

LOBO ENERGY, INCORPORATED
(A Blended Component Unit of the University of New Mexico)

Financial Statements

June 30, 2019 and 2018

(With Report of Independent Auditors Thereon)

LOBO ENERGY, INCORPORATED
(A Blended Component Unit of the University of New Mexico)

Table of Contents

	Page
Official Roster (unaudited)	1
Report of Independent Auditors	2
Management’s Discussion and Analysis (unaudited)	4
Financial Statements:	
Statements of Net Position	7
Statements of Revenues, Expenses, and Changes in Net Position	8
Statements of Cash Flows	9
Notes to Financial Statements	10
Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	18
Summary of Auditor’s Results	20
Schedule of Findings and Response	21
Schedule of Prior Audit Findings	22
Exit Conference	23

LOBO ENERGY, INCORPORATED
(A Component Unit of the University of New Mexico)

Official Roster (Unaudited)

June 30, 2019

OFFICERS

Jason Strauss

Matthew Cherrin

Julie Alberti

Alfred Sena

MEMBERS

Jason Strauss

Kate Becker

Garnett Stokes

David W. Harris

Geraldine Forbes-Isais

Jon Word

Thomas J. Ruiz

Bruno E. Carrara

Thomas E. Clifford

Marron Lee

Craig White Interim

Report of Independent Auditors

The Board of Directors
Lobo Energy, Incorporated
and
Mr. Brian S. Colón, Esq.
New Mexico State Auditor

Report on the Financial Statements

We have audited the accompanying financial statements of Lobo Energy, Incorporated (Lobo Energy), a blended component unit of the University of New Mexico, which comprise the statements of net position as of June 30, 2019 and 2018, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise Lobo Energy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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 audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or

error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lobo Energy, Incorporated as of June 30, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 5, 2019 on our consideration of Lobo Energy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lobo Energy's internal control over financial reporting and compliance.

Mess Adams LLP

Albuquerque, New Mexico
September 5, 2019

LOBO ENERGY, INCORPORATED
(A Blended Component Unit of the University of New Mexico)

Management's Discussion and Analysis

June 30, 2019 and 2018

(unaudited)

The following discussion and analysis provides an overview of the financial position and activities of Lobo Energy, Incorporated (Lobo Energy) as of and for the fiscal years ended June 30, 2019, 2018 and 2017. This discussion should be read in conjunction with the accompanying financial statements and notes. Management has prepared the basic financial statements and the related note disclosures along with this discussion and analysis. As such, the financial statements, notes, and this discussion are the responsibility of Lobo Energy's management.

Financial Highlights

- Lobo Energy's net position increased \$674,139 from \$4,936,628 in 2018 to \$5,610,767 in fiscal year 2019, primarily due to a decrease in operating expense. Lobo Energy's net position increased \$367,457 from \$4,569,171 in 2017 to \$4,936,628 in fiscal year 2018, primarily due to operating expense.
- During fiscal year 2019, Lobo Energy's operating revenue remained the same and operating expenses decreased by \$280,331, resulting in a net operating gain of \$773,808 in fiscal year 2019, compared to a net operating gain of \$493,477 in fiscal year 2018. During fiscal year 2018, Lobo Energy's operating revenue decreased by \$750 and operating expenses increased by \$249,840, resulting in a net operating gain of \$493,477 in fiscal year 2018, compared to a net operating gain of \$744,067 in fiscal year 2017.
- Cash increased in fiscal year 2019 by \$166,840 resulting in cash on deposit with fiscal agent and cash on hand at the close of fiscal year 2019 of \$721,707. The increase during fiscal year 2019 is primarily due to not having to pay for the Investment Grade Audit to Yearout Energy Services as in the prior year. Cash decreased in fiscal year 2018 by \$60,521 resulting in cash on deposit with fiscal agent and cash on hand at the close of fiscal year 2018 of \$554,867. The decrease during fiscal year 2018 is primarily due to the payment for the Investment Grade Audit to Yearout Energy Services.

Overview of the Basic Financial Statements

The statements of net position of Lobo Energy provide both long-term and short-term information about Lobo Energy's overall financial position. The statements of revenues, expenses, and changes in net position provide information about the operating revenues and expenses and the nonoperating revenues and expenses of Lobo Energy. The statements of cash flows provide information related to the cash inflows and outflows of Lobo Energy. The notes to the basic financial statements provide more detailed information about amounts reported in the basic financial statements.

