements – continued

Fund Financial Statements

The fund financial statements consist of the general fund's governmental fund statements that focus on information about the major funds. Governmental fund financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting.

Governmental Fund Types

As of June 30, 2009, the Authority only had one fund, the General Fund. The General Fund is the general operating fund for the Authority and is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is funded primarily through appropriations from the State of New Mexico General Fund.

Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A) should provide an objective and easily readable analysis of the Authority's financial activities based on currently known facts, decisions or conditions. It should provide an analysis of the Authority's overall financial position and results of operations to assist users in assessing whether the financial position has improved as a result of the year's activities.

Notes to the Financial Statements

The notes to the financial statements consist of notes that provide information that is essential to a user's understanding of the basic financial statements.

Budgetary Comparisons

The Authority does not have any legally adopted budgets and, therefore, does not present any budgetary statements.

Analysis of Financial Position

Total Assets:

	<u>2009</u>	<u>2008</u>	<u>Change</u>
Cash and cash equivalents	\$ 800,136	\$ 1,138,267	(\$ 338,131)
Interest receivable	-	1,399	(1,399)
Prepaid Expenses	<u>1,800</u>	<u>-</u>	<u>1,800</u>
Total Assets	<u>\$ 801,936</u>	<u>\$ 1,139,666</u>	<u>(\$ 337,730)</u>

Cash decreased by \$338,131 from the previous year due to expenditures exceeding revenue by \$334,000 and the net amount of the Authority's accounts receivable, prepaid expenses, accounts payable and payroll-related liabilities decreased by \$4,131 during the fiscal year.

STATE OF NEW MEXICO
New Mexico Renewable Energy Transmission Authority
Management's Discussion and Analysis
For the Year Ended June 2009

Analysis of Financial Position (continued)

Total Liabilities:

	<u>2009</u>	<u>2008</u>	<u>Change</u>
Current liabilities	\$ 9,263	\$ 12,993	(\$ 7,500)
Total Liabilities	<u>\$ 9,263</u>	<u>\$ 12,993</u>	<u>(\$ 3,730)</u>

Current liabilities decreased by \$7,500 mainly due to the prompt payment of June 2009 invoices. The long-term liabilities increased by the entire amount of the current year's long-term portion of the compensated absences because the prior year financial statement did not present the liability at year end.

Net Assets:

	<u>2009</u>	<u>2008</u>	<u>Change</u>
Unrestricted net assets	\$ 792,673	\$ 1,126,673	(\$ 334,000)
Total Net Assets	<u>\$ 792,673</u>	<u>\$ 1,126,673</u>	<u>(\$ 334,000)</u>

The change in the net assets is due to the current year deficiency of revenues compared to expenses.

Analysis of Authority's Overall Financial Position and Result of Operations

Total expenses, revenues and change in net assets:

	<u>2009</u>	<u>2008</u>	<u>Change</u>
Expenses			
Total program expenses	\$ 588,084	\$ 131,964	(\$ 456,120)
General Revenues			
State general fund appropriation	250,000	1,250,000	(1,000,000)
Interest income	4,084	8,637	(4,553)
Total general revenues	<u>254,084</u>	<u>1,258,637</u>	<u>(1,004,553)</u>
Change in Net Assets	<u>(\$ 334,000)</u>	<u>\$ 1,126,673</u>	<u>(\$ 1,460,673)</u>

Governmental-Type Activities

The State general fund appropriations were \$250,000 for the year ended June 30, 2009. This represented a decrease of \$1,000,000 due to budget cutbacks at the state level. The Authority's total expenditures for governmental-type activities during the fiscal year 2009 were \$588,084, which largely consisted of personal services and benefits at \$355,068 or 60%. The increase in expenses from the prior year was due to the Authority's operations beginning in January 2008, resulting in only six months of activity during the prior fiscal year.

Capital Assets and Debt Administration

The Authority had no debt or capital assets as of June 30, 2009.

