

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

FINANCIAL STATEMENTS

JUNE 30, 2010

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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, 2010

OFFICERS

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

MEMBERS

David J. Schmidly
David W. Harris
Stephen W. McKernan
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Independent Auditors' Report

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, 2010 and 2009, 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, 2010 and 2009, 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 12, 2010, 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 on pages 4 through 7 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.

Mess Adams LLP

Albuquerque, New Mexico
October 12, 2010

LOBO ENERGY, INCORPORATED
(A Component Unit of the University of New Mexico)
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2010, 2009 and 2008

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, 2010, 2009 and 2008. All accounting transactions for fiscal years 2010, 2009 and 2008 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 \$54,017 as a result of this year's operations under the revised Management Services Agreement from \$219,942 in 2009 to \$165,925 in 2010. During 2009, Lobo Energy's net assets decreased \$321,683 as a result of operations under the revised Management Services Agreement (MSA) from \$541,625 in 2008 to \$219,942 in 2009.
- During the year, operating revenue increased by \$721,200 and operating expenses increased by \$444,374, resulting in a decrease in net operating loss of \$276,826. During 2009, operating revenue increased by \$1,388,210 and operating expenses increased by \$1,551,721, resulting in a decrease in net operating income of \$163,511.
- The cash position decreased by \$91,151, resulting in cash on deposit with fiscal agent and cash on hand at the close of 2010 of \$327,052. The decrease during 2010 is primarily due to an increase in project expenses. During the prior year, the cash position decreased by \$118,989, resulting in cash on deposit with fiscal agent and cash on hand at the close of 2009 of \$418,203. The decrease during 2009 is primarily due to an increase in project expenses.

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, 2010, 2009 and 2008

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, 2010, 2009 and 2008 are provided in the following table:

	2010	2009	2008
Current assets	\$ 327,052	418,203	537,192
Capital assets	10,491	24,480	38,468
Other assets	30	30	30
Total assets	\$ 337,573	442,713	575,690
Current liabilities	\$ 171,648	222,771	34,065
Net assets	165,925	219,942	541,625
Total liabilities and net assets	\$ 337,573	442,713	575,690
Operating revenue	\$ 2,644,800	1,923,600	535,390
Operating expenses	2,702,188	2,257,814	706,093
Operating loss	(57,388)	(334,214)	(170,703)
Nonoperating revenue	3,371	12,531	35,505
Change in net assets	(54,017)	(321,683)	(135,198)
Net assets, beginning of year	219,942	541,625	676,823
Net assets, end of year	\$ 165,925	219,942	541,625

LOBO ENERGY, INCORPORATED
(A Component Unit of the University of New Mexico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2010, 2009 and 2008

Statements of Net Assets

Assets – A large portion of the June 30, 2010 and 2009 assets are in the form of cash in the amount of \$327,052 and \$418,203 respectively; of which \$324,079 and \$390,069, respectively, is held by Lobo Energy's fiscal agent, The University of New Mexico (UNM), and \$2,973 and \$28,134, 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, 2008 assets were in the form of cash in the amount of \$537,192 of which \$487,804 was held by Lobo Energy's fiscal agent, UNM, and \$49,388 was held in an operating bank account at Compass Bank.

Liabilities and Net Assets – A majority of the June 30, 2010 and 2009 net assets are held as equity in the form of unrestricted net assets of \$165,925 and \$219,942, respectively. The remainder is current liabilities. A majority of the June 30, 2008 net assets were held as equity in the form of unrestricted net assets of \$541,625. The remainder was current liabilities.

Statements of Revenues, Expenses, and Changes in Net Assets

Revenues – There were no earnings under the original MSA during 2008, 2009 and 2010. 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 2010 and 2009 for utility project management services and other project management services was \$2,644,800 and \$1,923,600 and includes \$480,000 and \$480,000, respectively, for utilities management services and \$2,164,800 and \$1,443,600, respectively, for other management services.

Expenses – Total operating expenses increased \$444,374 during the year ended June 30, 2010 due to an increase of \$440,678 in project expenses and an increase of \$3,697 in operating expenses. This change was primarily due to the fact that the renewable energy project was started during the fiscal year and the energy conservation project was ongoing for the entire fiscal year, increasing project salaries and operating expenses. Total operating expenses increased \$1,551,721 during the year ended June 30, 2009 due to an increase of \$1,537,515 in project expenses and an increase of \$14,206 in operating expenses. This change was primarily due to the fact that the energy conservation project was ongoing for the entire fiscal year, increasing project salaries and 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.