LOBO ENERGY, INCORPORATED
(A Blended Component Unit of the University of New Mexico)

Management's Discussion and Analysis

June 30, 2019 and 2018

(unaudited)

Financial Information

Lobo Energy's condensed financial information as of and for the fiscal years ended June 30, 2019, 2018 and 2017 are provided in the following table:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Current assets	\$ 732,723	567,551	643,738
Capital assets	8,292,488	8,841,801	9,391,114
Total assets	<u>\$ 9,025,211</u>	<u>9,409,352</u>	<u>10,034,852</u>
Current liabilities	\$ 1,108,014	1,103,469	1,061,293
Long-term liabilities	2,306,430	3,369,255	4,404,388
Net position	<u>5,610,767</u>	<u>4,936,628</u>	<u>4,569,171</u>
Total liabilities and net position	<u>\$ 9,025,211</u>	<u>9,409,352</u>	<u>10,034,852</u>
Operating revenue	\$ 2,171,065	2,171,065	2,171,815
Operating expenses	<u>1,397,257</u>	<u>1,677,588</u>	<u>1,427,748</u>
Operating income	773,808	493,477	744,067
Nonoperating revenue	4,264	4,885	7,641
Nonoperating expenses	<u>103,933</u>	<u>130,905</u>	<u>157,174</u>
Change in net position	674,139	367,457	594,534
Net position, beginning of year	<u>4,936,628</u>	<u>4,569,171</u>	<u>3,974,637</u>
Net position, end of year	<u>\$ 5,610,767</u>	<u>4,936,628</u>	<u>4,569,171</u>

Statements of Net Position

As of June 30, 2019, 2018 and 2017, Lobo Energy has cash in the amount of \$721,707, \$554,867, and \$615,388, respectively, of which \$297,765, \$178,700, and \$561,366, respectively, is held by Lobo Energy's fiscal agent, UNM, and \$423,942, \$376,167, and \$54,022, respectively, is held in an operating bank account at a financial institution.

All of the June 30, 2019, 2018 and 2017 net assets are held as equity in the form of unrestricted net position of \$687,535, \$499,214, and \$590,605, respectively. Additionally, at June 30, 2019 and 2018, Lobo Energy has \$4,923,232, \$4,437,414, and \$3,978,566 shown as net investment in capital assets.

Capital Assets and Debt Administration

Lobo Energy's investment in capital assets as of June 30, 2019, 2018 and 2017 was \$8,292,488, \$8,841,801, and \$9,391,114, respectively. This investment in capital assets includes a co-generation project in construction and internally generated software. Additional information concerning Lobo Energy's capital assets may be found in Note 5 in notes to the financial statements.

LOBO ENERGY, INCORPORATED
(A Blended Component Unit of the University of New Mexico)

Management's Discussion and Analysis

June 30, 2019 and 2018

(unaudited)

At the end of the current fiscal year, Lobo Energy had total debt outstanding of \$3,369,256. This debt was incurred when Lobo Energy borrowed \$10,000,000 during fiscal year (FY) 2012–13 for the purchase of the co-generation project described above. Additional information concerning Lobo Energy's long-term debt may be found in Note 5 to the financial statements.

Statements of Revenues, Expenses, and Changes in Net Position

Revenues – Under the current Management Services Agreement (MSA), total operating revenue earned during each fiscal years 2019 and 2018 for utility project management services and other project management services was \$2,171,065, and includes \$480,000 in both fiscal years for utilities management services. Other management services for each fiscal year 2019 and 2018 was \$1,691,065.

Expenses – Total operating expenses decreased by \$280,331 during fiscal year 2019 is primarily due to not having to pay for the Investment Grade Audit to Yearout Energy Services in the prior year. During fiscal year 2018, Lobo Energy's operating expenses increased by \$249,840.

Factors Impacting Future Periods

A Lobo Energy employee has developed a software package for use by UNM that can also be used by other facilities managers (Note 7 for a detailed explanation of this project).