STATE OF NEW MEXICO
New Mexico Renewable Energy Transmission Authority
Management's Discussion and Analysis
For the Year Ended June 2009

Economic Factors and Next Year's Budgets and Rates

In fiscal year 2009, the Authority began operations in its new facility. Operational costs were expected to reach \$1.3 million. The projects were slowed due to economic factors and turnover of key management personnel. Operating costs are expected to remain a little over \$500,000, while the Authority identifies new sources of revenue to eventually becoming self-sustaining.

Contacting the Authority's Financial Management

This financial report is designed to provide citizens, taxpayers, customers, legislators and investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact:

Jeremy Turner, Executive Director
New Mexico Renewable Energy
Transmission Authority (RETA)
200 West De Vargas Street, Suite 4
Santa Fe, NM 87501

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BASIC FINANCIAL STATEMENTS

STATE OF NEW MEXICO
 New Mexico Renewable Energy Transmission Authority
 Statement of Net Assets
 June 30, 2009

Exhibit A-1

	<u>Primary Government Governmental Activities</u>
Assets	
Current assets	
Cash and cash equivalents	\$ 800,136
Prepaid expenses	<u>1,800</u>
Total current assets	<u>801,936</u>
Total assets	<u><u>\$ 801,936</u></u>
Liabilities	
Current liabilities	
Accounts payable	\$ 5,493
Compensated absences	<u>3,770</u>
Total current liabilities	<u>9,263</u>
Total liabilities	<u>9,263</u>
Net Assets	
Unrestricted net assets	<u>792,673</u>
Total net assets	<u>792,673</u>
Total liabilities and net assets	<u><u>\$ 801,936</u></u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
 New Mexico Renewable Energy Transmission Authority
 Statement of Activities
 For the Year Ended June 30, 2009

Exhibit A-2

	Primary Government
Expenses	Governmental Activities
Electronic transmission planning and development	\$ (588,084)
Net program (expenses) revenues	(588,084)
General revenues	
State general fund appropriation	250,000
Interest on investments	4,084
Total general revenues	254,084
Decrease in net assets	(334,000)
Net assets - beginning of the year	1,126,673
Net assets - end of the year	\$ 792,673

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
 New Mexico Renewable Energy Transmission Authority
 Balance Sheet
 Governmental Funds
 June 30, 2009

	<u>General Fund</u>
ASSETS	
<i>Assets</i>	
Cash and cash equivalents	\$ 800,136
Prepaid expenses	1,800
	801,936
<i>Total assets</i>	\$ 801,936
 LIABILITIES AND FUND BALANCE	
<i>Liabilities</i>	
Accounts payable	\$ 5,493
	5,493
<i>Total liabilities</i>	5,493
 <i>Fund balances</i>	
Reserved for:	
Prepaid expenses	1,800
Unreserved	
Unreserved, designated for subsequent year expenditures	15,500
Unreserved	779,143
	796,443
<i>Total fund balances</i>	796,443
<i>Total liabilities and fund balances</i>	\$ 801,936

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
New Mexico Renewable Energy Transmission Authority
Governmental Fund
Reconciliation of the Balance Sheet to the Statement of Net Assets
June 30, 2009

Exhibit B-1
Page 2 of 2

Fund Balance - Governmental Fund (Exhibit B-1)	\$ 796,443
Total net assets reported for governmental activities in the statement of net assets is different because:	
Current liabilities, applicable to the Authority's activities are not due and payable in the current period and therefore are not reported in the fund liabilities:	
Compenasted absences	<u>(3,770)</u>
Total Net Assets (Exhibit A-1)	<u><u>\$ 792,673</u></u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
 New Mexico Renewable Energy Transmission Authority
 Statement of Revenues, Expenditures and Changes in Fund Balances
 Governmental Funds
 For the Year Ended June 30, 2009

REVENUES

Program revenues	
Interest income	\$ 4,084
<i>Total revenues</i>	<u>4,084</u>

EXPENDITURES

Current	
Personal services and benefits	355,068
Contractual services	133,904
Other costs	<u>95,342</u>
<i>Total expenditures</i>	<u>584,314</u>

<i>Excess (deficiency) of revenues over expenditures</i>	<u>(580,230)</u>
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OTHER FINANCING SOURCES (USES)

State general fund appropriations	<u>250,000</u>
<i>Total other financing sources and (uses)</i>	<u>250,000</u>

