

**LOBO ENERGY
INCORPORATED
(A COMPONENT
UNIT OF THE
UNIVERSITY OF
NEW MEXICO)**

FINANCIAL STATEMENTS

JUNE 30, 2008

Moss Adams LLP
6100 Uptown Blvd NE Suite 400
Albuquerque, New Mexico
(505) 830-6200

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(A Component Unit of The University of New Mexico)

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LOBO ENERGY, INCORPORATED
(A Component Unit of The University of New Mexico)
Official Roster
June 30, 2008

OFFICERS

Steven R. Beffort
Mary S. Vosevich
Jewel M. Glavey

MEMBERS

Don L. Chalmers
David J. Schmidly
David W. Harris
Stephen W. McKernan
Steven R. Beffort
Roger L. Schluntz
Jon Word
Thomas J. Ruiz
Jerry D. Geist

Independent Auditors' Report

T 505-830-6200
F 505-830-6282

The Board of Directors
Lobo Energy, Incorporated
and
Hector H. Balderas
New Mexico State Auditor

We have audited the accompanying basic financial statements of Lobo Energy, Incorporated, a component unit of The University of New Mexico, (Lobo Energy) as of and for the years ended June 30, 2008 and 2007, as listed in the table of contents. These financial statements are the responsibility of the Lobo Energy's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statement audit 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 entity's internal control over financial reporting. Accordingly, we express no such opinion. 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lobo Energy as of June 30, 2008 and 2007, and the changes in its financial position and its cash flows for the years 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 October 9, 2008, on our consideration of Lobo Energy's internal control over financial reporting and on our test 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 Board of Directors
Lobo Energy, Incorporated
and
Hector H. Balderas
New Mexico State Auditor

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.

The management's discussion and analysis starting on page 4 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.

Moss Adams LLP

Albuquerque, New Mexico
October 9, 2008

LOBO ENERGY, INCORPORATED
(A Component Unit of the University of New Mexico)
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008, 2007 and 2006

This discussion and analysis of Lobo Energy, Incorporated (Lobo Energy) and its financial performance provides an overview of Lobo Energy's financial activities for the fiscal years ended June 30, 2008, 2007 and 2006. All accounting transactions for fiscal years 2008, 2007 and 2006 are considered to be governmental activities for purposes of applying the Governmental Accounting Standards Board's accounting standards.

Financial Highlights

- Lobo Energy's net assets decreased \$101,133 as a result of this year's operations under the revised Management Services Agreement from \$676,823 in 2007 to \$575,690 in 2008. During 2007, Lobo Energy's net assets increased \$100,678 as a result of operations under the revised Management Services Agreement (MSA) from \$576,145 in 2006 to \$676,823 in 2007.
- During the year, operating revenue decreased by \$231,538 and operating expenses increased by \$5,746, resulting in a decrease in net operating income of \$237,284. During 2007, operating revenue decreased by \$38,887 and operating expenses increased by \$41,130, resulting in a decrease in net operating income of \$80,017.
- The cash position increased by \$600,333, resulting in cash on deposit with fiscal agent and cash on hand at the close of 2008 of \$535,390. During the prior year, the cash position increased by \$503,402, resulting in cash on deposit with fiscal agent and cash on hand at the close of 2007 of \$1,135,723. The decrease during 2008 is primarily due to the fact that as of the beginning of March 2008 \$427,784 was being held by UNM in Lobo Energy's account and is classified as a restricted asset on Lobo Energy's balance sheet. The funds were being held for a new corporation that the Board of Regents were forming; Lobo Development Corporation. Lobo Development was incorporated during the fiscal year in 2008 and a UNM account was set up for the new corporation. The funds were transferred to Lobo Development's account from Lobo Energy's account during March, 2008.

Using This Annual Report

This annual report consists of a series of financial statements. The Balance Sheets, Statements of Revenues, Expenses, and Changes in Net Assets, and Statements of Cash Flows provide information about the activities of Lobo Energy.