Contacting Lobo Energy's Financial Management

This report is meant to 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
800 Bradbury Drive SE, Suite 216
Albuquerque, New Mexico 87106-4310
(505) 272–7118

LOBO ENERGY, INCORPORATED
(A Blended Component Unit of the University of New Mexico)

Statements of Net Position

June 30, 2019 and 2018

Assets	2019	2018
Current assets:		
Cash on deposit with fiscal agent	\$ 297,765	178,700
Cash on deposit with BBVA Compass Bank	423,942	376,167
Accounts receivable	9,888	9,888
Prepaid expenses	1,128	2,796
Total current assets	732,723	567,551
Capital assets:		
Property, plant, and equipment	11,242,495	11,242,495
Less accumulated depreciation and amortization	(2,950,007)	(2,400,694)
Net capital assets	8,292,488	8,841,801
Total assets	\$ 9,025,211	9,409,352
Liabilities and Net Position		
Current liabilities:		
Accounts payable	\$ 6	26,292
Accrued expenses	45,182	42,045
Current portion of long-term debt	1,062,826	1,035,132
Total current liabilities	1,108,014	1,103,469
Long-term debt, excluding current installments	2,306,430	3,369,255
Total liabilities	3,414,444	4,472,724
Net position:		
Net investment in capital assets	4,923,232	4,437,414
Unrestricted	687,535	499,214
Total net position	5,610,767	4,936,628
Total liabilities and net position	\$ 9,025,211	9,409,352

See accompanying notes to financial statements.

LOBO ENERGY, INCORPORATED
(A Blended Component Unit of the University of New Mexico)
Statements of Revenues, Expenses, and Changes in Net Position
Years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating revenues:		
Utilities management services	\$ 480,000	480,000
Other management services	1,691,065	1,691,065
Total operating revenues	<u>2,171,065</u>	<u>2,171,065</u>
Operating expenses:		
Administrative expenses	183,126	246,483
Depreciation expenses	549,313	549,313
Project expenses	664,818	881,792
Total operating expenses	<u>1,397,257</u>	<u>1,677,588</u>
Operating income	773,808	493,477
Nonoperating revenue:		
Interest income	4,264	4,885
Nonoperating expenses:		
Interest expense	<u>(103,933)</u>	<u>(130,905)</u>
Change in net position	674,139	367,457
Net position, beginning of year	<u>4,936,628</u>	<u>4,569,171</u>
Net position, end of year	<u>\$ 5,610,767</u>	<u>4,936,628</u>

See accompanying notes to financial statements.

LOBO ENERGY, INCORPORATED
(A Blended Component Unit of the University of New Mexico)

Statements of Cash Flows

Years ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Receipts from customers	\$ 2,171,065	2,171,627
Payments to other suppliers of goods or services	(310,944)	(565,738)
Payments to employees for services	(558,481)	(532,229)
Net cash provided by operating activities	1,301,640	1,073,660
 Cash flow from investing activities:		
Interest earned	4,264	4,885
Net cash provided by investing activities	4,264	4,885
 Cash flow from capital financing activities:		
Payments of long-term debt	(1,035,131)	(1,008,161)
Interest expense	(103,933)	(130,905)
Net cash used in financing activities	(1,139,064)	(1,139,066)
Net increase (decrease) in cash and cash equivalents	166,840	(60,521)
Cash and cash equivalents, beginning of year	554,867	615,388
Cash and cash equivalents, end of year	\$ 721,707	554,867
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 773,808	493,477
Depreciation expense	549,313	549,313
Adjustments to reconcile operating income to net cash provided by operating activities:		
Change in accounts receivable	-	562
Change in prepaid expenses	1,668	15,104
Change in accounts payable	(26,286)	13,992
Change in accrued expenses	3,137	1,212
Net cash provided by operating activities	\$ 1,301,640	1,073,660

See accompanying notes to financial statements.

LOBO ENERGY, INCORPORATED
(A Blended Component Unit of the University of New Mexico)

Notes to Financial Statements

June 30, 2019 and 2018

(1) Description of Business

Lobo Energy, Incorporated (Lobo Energy) (a blended component unit of the University of New Mexico) 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 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 identified 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 currently provides services to UNM under the terms of a revised MSA, which is effective November 2015–2020 (Note 3). The agreement continues for consecutive one-year periods after its expiration or until such time as it is terminated. UNM may terminate the MSA thirty-days after written notice to Lobo Energy. UNM has not notified Lobo Energy that it intends to exercise this right. Upon termination of this agreement all rights and privileges granted, assigned or shared between Lobo Energy and UNM shall terminate. Upon termination of the agreement, all property of Lobo Energy shall transfer to UNM subject to the prior rights, if any, of any creditors of Lobo Energy.