<i>Net change in fund balance</i>	(330,230)
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<i>Fund balance - beginning of year</i>	<u>1,126,673</u>
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<i>Fund balance - end of year</i>	<u><u>\$ 796,443</u></u>
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The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
New Mexico Renewable Energy Transmission Authority
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2009

Exhibit B-2
Page 2 of 2

Net Change in Fund Balance - Governmental Fund (Exhibit B-2)	\$ (330,230)
The change in net assets reported for governmental activities in the statement of activities is different because:	
Increase in current portion of compensated absences that does not consume current financial resources of governmental funds	<u>(3,770)</u>
Change in Net Assets (Exhibit A-2)	<u><u>\$ (334,000)</u></u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
New Mexico Renewable Energy Transmission Authority
Notes to Financial Statements
June 30, 2009

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Authority is presented to assist in the understanding of the Authority's financial statements. The financial statements and notes are the representation of the Authority's management who is responsible for their integrity and objectivity. The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to agencies of the government. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The financial statements have incorporated all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles board Opinions and Accounting Research Bulletins of the committee on accounting procedures issued on, before and after November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. Governments also have the option of following subsequent private-sector guidance for their government-wide financial statements, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance. The more significant of the Authority's accounting principles are described below.

A. Reporting Entity

The Laws of 2007, Chapter 62, created the New Mexico Renewable Energy Transmission Authority (Authority). The purpose of the New Mexico Renewable Energy Transmission Authority Act (Act) is to create a quasi-governmental entity to finance or plan the acquisition, maintenance and operation of certain electric transmission and storage facilities with the State of New Mexico. The financing or acquisition of the eligible projects would be accomplished through the issuance of renewable energy transmission revenue bonds and other debt instruments.

The Authority's governing body is composed of seven voting members and one ex-officio non-voting member. The Governor, with the advice and consent of the Senate, appoints three members. The State Investment Officer and the State Treasurer, or their designees, are ex-officio members of the Authority with voting privileges. One member is appointed by the Speaker of the House of Representatives and serves at the pleasure of the Speaker of the House. One member is appointed by the President Pro Tempore of the Senate and serves at the pleasure of the President Pro Tempore. The Secretary of Energy, Minerals and Natural Resources serves as an ex-officio non-voting member to the Authority. The Governor shall designate an appointed member of the Authority to serve as chair, and the Authority may elect annually such other offices as it deems necessary.

The Authority is not subject to the supervision or control of any other board, bureau, department or agency of the state, except as specifically provided in the Act. The Act specifically excludes the Authority from the definition of "state agency" or "instrumentality" in any other law of the state, unless specifically referred to in the law.

The Act created the Renewable Energy Transmission Bonding Fund, which shall consist of revenues received by the Authority from operating or leasing eligible facilities, fees and service charges collected and, if the Authority has provided financing or eligible facilities, money from payments of principal and interest on loans. Money in the Renewable Energy Transmission Bonding Fund is pledged for the payment of principle and interest on all bonds issued pursuant to the Act. Bonds issued pursuant to the Act shall be payable solely from the Renewable Energy Transmission Bonding Fund or, with the approval of the bondholders, such other special funds as may be provided by law. These bonds do not create an obligation or indebtedness of the state within the meaning of any constitutional provision.

The Act established the Renewable Energy Transmission Authority Operation Fund within the State Treasury. However, due to the State's current accounting system, the Department of Finance Administration (DFA) and the State Treasurer have agreed to establish RETA's Operational Fund outside the State Treasury but under the control mechanisms that apply to state funds. This fund consists of money appropriated and transferred to the fund. Earnings from investment of the fund shall be credited to the fund. Money in the fund is appropriated to the Authority for the purpose of carrying out the provisions of the Act. Any unexpended or unencumbered balance remaining in the fund at the end of a fiscal year shall not revert to the general fund of the state.

STATE OF NEW MEXICO
New Mexico Renewable Energy Transmission Authority
Notes to Financial Statements
June 30, 2009

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Authority is a quasi-governmental entity in accordance with Governmental Accounting Standards Board (GASB) Statement No. 39. The Authority is a governmental entity because it was established by statute; its relationship with other governmental entities; the governmental composition of the Authority's governing board; sources of operational revenue and its ability to issue tax-exempt debt.