LOBO ENERGY, INCORPORATED
(A Component Unit of the University of New Mexico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2010, 2009 and 2008

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, 2010 and 2009

ASSETS

	2010	2009
Current Assets		
Cash on deposit with fiscal agent	\$ 324,079	390,069
Cash on deposit with bank	2,973	28,134
Total current assets	<u>327,052</u>	<u>418,203</u>
Noncurrent Assets		
Other assets	30	30
Total noncurrent assets	<u>30</u>	<u>30</u>
Capital Assets		
Computer software, net	10,491	24,480
Total assets	<u>\$ 337,573</u>	<u>442,713</u>

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts payable	\$ 171,648	222,771
Total liabilities	<u>171,648</u>	<u>222,771</u>
Net Assets		
Invested in capital assets	10,491	24,480
Unrestricted	155,434	195,462
Total net assets	<u>165,925</u>	<u>219,942</u>
Total liabilities and net assets	<u>\$ 337,573</u>	<u>442,713</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, 2010 and 2009

	2010	2009
Operating Revenue		
Utilities management services - Rev MSA	\$ 480,000	480,000
Other management services - Rev MSA	2,164,800	1,443,600
	<hr/>	<hr/>
Total operating revenue	2,644,800	1,923,600
	<hr/>	<hr/>
Operating expenses		
Administrative expenses	102,252	98,556
Project expenses	2,599,936	2,159,258
	<hr/>	<hr/>
Total operating expenses	2,702,188	2,257,814
	<hr/>	<hr/>
Operating loss	(57,388)	(334,214)
	<hr/>	<hr/>
Nonoperating revenue		
Interest revenue	3,371	12,531
	<hr/>	<hr/>
Change in net assets	(54,017)	(321,683)
	<hr/>	<hr/>
Net assets, beginning of year	219,942	541,625
	<hr/>	<hr/>
Net assets, end of year	\$ 165,925	219,942
	<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, 2010 and 2009

	2010	2009
Cash Flows From Operating Activities		
Receipts from customers	\$ 2,644,800	1,923,600
Payments to other suppliers of goods or services	(2,309,211)	(1,674,849)
Payments to employees for services	(430,111)	(380,271)
	<u>(94,522)</u>	<u>(131,520)</u>
Net cash used by operating activities		
	<u>(94,522)</u>	<u>(131,520)</u>
Cash Flows Provided by Investing Activities -		
Interest received on deposits with fiscal agent	3,371	12,531
	<u>3,371</u>	<u>12,531</u>
Net decrease in cash and cash equivalents	(91,151)	(118,989)
Cash and cash equivalents, beginning of year	418,203	537,192
	<u>418,203</u>	<u>537,192</u>
Cash and cash equivalents, end of year	\$ 327,052	418,203
	<u>\$ 327,052</u>	<u>418,203</u>
Reconciliation of Operating Income to Net Cash (Used)		
Provided By Operating Activities		
Operating loss	\$ (57,388)	(334,214)
Adjustments to reconcile operating income to net cash (used) provided by operating activities		
Depreciation expense	13,989	13,988
Change in accounts payable and accrued expenses	(51,123)	188,706
	<u>13,989</u>	<u>13,988</u>
	<u>(51,123)</u>	<u>188,706</u>
Net cash used by operating activities	\$ (94,522)	(131,520)
	<u>\$ (94,522)</u>	<u>(131,520)</u>

See Notes to Financial Statements.

LOBO ENERGY, INCORPORATED
(A Component Unit of the University of New Mexico)
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

**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. The name of the Act has since been changed to the University Research Park and Economic Development 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 were 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.

LOBO ENERGY, INCORPORATED
(A Component Unit of the University of New Mexico)
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

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

Lobo Energy currently provides services to UNM under the terms of a revised MSA which is effective November 2005-2010 (See Note 7). Under the revised MSA, Lobo Energy provides UNM with two types of management services: utility project management services and other management and planning services.

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 all UNM's campuses. Contract payments began after the first six months the contract was in effect. The ongoing program continues to be very effective. UNM has experienced a dramatic decrease in its energy consumption, as well as a reduction in the size of its carbon footprint, since the onset of the project.

During 2009, Lobo Energy was asked by UNM to explore renewable energy applications that might be viable on the campus, decreasing the use of energy. Lobo Energy issued a Request for Information (RFI) regarding potential renewable energy projects for installation on the UNM campus when funding becomes available.

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.

LOBO ENERGY, INCORPORATED
(A Component Unit of the University of New Mexico)
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

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

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.

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.