UNM requested that Lobo Energy implement an energy conservation program on the campus during fiscal year 2008. Lobo Energy entered into a contract with Energy Education, Inc. (EEI), a corporation that specializes in energy conservation (EEI is now known as Cenergistic). Lobo Energy hired six energy conservation specialists (ECSs). 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

LOBO ENERGY, INCORPORATED
(A Blended Component Unit of the University of New Mexico)

Notes to Financial Statements

June 30, 2019 and 2018

project. The four-year contract with EEI expired on September 30, 2012. The energy conservation project continues on campus.

During fiscal years 2008 and 2009, energy-conservation 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 fiscal years 2018 and 2019.

During fiscal year 2013, at the request of UNM, Lobo Energy began providing technical support for the smart-grid, renewable-energy project owned by Shimizu NA on the Mesa del Sol campus. Lobo Energy is compensated by Shimizu for its participation in this project. Lobo Energy's contract with Shimizu expired on March 31, 2014. The solar unit was given to UNM's Engineering Department by Shimizu and the maintenance is provided by UNM Physical Plant personnel.

(2) Summary of Significant Accounting Policies and Practices

(a) Basis of Accounting and Presentation

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.

(b) Net Position

For accounting and reporting purposes, Lobo Energy reports its net position in the following net asset categories as applicable:

- Net investment in capital assets – capital assets, net of accumulated depreciation and debt incurred to finance the capital asset acquisition.
- Unrestricted – net position that is not subject to externally imposed constraints.

(c) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the financial statements dates and the reported amounts of revenues and expenses during these reporting periods. Due to uncertainties inherent in the estimation process, actual results could differ from those estimates.

LOBO ENERGY, INCORPORATED
(A Blended Component Unit of the University of New Mexico)

Notes to Financial Statements

June 30, 2019 and 2018

(d) Cash on deposit

For purposes of the statement of cash, Lobo Energy considers cash to be cash deposits and amounts held by its fiscal agent.

(e) Revenue Recognition

Lobo Energy provides two types of project management services: utilities management services and other management services (see Note 3). Revenue is recognized for each type of service based on the terms of the MSA.

(f) Equity Method Investment

Lobo Energy accounted for its investments using the equity method of accounting. A decline in the fair value of the investment below cost that is deemed other-than-temporary resulted in an impairment to reduce the carrying value to fair value. See Note 7 for further discussion.

(g) Accounts Receivable

Accounts receivable balances represent amounts due from an affiliated entity (UNM) for services performed under the MSA. All amounts are considered collectible and therefore no allowance for doubtful accounts has been recorded.

(h) Capital Assets

Capital assets are stated at cost. Lobo Energy's policy is to capitalize all disbursements for equipment, software, and furnishings in excess of a \$5,000 unit price. 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.

(i) Compensated Absences

Under Lobo Energy's internal policy terminating employees are not entitled to unused sick leave except for amounts unused exceeding a balance of 600 hours. If a terminating employee's balance exceeds 600 hours the employee can request that the amounts in excess of 600 be paid out to the employee upon termination at 50% of their pay rate. Lobo Energy does accrue for annual leave at a maximum of 252 hours per employee, which is payable to each employee upon termination. Lobo Energy recorded \$44,363 and \$41,611 of annual leave as accrued expenses at June 30, 2019 and June 30, 2018, respectively.

LOBO ENERGY, INCORPORATED
(A Blended Component Unit of the University of New Mexico)

Notes to Financial Statements

June 30, 2019 and 2018

(j) ***Income Taxes***

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.

(3) Project Management Services under The Revised Management Services Agreement

Utilities Management Services

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

- a. Planning, design, engineering, contracting, energy conservation, and commissioning services for assigned projects.
- b. Procurement of equipment and services in the course of implementing the projects.
- c. Management of UNM's energy procurement strategies.
- d. Recommendations for obtaining cost-effective energy commodities and services from energy suppliers.
- e. Management of UNM'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.
- h. Assistance with developing the energy and administrative capabilities described in items a through g above.

LOBO ENERGY, INCORPORATED
(A Blended Component Unit of the University of New Mexico)

Notes to Financial Statements

June 30, 2019 and 2018

Other Management Services

- a. Development planning services.
- b. Additional infrastructure development plans.
- c. Other planning services as assigned.