LOBO ENERGY, INCORPORATED
(A Component Unit of the University of New Mexico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2008, 2007 and 2006

Overview of the Financial Statements

The Balance Sheets of Lobo Energy provide information about Lobo Energy's overall financial status. The Statements of Revenues, Expenses, and Changes in Net Assets provide information about the operating revenues and expenses and the non-operating revenues and expenses of Lobo Energy. The Statements of Cash Flows provide information about the sources and uses of cash by Lobo Energy.

Reporting on Lobo Energy's Activities

Financial Information

Lobo Energy's condensed financial information as of and for the years ended June 30, 2008, 2007 and 2006 are provided in the following table:

	2008	2007	2006
Current assets	\$ 537,192	748,291	632,320
Fixed Assets	38,468	-	-
Other assets	30	406,347	30
Total assets	\$ 575,690	1,154,638	632,350
Current liabilities	\$ 34,065	71,498	56,205
Non-current liabilities	-	406,317	-
Net assets	541,625	676,823	576,145
Total liabilities and net assets	\$ 575,690	1,154,638	632,350
Operating revenue	\$ 535,390	766,928	805,815
Operating expenses	706,093	700,346	659,217
Operating income (loss)	(170,703)	66,582	146,598
Nonoperating revenue	35,505	34,096	13,337
Change in net assets	(135,198)	100,678	159,935
Net assets, beginning of year	676,823	576,145	416,210
Net assets, end of year	\$ 541,625	676,823	576,145

LOBO ENERGY, INCORPORATED
(A Component Unit of the University of New Mexico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2008, 2007 and 2006

Statements of Net Assets

Assets – A large portion of the June 30, 2008 and 2007 assets are in the form of cash in the amount of \$537,192 and \$729,407 respectively; of which \$487,804 and \$719,601, respectively, is held by Lobo Energy's fiscal agent, The University of New Mexico (UNM), and \$49,388 and \$9,806, respectively, is held in an operating bank account at Compass Bank. Cash decreased primarily as a result of the increase in project expenses. A large portion of the June 30, 2006 assets was in the form of cash in the amount of \$632,320 of which \$580,162 was held by Lobo Energy's fiscal agent, The University of New Mexico (UNM), and \$52,158 was held in an operating bank account at Compass Bank. Cash increased primarily in 2006 as a result of the increase in net assets.

Liabilities and Net Assets – A majority of the June 30, 2008 and 2007 net assets are held as equity in the form of unrestricted net assets of \$541,626 and \$676,823, respectively. The remainder is current liabilities. A majority of the June 30, 2006 net assets were held as equity in the form of unrestricted net assets of \$576,145. The remainder was current liabilities.

Statements of Revenues, Expenses, and Changes in Net Assets

Revenues – There were no earnings under the original MSA during 2007 and 2008. Total transition and project management services revenue of \$805,815 was earned during 2006 under the MSA and includes \$80,000 from project management services and \$305,815 from transition management services. The revised MSA became effective November 1, 2005, after the expiration of the original agreement between UNM and Lobo Energy. Under the revised agreement, total revenue earned during 2008 and 2007 for utility project management services and other project management services was \$535,390 and \$766,928 and includes \$480,000 and \$480,000, respectively, for utilities management services and \$55,390 and \$286,928, respectively, for other management services.

Expenses – Total operating expenses increased \$5,746 during the year ended June 30, 2008 due to an increase of \$14,216 in project expenses and a decrease of \$8,470 in operating expenses. This change was primarily due to the fact that the energy conservation project commenced in April 2008, increasing project salaries and operating expenses. Total operating expense of \$706,092 during 2008 is comprised of administrative expenses and project expenses. During the prior year ended June 30, 2007, total operating expenses increased \$41,130 primarily due to an increase of \$18,546 in project expenses and an increase of \$22,584 in operating expenses. Total operating expense of \$700,347 during 2007 was comprised of administrative expenses and project expenses.