The financial reporting entity as defined by GASB No. 39 consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. This definition of the reporting entity is based primarily on the notion of financial accountability as the "cornerstone of all financial reporting in government". The Authority is, however, presented as a component unit of the State of New Mexico.

The New Mexico Renewable Energy Transmission Authority is a component unit of the primary government, the State of New Mexico. These financial statements present the financial position and changes in financial position of that portion of the governmental activities, each major fund, and aggregate remaining fund information of the State that is attributable to the transactions of the Authority.

Based upon the application of the criteria in GASB No. 14 and No. 39, the Authority had no component units as of June 30, 2009.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Authority. There is no effect from interfund activity that needs elimination because the Authority has only one fund. The Authority's governmental activities are supported by general fund appropriations from the State of New Mexico. The Authority has no business-type activities.

The Statement of Net Assets and the Statement of Activities were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement No. 33, Accounting and Financial Reporting for Non-exchange Transactions.

In the government-wide Statement of Net Assets, the governmental activities column is reported on a full accrual, economic resource basis, which recognized all long-term assets and receivables as well as long-term debt obligations. The Authority's net assets are only comprised of unrestricted net assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. The Authority did not receive program revenues for the year ended June 30, 2009. Taxes and other items not properly included among program revenues are reported instead as general revenues. The Authority's general fund appropriations are shown as general revenues.

STATE OF NEW MEXICO
New Mexico Renewable Energy Transmission Authority
Notes to Financial Statements
June 30, 2009

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Government-wide and fund financial statements (continued)

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The Authority did not have any funds classified as proprietary or fiduciary for the year ended June 30, 2009.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual* basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements of time, reimbursement and contingencies imposed by the provider are met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual* basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Authority reports the following major governmental fund:

The General Fund is the Authority's operating fund. It is used to account for resources traditionally associated with government that are not required legally or by sound financial management to be accounted for in some other fund. The general fund is a non-reverting fund as stipulated in Section 62-16A-1 NMSA, 1978. The general fund is funded primarily through appropriations from the State of New Mexico General Fund.

D. Assets, Liabilities and Net Assets or Fund Equity

Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition.

Prepaid Expenses

Prepaid expenses consists of the rental deposit for the current lease of the building that houses the Authority's operations.

Compensated Absences

Annual leave and other compensated absences with similar characteristics are accrued as a liability as benefits are earned by employees if: the employees' right to receive compensation is attributable to services already rendered; and it is probable that the employer will compensate employees for benefits through paid time off or some other means, such as cash payments at termination or retirement.

Fund Equity

In the fund financial statements, governmental fund report reservations of fund balance representing the amount that is not available for appropriation and designations of fund balance which represents amounts that management has budgeted for expenditures in excess of anticipated revenues.

STATE OF NEW MEXICO
 New Mexico Renewable Energy Transmission Authority
 Notes to Financial Statements
 June 30, 2009

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The Authority prepares a budget for the General Fund. The budget is approved by the governing body each year and is used as a measuring mechanism to gauge the projects' progress. However, the budget is not legally binding, and therefore is not presented in the financial statements.

NOTE 3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on deposit with the Bank of America. The balance of \$801,636 is in excess of FDIC coverage provided by federal agencies, therefore the Authority is required to ensure Bank of America provides collateral equal to 50% of the uninsured amount. The State Treasurer's Office has determined that the Authority's General Fund is covered by the State Treasurer's Collateralization Policy. As such, the General Fund is covered by the provision in the State Fiscal Agency Contract entered into between the Bank of America and the State Board of Finance. That contract specifies that the State Fiscal Agent must identify total state monies on deposit on a monthly basis in order that the State Board of Finance may require adjustment of collateralization levels of State money as necessary to comply with the State law requirements. The General Fund is therefore covered by these collateralization requirements.