Under the revised MSA, as of November 1, 2015, UNM pays Lobo Energy a mutually agreed-upon monthly fee for the duration of each project.

Under the terms of the revised MSA, effective November 1, 2015, UNM compensates Lobo Energy for these services at the rate of \$40,000 per month related to utility project management and \$46,000 per month related to energy conservation projects, over a five-year period. Additionally, UNM compensates Lobo Energy an additional \$94,922 per month to cover the debt service related to the second cogeneration unit, until the debt service is fulfilled.

(4) Cash

Lobo Energy's cash balances include cash on deposit with its fiscal agent and an operating account. Lobo Energy has no statutory or policy requirements; however, it 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, 2019 and 2018, Lobo Energy had a book and bank balance in that pooled account of \$297,765 and \$178,700, 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. At June 30, 2019 and 2018, Lobo Energy realized a gain of \$4,264 and \$4,885, respectively, via year-end adjustments to the interest account by UNM.

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, 2019 and 2018, the bank balance in Lobo Energy's separate checking account was \$423,942 and \$376,167, respectively, and the book balance was \$423,942 and \$376,167, respectively. At June 30, 2019 and 2018, the checking account balance was in excess of amounts insured by the FDIC by \$173,942 and \$126,167, respectively.

(5) Capital Assets and Long-Term Debt

(a) Co-generation Unit

In July 2012, Lobo Energy entered into a \$10,000,000 commitment to finance the construction of a new co-generation unit to be installed on the UNM main campus in Ford Utilities Center. The Master Equipment Lease/Purchase Agreement with Banc of America Leasing and Capital, LLC (Banc of America) was entered into and is to be repaid over a period of 10 years. Monthly payments in the amount of \$94,922 commenced on August 25, 2012. The final lease payment is anticipated to be made on July 25, 2022.

LOBO ENERGY, INCORPORATED
(A Blended Component Unit of the University of New Mexico)

Notes to Financial Statements

June 30, 2019 and 2018

(b) Depreciation

Lobo Energy depreciates the co-generation unit using the straight-line method based upon a useful life of 25 years. Lobo Energy estimates useful life based upon internal information and similar assets at UNM. The unit was placed into service and Lobo Energy began depreciating the asset in January 2014. Lobo Energy estimates useful life of software using the straight-line method over a useful life of 5 years. Lobo Energy has recorded \$2,950,007 and \$2,400,694 of accumulated depreciation as of the years ended June 30, 2019 and 2018, respectively.

	<u>Balance at June 30, 2018</u>	<u>Additions</u>	<u>Retirements/ disposals</u>	<u>Balance at June 30, 2019</u>
Plant in service	\$ 10,619,916	-	-	10,619,916
Internally generated software	622,579	-	-	622,579
Accumulated depreciation	<u>(2,400,694)</u>	<u>(549,313)</u>	<u>-</u>	<u>(2,950,007)</u>
Net property, plant, and equipment	<u>\$ 8,841,801</u>	<u>(549,313)</u>	<u>-</u>	<u>8,292,488</u>

	<u>Balance at June 30, 2017</u>	<u>Additions</u>	<u>Retirements/ disposals</u>	<u>Balance at June 30, 2018</u>
Plant in service	\$ 10,619,916	-	-	10,619,916
Internally generated software	622,579	-	-	622,579
Accumulated depreciation	<u>(1,851,381)</u>	<u>(549,313)</u>	<u>-</u>	<u>(2,400,694)</u>
Net property, plant, and equipment	<u>\$ 9,391,114</u>	<u>(549,313)</u>	<u>-</u>	<u>8,841,801</u>

(c) Lease Payments

Payments are due monthly to Banc of America and the lease payments include explicit interest rate of 2.64% and matures on July 25, 2022. The outstanding principal balance at June 30, 2019 and 2018 was \$3,369,256 and \$4,404,387, respectively. The following is a summary of lease liability transactions, including the current portion:

	<u>Balance at July 1</u>	<u>Proceeds</u>	<u>Payments</u>	<u>Balance at June 30</u>	<u>Due within one year</u>
Lease liability, FY 2018	5,412,548	-	(1,008,161)	4,404,387	1,035,132
Lease liability, FY 2019	4,404,387	-	(1,035,131)	3,369,256	1,062,826

LOBO ENERGY, INCORPORATED
(A Blended Component Unit of the University of New Mexico)

Notes to Financial Statements

June 30, 2019 and 2018

At June 30, 2019, minimum future lease payments are as follows:

Fiscal years ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 1,062,826	76,239	1,139,065
2021	1,091,261	47,804	1,139,065
2022	1,120,456	18,609	1,139,065
2023	94,713	209	94,922
	<u>\$ 3,369,256</u>	<u>142,861</u>	<u>3,512,117</u>

(6) Defined-Contribution 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 Internal Revenue Service maximum allowed amount. Lobo Energy 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, 2019 and 2018 were \$61,708 and \$59,621, respectively, which consisted of \$32,661 and \$31,808 contributed by employees and \$29,047 and \$27,813 contributed by Lobo Energy, respectively.