LOBO ENERGY, INCORPORATED
(A Component Unit of the University of New Mexico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2008, 2007 and 2006

UNM is the fiscal agent of Lobo Energy. UNM holds the majority of Lobo Energy's net assets and invests the holdings in a commingled account with UNM's other investments. The pro rata interest earnings are credited to Lobo Energy's account monthly. Lobo Energy transfers funds to its checking account as needed.

Contacting Lobo Energy's Financial Management

This report is meant to accurately describe the financial condition and position of Lobo Energy.

If you have questions about this report or need additional financial information, contact Lobo Energy, Incorporated at 801 University Boulevard SE, Suite 207, Albuquerque, New Mexico 87106-4345.

LOBO ENERGY, INCORPORATED
(A Component Unit of the University of New Mexico)
BALANCE SHEETS
June 30, 2008 and 2007

ASSETS

	2008	2007
Current Assets		
Cash on deposit with fiscal agent	\$ 487,804	719,601
Cash on deposit with bank	49,388	9,806
Cash on deposit with fiscal agent - restricted	-	406,317
Due from UNM	-	18,884
Total current assets	<u>537,192</u>	<u>1,154,608</u>
Noncurrent Assets		
Other assets	30	30
Total noncurrent assets	<u>30</u>	<u>30</u>
Capital Assets		
Computer software (net of related accumulated amortization)	38,468	-
Total assets	<u>\$ 575,690</u>	<u>1,154,638</u>

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts payable	\$ 34,065	71,498
Due to Lobo Development Corporation	-	406,317
Total liabilities	<u>34,065</u>	<u>477,815</u>
Net Assets		
Invested in capital assets	38,468	-
Unrestricted	503,157	676,823
Total net assets	<u>541,625</u>	<u>676,823</u>
Total liabilities and net assets	<u>\$ 575,690</u>	<u>1,154,638</u>

See Notes to Financial Statements.

LOBO ENERGY, INCORPORATED
(A Component Unit of the University of New Mexico)
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years Ended June 30, 2008 and 2007

	2008	2007
Operating Revenue		
Utilities management services - Rev MSA	480,000	480,000
Other management services - Rev MSA	55,390	286,928
	<hr/>	<hr/>
Total operating revenue	535,390	766,928
	<hr/>	<hr/>
Operating expenses		
Administrative expenses	84,350	92,820
Project expenses	621,743	607,526
	<hr/>	<hr/>
Total operating expenses	706,093	700,346
	<hr/>	<hr/>
Operating (loss) income	(170,703)	66,582
Nonoperating revenue		
Interest revenue	35,505	34,096
	<hr/>	<hr/>
Change in net assets	(135,198)	100,678
Net assets, beginning of year	676,823	576,145
	<hr/>	<hr/>
Net assets, end of year	\$ 541,625	676,823
	<hr/> <hr/>	<hr/> <hr/>

See Notes to Financial Statements.

LOBO ENERGY, INCORPORATED
(A Component Unit of the University of New Mexico)
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2008 and 2007

	2008	2007
Cash Flows From Operating Activities		
Receipts from customers	\$ 554,274	748,044
Payments to other suppliers of goods or services	(589,834)	(615,564)
Payments to employees for services	(149,728)	(69,489)
	<hr/>	<hr/>
Net cash (used) provided by		
operating activities	(185,288)	62,991
	<hr/>	<hr/>
Cash Flows from Noncapital Financing Activities		
Restricted cash received	-	385,000
Increase in due to Lobo Development Corporation	-	(406,317)
	<hr/>	<hr/>
Net cash used by noncapital		
financing activities	-	(21,317)
	<hr/>	<hr/>
Cash Flows from Capital Activities		
Purchases of capital assets	(42,432)	-
	<hr/>	<hr/>
Cash Flows Provided by Investing Activities -		
Interest received on deposits with fiscal agent	35,505	55,413
	<hr/>	<hr/>
Net (decrease) increase in cash and cash equivalents	(192,215)	97,087
Cash and cash equivalents, beginning of year	729,407	632,320
	<hr/>	<hr/>
Cash and cash equivalents, end of year	\$ 537,192	729,407
	<hr/> <hr/>	<hr/> <hr/>
Reconciliation of Operating Income to Net Cash Used		
(Provided) By Operating Activities		
Operating income	\$ (170,703)	66,582
Adjustments to reconcile operating income to net cash		
used (provided) by operating activities		
Amortization expense	3,964	-
Change in due from UNM	18,884	(18,884)
Change in accounts payable and accrued expenses	(37,433)	15,293
	<hr/>	<hr/>
Net cash (used) provided		
by operating activities	\$ (185,288)	62,991
	<hr/> <hr/>	<hr/> <hr/>