NOTE 4. COMPENSATED ABSENCES

Employees accumulate annual leave at a rate of 15 days per year through the end of the tenth year of service. Upon the eleventh year, employees will accrue 20 day per year every year after the tenth. A maximum of 240 hours of annual leave may be carried forward after the pay period beginning in December and ending in January. When employees terminate, they are compensated at their current hourly rate for accumulated unpaid annual leave as of the date of termination, up to a maximum of 240 hours.

The changes in liabilities for compensated absences are as follows:

	<u>June 30, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2009</u>	<u>Due within one Year</u>
General Fund	<u>\$ -</u>	<u>\$ 3,982</u>	<u>\$ 212</u>	<u>\$ 3,770</u>	<u>\$ 3,770</u>

NOTE 5. RISK MANAGEMENT

The Authority is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Section 15-7-2 NMSA 1978 requires the General Services Department, Risk Management Division (RMD) to be responsible for the acquisition and administration of all insurance purchased by the state. Since 1977, various state statutes have been passed which allow RMD to insure, self-insure or use a combination of both. Risk management expenditures for the Office are accounted for in the general fund. Any claims are processed through RMD. There are no pending or known threatened legal proceedings involving material matters to which the Authority is a party.

STATE OF NEW MEXICO
New Mexico Renewable Energy Transmission Authority
Notes to Financial Statements
June 30, 2009

NOTE 6. MEMORANDUM OF UNDERSTANDING

The Authority entered into a memorandum of understanding (MOU) with the New Mexico Finance Authority during the fiscal year. The purpose of the MOU was for the New Mexico Finance Authority (NMFA) to provide accounting services to the New Mexico Renewable Energy Transmission Authority (Authority) for the fiscal year ended June 30, 2009. Audit responsibility lies with the Authority. The total amount paid to the NMFA for this service during the year was \$3,988.

NOTE 7. COMMITMENTS

The Authority entered into a contract dated November 19, 2008 with a total commitment over the next two years totaling \$40,000. This contract is confidential in nature and can be obtained by contacting the Authority's office at 200 West De Vargas Street, Suite 4 Santa Fe, NM 87501.

NOTE 8. SUBSEQUENT PRONOUNCEMENTS

In July 2007, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets, which is effective for periods beginning after June 15, 2009. For governments that were classified as phase 1 or phase 2 governments, retroactive reporting is required for intangible assets acquired in fiscal years ending after June 30, 1980, except for those considered to have indefinite useful lives as of the effective date of this Statement and those that would be considered internally generated. Retroactive reporting of these intangible assets by phase 3 governments is encouraged but not required. Retroactive reporting is not required but is permitted for intangible assets considered to have indefinite useful lives as of the effective date of this Statement and those considered to be internally generated. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce these inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. The Authority is analyzing the effect that this standard will have on the financial statements, and currently believes it will have no significant effect on the financial statements for the upcoming year.

In March 2009, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, which is effective for financial statements for periods beginning after June 15, 2010 with earlier implementation encouraged. GASB Statement No. 54 distinguishes fund balance between amounts that are considered nonspendable, such as fund balance associated with inventories, and other amounts that are classified based on the relative strength of the constraints that control the purpose for which specific amounts can be spent. This statement is intended to improve the usefulness of information provided to financial report users about fund balance by providing clearer, more structured fund balance classifications, and by clarifying the definitions of existing governmental fund types. The Authority is analyzing the effect that this standard will have on the financial statements.

SUPPORTING SCHEDULE

STATE OF NEW MEXICO
 New Mexico Renewable Energy Transmission Authority
 Schedule of Deposits
 For the Year Ended June 30, 2009

Schedule I

<u>Account</u>	<u>Type</u>	<u>Bank of America</u>
Operational	Demand	<u>\$ 801,636</u>
Total deposits		801,636
Reconciling items		<u>(1,500)</u>
Reconciled balance		<u><u>\$ 800,136</u></u>

See accompanying independent auditors' report

COMPLIANCE SECTION



Accounting & Consulting Group, LLP

**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***

The Honorable Hector H. Balderas
New Mexico State Auditor
and
New Mexico Renewable Energy Transmission Authority

We have audited the accompanying financial statements of the governmental activities of the general fund of the New Mexico Renewable Energy Transmission Authority (the Authority), as of and for the year ended June 30, 2009, which collectively comprise the Authority's basic financial statements as listed in the table of contents, and have issued our report thereon dated August 31, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered New Mexico Renewable Energy Transmission Authority's 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 Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report on financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the agency's internal control. We consider findings FS 09-01, FS 09-02 and FS 09-04 to be significant deficiencies in internal control over financial reporting.