(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 organizations designated by a resolution of UNM's Board of Regents.

Effective January 26, 2015, UNM and Lobo Energy entered into a Memorandum of Agreement (MOA) specifying the reimbursement of Lobo Energy's annual service fee related to the EnergyCap software in the amount of \$9,600.

LOBO ENERGY, INCORPORATED
(A Blended Component Unit of the University of New Mexico)

Notes to Financial Statements

June 30, 2019 and 2018

In FY 2014, Lobo Energy paid a total of \$365,077 to Facility Facts, Inc. a company owned by an employee of Lobo Energy, and in which Lobo Energy has a 10% common stock interest in order to help get the company established in order to market and sell the Facility Facts software internally generated by Lobo Energy. There were no additional payments made in FY 2018 or FY 2019. Lobo Energy accounts for its investment in Facility Facts, Inc. using the equity method of investment. The investment was considered fully impaired in 2015, therefore not reported in the statements of net position as of June 30, 2019 and 2018.

Pursuant to the licensing agreement made with Facility Facts Inc., Lobo Energy retains the patent rights, permanent royalty-free rights to use the Facility Facts software, and will receive royalties representing 50% of gross receipts of sublicenses granted during each calendar year for the life of the filed patents. Lobo Energy recorded no royalties as of June 30, 2019 and June 30, 2018.

Lobo Energy is a member of New Mexico Industrial Energy Consumers (NMIEC), which advocates high quality of energy service at fair, just and reasonable prices for its members and all classes of customers. Jason Strauss, President and CEO of Lobo Energy is an officer of NMIEC. Lobo Energy paid dues of \$66,400 and \$79,600 for the fiscal year ended June 30, 2019 and 2018, respectively.

Lobo Energy did not purchase goods or services of companies that board members are employed by during the fiscal years ended June 30, 2019 and 2018.

(8) Risk Management

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.

(9) Subsequent Events

Subsequent events are evaluated by management through the date the accompanying financial statements are available to be issued, which is September 5, 2019.

Report of Independent Auditors 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
Mr. Brian S. Colón, Esq., New Mexico State Auditor

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Lobo Energy, Incorporated (Lobo Energy), a blended component unit of the University of New Mexico, which comprise the statement of net position as of June 30, 2019, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 5, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lobo Energy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lobo Energy's internal control. Accordingly, we do not express an opinion on the effectiveness of Lobo Energy's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lobo Energy's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Lobo Energy Incorporated's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Lobo Energy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mess Adams LLP

Albuquerque, New Mexico
September 5, 2019

LOBO ENERGY, INCORPORATED
(A Blended Component Unit of the University of New Mexico)

Summary of Auditor's Results

Year ended June 30, 2019

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

Yes

No

Significant deficiency(ies) identified?

Yes

None reported

Compliance and other matters noted?

Yes

No

LOBO ENERGY, INCORPORATED
(A Blended Component Unit of the University of New Mexico)
Schedule of Findings and Response
Year ended June 30, 2019

No matters were reported.

LOBO ENERGY, INCORPORATED
(A Blended Component Unit of the University of New Mexico)

Schedule of Prior Audit Findings

Year ended June 30, 2019

No matters were reported.

LOBO ENERGY, INCORPORATED
(A Blended Component Unit of the University of New Mexico)

Exit Conference

Year ended June 30, 2019

An exit conference was held on September 5, 2019. During this meeting, the contents of this report were discussed with the following individuals:

Lobo Energy, Incorporated

Jason Strauss President/CEO, LEI; Member of Board of Directors, LEI

Moss Adams LLP

Sheila Herrera Senior Manager

Lobo Energy is responsible for the contents of the financial statements. Moss Adams LLP assisted with the preparation of the financial statements.