See Notes to Financial Statements.

LOBO ENERGY, INCORPORATED
(A Component Unit of the University of New Mexico)
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

**NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES**

Business. Lobo Energy, Incorporated (a component unit of The University of New Mexico) (Lobo Energy) is owned, controlled, and was established by The University of New Mexico's (UNM) Board of Regents.

Lobo Energy was incorporated in the State of New Mexico on July 15, 1998. It was organized under the amended State of New Mexico's University Research Park Act. Lobo Energy is exempt from federal income tax on income related to its exempt purposes under Section 501(a) of the Internal Revenue Code (Code) as an organization described in Section 501(c)(3) of the Code.

Lobo Energy was established to provide UNM with services outlined in an Interim Services Agreement (ISA) that included procuring electricity and natural gas for UNM, installing an energy metering and management system, and developing a Master Utility Business Plan (Plan) for the upgrade and improvement of the utility infrastructure. Lobo Energy completed the installation of a metering and monitoring system and developed and integrated energy procurement methods into UNM's procurement processes. Lobo Energy's Board of Directors approved the Plan in June 2000. UNM implemented the business plan and financed and constructed the projects contemplated in the business plan.

In developing the Plan, Lobo Energy employed several consultants to assist in assessing the utility infrastructure needs, defining a technical solution, and determining the financial parameters of that solution. The combined efforts resulted in a comprehensive plan that described many utility improvement projects, their construction costs, and the financial impacts upon the utility services. The utility systems included in the Plan have been renewed through a series of construction projects over a period of several years.

Lobo Energy conducted its business under the terms of a November 2000-2005 Management Services Agreement (MSA) that replaced the original ISA. Under the MSA, with respect to existing and any and all new utility systems and equipment, UNM continued to own, finance, operate, maintain, and in all respects control the utility equipment and systems. Lobo Energy provided project management services and transition management services for the duration of the project. The utility upgrade project was completed during 2006.

Following the completion of the utility upgrade project, UNM requested that Lobo Energy implement an energy conservation program on the campus during 2008. Lobo Energy entered into a contract with Energy Education, Inc., a corporation that specializes in this field. Lobo Energy hired six energy conservation educators ("ECEs) to work on UNM's main campus. Energy Education, Inc. is training the employees for the first six

LOBO ENERGY, INCORPORATED
(A Component Unit of the University of New Mexico)
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

**NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES (CONTINUED)**

months of their employment. Five of the ECEs were hired on April 7, 2008. The sixth ECE was hired July 21, 2008. Contract payments do not begin until the training period has ended.

Lobo Energy currently provides services to UNM under the terms of a revised MSA which is effective November 2005-2010. Under the revised MSA, Lobo Energy provides UNM with two types of management services: utility project management services and other management and planning services.

Lobo Energy provides services only to UNM.

Basis of Accounting. As a component unit of UNM, Lobo Energy follows proprietary fund accounting as set forth in Statement No. 20 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. Under the provisions of that standard, Lobo Energy has elected to not apply Statements of Financial Accounting Standards issued by the Financial Accounting Standards Board after November 30, 1989.