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

Certified Public Accountants

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Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we considered items FS 09-02 and FS 09-04 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether New Mexico Renewable Energy Transmission Authority’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 statements amounts. However, providing an opinion on compliance with those provisions was not the 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 certain other matters that are required to be reported under *Government Auditing Standards* January 2007 Revision Paragraph 5.14 and 5.16 and Section 12-6-5, NMSA 1978 which are described in the accompanying findings and responses as item FS 09-03.

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

This report is intended solely for the information and use of the Authority, management, the Office of the State Auditor, the New Mexico Legislature and its committees, and the New Mexico Department of Finance and Administration and is not intended to be and should not be used by anyone other than these specified parties.

Accounting & Consulting Group, L.L.P.

Accounting & Consulting Group, LLP
Albuquerque, New Mexico
August 31, 2009

STATE OF NEW MEXICO
New Mexico Renewable Energy Transmission Authority
Schedule of Findings and Responses
June 30, 2009

A. SUMMARY OF AUDIT RESULTS

Financial Statements:

- | | |
|--|-------------|
| 1. Type of auditors' report issued | Unqualified |
| 2. Internal control over financial reporting: | |
| a. Material weakness identified? | Yes |
| b. Significant deficiencies identified not considered to be material weaknesses? | Yes |
| c. Noncompliance material to the basic financial statements noted? | No |

STATE OF NEW MEXICO
 New Mexico Renewable Energy Transmission Authority
 Schedule of Findings and Responses
 June 30, 2009

B. FINDINGS-FINANCIAL STATEMENT AUDIT**FS 09-01 — Inadequate Supporting Documents for Disbursements**

Condition: During our testwork, we noted 12 instances during the first seven months of the fiscal year in which supporting documentation was either inadequate or the business purpose was not noted or transparent. In addition, the Authority was paying for two cell phone bills used by employees. It was not clear if the cell phone bills pertained solely for the authority's business. The total amount paid for the two cell phones was \$2,213.88. Additionally, we noted one voucher made out to the Executive Director for \$763.88 that was not properly authorized. Below is a summary of the 12 transactions:

<u>Check Date</u>	<u>Check Number</u>	<u>Receipt Payee</u>	<u>Description of Item in Question</u>	<u>Amount</u>
9/8/2008	5038	Chili's Too (Las Vegas Int'l Airport)	Unitemized Receipt (\$32.39 bill, \$10 tip)	\$ 42.39
9/8/2008	5038	Grand Limosine (San Francisco, CA)	Limosine Transport to and from Airport	110.00
10/28/2008	5054	Red Lion Hotel (Denver, CO)	"Amberstone Grille Lunch" on Hotel Bill	66.80
10/28/2008	5054	Marriott (Denver, CO)	Room Service	55.00
12/24/2008	5079	McGraw Hill Companies	Purchase of Nomination	13,195.00
1/6/2009	5086	Cowgirl BBQ (Santa Fe, NM)	Unitemized Receipt	65.51
1/6/2009	5086	Chow's Contemporary (Santa Fe, NM)	Unitemized Receipt	101.03
1/6/2009	5086	Cantina Restaurant (Santa Fe, NM)	Unitemized Receipt	340.51
1/6/2009	5086	Exxon Express (Arlington, VA)	To Fuel Personal Rental Car	24.19
1/6/2009	5086	Holiday Inn (Washington, DC)	Unitemized Receipt	33.60
1/6/2009	5086	Silver Moon Café (Santa Rosa, NM)	Unitemized Receipt	36.47
1/6/2009	5086	Daniel O' Connell's (Alexandria, VA)	Unitemized Receipt	24.00
Total				<u>\$ 14,094.50</u>

Criteria: Sound financial management and good accounting practices require that the Authority substantiate and support all purchases by obtaining the necessary documentation, including invoices and itemized receipts with documented business purpose.