LOBO ENERGY, INCORPORATED
(A Component Unit of the University of New Mexico)
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

**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;
- 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.

LOBO ENERGY, INCORPORATED
(A Component Unit of the University of New Mexico)
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

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, 2010 and 2009, Lobo Energy had a balance in that pooled account of \$324,079 and \$390,069, 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, 2010 the bank and book balance in Lobo Energy's separate checking account was \$3,034 and \$2,973, respectively. At June 30, 2009, the bank and book balance was \$28,134. Of the bank balance, the entire amount (up to \$250,000) is insured by the Federal Deposit Insurance Corporation.

NOTE 4. CAPITAL ASSETS

A summary of the Lobo Energy's capital assets at June 30, 2010 is as follows:

	Beginning of Year	Increase	Decrease	End of Year
Capital assets being amortized – software	\$ 42,432	-	-	42,432
Accumulated amortization	(17,952)	(13,989)	-	(31,941)
Capital assets, net	\$ 24,480	(13,989)	-	10,491

A summary of the Lobo Energy's capital assets at June 30, 2009 is as follows:

	Beginning of Year	Increase	Decrease	End of Year
Capital assets being amortized – software	\$ 42,432	-	-	42,432
Accumulated amortization	(3,964)	(13,988)	-	(17,952)
Capital assets, net	\$ 38,468	(13,988)	-	24,480

LOBO ENERGY, INCORPORATED
(A Component Unit of the University of New Mexico)
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 5. MAJOR CONTRACTS

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., (EEI) a corporation that specializes in the reduction of consumption of electricity, gas, propane, fuel oil, water and sewer. The contract provides for a six-month training period (April-September 2008) in which Lobo Energy hired Energy Conservation Educators (ECEs) to work on UNM's Albuquerque campus, followed by four performance years during which Lobo Energy will pay EEI \$1,924,800 per year, or a total of \$7,699,200. In turn, EEI estimates net savings (cost avoidance) equal to \$57,795,615 for a period of ten performance years effective April 1, 2008. Of the \$57,795,615 in estimated savings, EEI guarantees a cumulative total of \$10,838,672 during the first four performance years. If at the end of each of the first four performance years, the savings from the beginning of the initial training period until the end of each of the first four performance years respectively does not exceed the costs, then EEI will reimburse Lobo Energy the amount of this difference, if any, which EEI has not previously reimbursed as of the end of a prior performance year. The savings are computed by the ECEs and EEI, using EnergyCAP software, as prescribed by EEI.

Due to the disproportionately large share of benefit from the program and disproportionately large costs incurred by EEI, termination fees are applicable if Lobo Energy chooses to terminate the contract prior to the conclusion of the first four performance years. Each fee is assessed based on the performance period as follows:

- If terminated before or at the end of the 1st performance year – termination fee is \$2,406,000
- If terminated during or at the end of the 2nd performance year – termination fee is \$1,924,800
- If terminated during or at the end of the 3rd performance year – termination fee is \$1,732,320
- If terminated during the 4th performance year – termination fee is \$1,539,840
- EEI will also bill any past due amounts that have not been paid

During FY 08-09, programs were started on UNM's Valencia, Gallup, Los Alamos and Taos Campuses. The program on each of those campuses is administered by an employee who was already employed on each campus. The programs are ongoing during FY 09-10.

LOBO ENERGY, INCORPORATED
(A Component Unit of the University of New Mexico)
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 6. DEFINED CONTRIBUTION PENSION PLAN

Lobo Energy entered into, and administers, a 403(b) defined contribution plan effective February 1, 2000 and amended January 1, 2009. As a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The plan may be amended by a Board of Directors' resolution. All employees of Lobo Energy are eligible to participate and are considered to be immediately vested. The plan allows for variable employee contributions up to the IRS maximum allowed amount. The employer contributes a 100% match up to 6% of each participating employee's gross salary per compensation period. Contributions to the plan for the fiscal years ended June 30, 2010 and 2009 were \$48,958 and \$35,774, which consisted of \$25,679 and \$19,087 contributed by employees and \$23,279 and \$16,687 contributed by Lobo Energy respectively.

NOTE 7. 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 8. 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, 2010, and have issued our report thereon dated October 12, 2010. 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 *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 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.

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

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 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.

Mess Adams LLP

Albuquerque, New Mexico
October 12, 2010

LOBO ENERGY, INCORPORATED
(A Component Unit of the University of New Mexico)
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2010

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, 2010

We discussed the recommendations contained in this letter during the exit conference held October 12, 2010. The exit conference was attended by the following individuals:

Lobo Energy, Incorporated

Steven R. Beffort, President/CEO
Mary S. Vosevich, Vice President
Jewel M. Glavey, Secretary/Treasurer

Moss Adams LLP

Jason Galloway, Manager