As a proprietary fund, Lobo Energy's financial statements are reported using a flow of economic resources measurement focus and the full accrual basis of accounting. Accordingly, revenues are recognized when they are earned and expenses are recognized as soon as the liability is incurred. Operating revenues and expenses are those incurred that relate directly to energy and project management services. All other revenues and expenses are considered nonoperating.

The accompanying financial statements include only the accounts of Lobo Energy which has no component units.

Cash and Cash Equivalents. For purposes of the Statement of Cash Flows, Lobo Energy considers cash and cash equivalents to be cash deposits and amounts held by its fiscal agent.

Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition. Lobo Energy recognizes operating revenue as transition and project management services; fees for these services are earned under the terms of the MSA.

LOBO ENERGY, INCORPORATED
(A Component Unit of the University of New Mexico)
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

**NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES (CONTINUED)**

Capital Assets. Lobo Energy's capital assets consist of purchased software. Lobo Energy's policy is to capitalize all disbursements for equipment, software and furnishings in excess of \$5,000. Items with a cost of less than \$5,000 are expensed in the year of acquisition. Donated equipment is recorded at fair market value at the date of donation. Repairs and maintenance expenses are charged to operations when incurred and major improvements and replacements are capitalized. Amortization is provided for on software using the straight-line basis over estimated useful lives of three to seven years.

Net assets are classified as follows:

Invested in capital assets (net of related debt) is intended to reflect the portion of net assets which are associated with non-liquid, capital assets less outstanding capital asset related debt. Lobo Energy does not have any debt related to its capital assets.

Restricted net assets are net assets that have third-party (statutory or granting agency) limitations on their use.

Unrestricted net assets represent liquid assets available for use.

**NOTE 2. PROJECT MANAGEMENT SERVICES UNDER THE REVISED
MANAGEMENT SERVICES AGREEMENT**

UTILITY PROJECT MANAGEMENT SERVICES

Lobo Energy may provide assistance to the University, as requested, for the management and supervision of its contracts that provide for the:

- a. planning, design, engineering, contracting, and commissioning services for assigned projects;
- b. procurement of equipment and services in the course of implementing the projects;
- c. management of the University's energy procurement strategies;
- d. recommendations for obtaining cost-effective energy commodities and services from energy suppliers;
- e. management of the University's energy-related regulatory issues;
- f. recommendations for appropriate actions and strategies in response to regulatory opportunities or events;

LOBO ENERGY, INCORPORATED
(A Component Unit of the University of New Mexico)
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

**NOTE 2. PROJECT MANAGEMENT SERVICES UNDER THE REVISED
MANAGEMENT SERVICES AGREEMENT (CONTINUED)**

- g. administrative tools capable of providing utility operational budgeting, capital project budgeting, major maintenance budgeting, cash flow tracking, and energy savings tracking; and
- h. assistance with developing the energy and administrative capabilities described in items a through g above.

Under the revised MSA, as of November 1, 2005, UNM compensates Lobo Energy for these services at the rate of \$40,000 per month.

OTHER MANAGEMENT AND PLANNING SERVICES

- a. commercial development planning services;
- b. additional infrastructure development plans; and
- c. other planning services as assigned.

Under the revised MSA, as of November 1, 2005, UNM pays Lobo Energy a mutually-agreed-upon monthly fee for the duration of each project.

NOTE 3. CASH

Lobo Energy's cash balances include cash on deposit with fiscal agent and an operating account. Lobo Energy has no statutory or policy requirements, however, has a policy to deposit funds only in FDIC insured accounts. UNM serves as the fiscal agent for Lobo Energy through which Lobo Energy participates in a pooled bank account maintained by UNM. At June 30, 2008 and 2007, Lobo Energy had a balance in that pooled account of \$487,804 and \$719,601, respectively. As fiscal agent, UNM requires the financial institution holding these pooled funds to maintain minimum collateral amounts. Interest is allocated monthly to Lobo Energy's account based on its balance in the pooled bank account at the end of the preceding month.