Effect: Expenditures could be incurred that are not allowable or not in accordance with the direction and objectives set forth in Section 62-16A-1 NMSA, 1978.

Cause: The Authority did not have adequate internal controls to detect inadequate or questionable documentation regarding the business purpose and legitimacy of expenditures.

Auditors' Recommendation: We recommend that all cash disbursements be accompanied by proper and supporting documentation with itemized receipts and documented business purpose. Individuals authorizing disbursements must be knowledgeable about budget and allowable expenditure requirements.

Management's Response: Reference to the second cell phone as being used by "one contractor" is inaccurate. The contractor was retained by RETA to set up the office operating and electronic systems. As such, Verizon required his name when working with the initial contract plan. The second cell phone was indeed used by the second RETA employee, not the contractor. RETA's Finance and Audit Committee will be addressing more refined procedures and requirements regarding spending authorities, limits, and purposes within the organization. Such amendments to Policy will be presented to the full RETA Board of Directors for approval and adoption.

Auditors' Response: In addition to the two cell phone bills paid by the authority, the authority also incurred expenditures to reimburse the above mentioned employee for their personal cell phone use.

STATE OF NEW MEXICO
 New Mexico Renewable Energy Transmission Authority
 Schedule of Findings and Responses
 June 30, 2009

FS 09-02 — Failure to Authorize Purchases with Signatory Authority

Condition: During our walkthrough of the internal control design over expenditures, we noted that there is no mechanism in place to ensure expenditures are approved prior to being procured. The process that was in place was to verbally approve disbursements not subject to the RFP procurement process. The Authority used the check signer function as approval, however, goods and services had been procured prior to making payment.

Criteria: Sound financial management and good accounting practices require that expenditures be approved prior to procuring any goods or services.

Effect: The result could result in excessive payments, incorrect payments, lack of proper audit trail or payment of unallowable costs under Section 62-16A-1 NMSA, 1978.

Cause: During the planning and start up phase, the Authority did not design or implement strong internal controls over the disbursement process.

Auditors' Recommendation: We recommend the Authority implement internal controls over the disbursement transaction cycle to ensure proper authorization by creating a purchase requisition which is to be signed by the Executive Director prior to the procurement of any goods or services. In addition, any purchase requisition initiated by the Executive Director should be authorized by a member of the governing body.

Management's Response: RETA's existing procurement policy references a \$50,000 upper threshold on the Executive Director's spending authority. Given the very limited staff employed by RETA, it is sometimes not feasible to obtain the Executive Director's (he is frequently committed to out of office, and out of town, meetings) written permission prior to the procurement of standard, non-extraordinary operational/administrative expenditures. A simple invoice "approval" document or rubber stamp will be designed and implemented to accommodate all other expenditures. Such document shall include language stating that the Board has approved the budget and the stated expenditure is "authorized: (1) within the approved budget, and (2) within the Executive Director's spending authority.

FS 09-03 Incomplete Personnel Files

Condition: During our testwork of payroll, it was observed that none of the current or former employee's files maintained all of the required documentation in their personnel files. None of the personnel files maintained W-4's and I-9's. Also, one personnel file from the first Executive Director's administration did not have a signed employment contract authorizing pay.

Criteria: According to Section 10-9-1 thru 10-9-25 NMSA 1978, the Authority shall maintain and have available for inspection the following employee record documentation: employment contracts (including increments), personnel/payroll action forms, employment eligibility verification, federal and state withholding allowance certificates, pay deductions authorizations, pay or position change notices, I-9's, annual performance evaluations and direct deposit authorizations.

Effect: As a result, the Authority does not have the proper documentation on file to prove employees are eligible to work at the Authority. Also, the authorized wages, the proper amount of withholding, and any other potential required withholding is not determinable.

Cause: The cause appears to be that this was overlooked in the planning and set up of the new office space. We did notice an improvement from the beginning of the year towards the end of the year commencing with the new Executive Director's term in the documentation and record keeping of the personnel files.