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the entity's deposits may not be returned to it. At June 30, 2008 the bank balance in Lobo Energy's separate checking account with Compass Bank was \$50,305 and book balance was \$49,388. Of the bank balance, the entire amount (up to \$100,000) is insured by the Federal Deposit Insurance Corporation.

LOBO ENERGY, INCORPORATED
(A Component Unit of the University of New Mexico)
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 4. CAPITAL ASSETS

A summary of the Lobo Energy's capital assets at June 30, 2008 is as follows:

	Beginning of Year	Increase	Decrease	End of Year
Capital assets being amortized – software	\$ -	42,432	-	42,432
Accumulated amortization	-	(3,964)	-	(3,964)
Capital assets, net	<u>\$ -</u>	<u>38,468</u>	<u>-</u>	<u>38,468</u>

NOTE 5. RELATED-PARTY TRANSACTIONS

Effective December 1, 1998, UNM and Lobo Energy entered into a Memorandum of Agreement (MOA) containing the expectations and performance obligations that UNM was seeking from Lobo Energy at that time. The MOA articulates UNM's and Lobo Energy's mutual obligations in planning, developing, and implementing the utility facilities and services required by UNM.

Pursuant to the MOA, UNM provides to Lobo Energy, at no cost to Lobo Energy, facilities support and general business office and associated workspace. The MOA also establishes UNM as the fiscal agent for Lobo Energy, with UNM providing cash and investment management activities for Lobo Energy, at no cost to Lobo Energy.

The MOA may be terminated by UNM and, upon termination, all property of Lobo Energy will be transferred to UNM or other successor organization(s) designated by a resolution of UNM's Board of Regents.

NOTE 6. CONTINGENCIES

Lobo Energy, through UNM, participates in the State of New Mexico Risk Management Program (Risk Management) that provides general liability, auto liability, physical damage and workers' compensation insurance. The Risk Management program liability insurance coverage includes most employee liability claims; those claims falling outside this state program are in limited amounts and are covered by UNM from its operating budget. UNM's exposure is limited to \$1,000 per any first party incurred property loss, with the exception of theft, which has a \$5,000 deductible.

**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 Board of Directors
Lobo Energy, Incorporated
and
Hector H. Balderas
New Mexico State Auditor

We have audited the basic financial statements of Lobo Energy, Incorporated (a component unit of the University of New Mexico) (Lobo Energy) as of and for the year ended June 30, 2008, and have issued our report thereon dated October 9, 2008. 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 Lobo Energy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lobo Energy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Lobo Energy's internal control over financial reporting.

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 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 entity's internal control.

The Board of Directors
Lobo Energy, Incorporated
and
Hector H. Balderas
New Mexico State Auditor

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 Lobo Energy's internal control.

Our consideration of 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 internal control that might be 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 Lobo Energy's financial statements are free of material misstatement, we performed tests of its compliance with certain provision 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*.

This report is intended solely for the information and use of the board of directors, management, and the New Mexico State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Moss Adams LLP

Albuquerque, New Mexico
October 9, 2008

LOBO ENERGY, INCORPORATED
(A Component Unit of the University of New Mexico)
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2008

FINDINGS – FINANCIAL STATEMENTS AUDIT

PRIOR YEAR FINDINGS

None

CURRENT YEAR FINDINGS

None

LOBO ENERGY, INCORPORATED
(A Component Unit of the University of New Mexico)
EXIT CONFERENCE
June 30, 2008

We discussed the recommendations contained in this letter during the exit conference held October 8, 2008. The exit conference was attended by the following individuals:

Lobo Energy, Incorporated

Don L. Chalmers, Chairman of the Board
Steven R. Beffort, President/CEO
Jewel M. Glavey, Secretary/Treasurer

Moss Adams LLP

Larry Carmony, Partner

Moss Adams LLP assisted with the preparation of the financial statements.