Auditors' Recommendations: We recommend that the Authority ensure all personnel files be reviewed to ensure all required documentation is included in the personnel file, so that any personnel file is readily available and updated with current and accurate information when requested.

STATE OF NEW MEXICO
 New Mexico Renewable Energy Transmission Authority
 Schedule of Findings and Responses
 June 30, 2009

Management's Response: A&CG was advised that the Controller for the New Mexico Finance Authority (NMFA) controlled, directed and maintained all payroll related functions and documents. As such, RETA was confident that all payroll related documents required by law were being maintained by the NMFA. Going forward RETA is retaining duplicate copies of W-4 and I-9 Forms, for all current and future employees for its files. The comment regarding an unsigned employment contract referred to the former Executive Director and as such was beyond the control of current management.

FS 09-04 Lack of Entity-Wide Controls

Condition: During our process of understanding the entity and its environment, we noted instances where elements of the framework of COSO were nonexistent or deficient. The control environment or "tone at the top" did not adequately display accountability. We noted that the risk assessment element and monitoring element were not documented or sufficiently designed. We also noted the following deficiencies:

- Dominating management style by the Former Executive Director
- Inadequate documentation of expenditures incurred by the Authority, most notably during the first Executive Director's administration
- Lack of authorization over cash disbursements process
- Personal credit cards used by employees of the Authority to procure goods and services in the amount of \$28,105.91 during the first Executive Director's administration
- Incomplete personnel files

Criteria: The Committee of Sponsoring Organizations (COSO) internal control integrated framework consists of five critical elements that must be present in carrying out the achievement objectives of an organization. These elements are known as the control environment, risk assessment, control activities, information and communication and monitoring. With these elements in place, the Authority can maximize its potential for achieving its performance targets and reduce the risk of loss of resources.

Effect: Without all of the five elements of the COSO framework present, the Authority is exposing itself to the risk of misappropriation of assets and does not have set processes in place to maximize the resources of the Authority to achieve the goals set forth in the Renewable Energy Act.

Cause: Management was not aware the COSO internal control framework plays a key role in providing reasonable assurance regarding the achievement of effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations.

Auditors' Recommendations: We recommend that the Authority incorporate all five elements of the COSO internal control integrated framework in their organization. In particular, there must be a documented risk assessment process in place, there should be a mechanism in place to document the monitoring of the internal controls in place and the control environment must promote the highest ethical standards and efficient and effective path towards achieving the Authority's goals. We recommend that internal controls be addressed at both the entity level and activity level. We also recommend that key management personnel attend a training class on internal control.

Management's Response: RETA's current management feels strongly that a distinction should be made between the two terms of Executive Directors. Primarily, much tighter controls and more reliable documentations have been in force since approximately April of 2009. Additionally, deficiencies in personnel policy and personnel files, were the state of affairs principally prior to April 2009. While Auditors' Recommendations are appreciated, RETA must also work within the limitations of its governing board, i.e. availability of appropriate officers to sign off on certain Executive Director initiated expenses, etc. RETA certainly welcomes any and all suggestions to assure that internal controls, at the entity level and, activity levels are maintained.

C. PRIOR YEAR AUDIT FINDINGS - NONE

STATE OF NEW MEXICO
New Mexico Renewable Energy Transmission Authority
Other Disclosures
June 30, 2009

OTHER DISCLOSURES

Exit Conference

An exit conference was held on November 6, 2009. The following individuals were in attendance.

Representing New Mexico Renewable Energy Transmission Authority

Mark Valdes	Audit and Finance Committee
Greg Campbell	Controller (NMFA)
Jeremy Turner	Executive Director
Joan Munsell	Administrative Manager

Representing Accounting & Consulting Group, LLP

Jeff McWhorter, CPA	Audit Director
Bobby Cordova, CPA	On-Site Manager

Auditor Prepared Financials

Although it would be preferable and desirable for the Authority to prepare its own financial statements, the Authority contracted with the independent auditors to draft the Authority's financial statements for review and approval by the Authority. Therefore, the Accounting and Consulting Group, LLP, prepared the financial statements of the Authority from the original books and records provided to them by management. The Authority is responsible for its financial statements.