



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

Financial Statements

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

LOBO ENERGY INCORPORATED
(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, 2011

OFFICERS

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Jewel M. Glavey

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Independent Auditors' Report

The Board of Directors
Lobo Energy Incorporated
and
Mr. Hector Balderas, State Auditor:

We have audited the accompanying balance sheet of Lobo Energy Incorporated, a component unit of the University of New Mexico (Lobo Energy), as of June 30, 2011, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of Lobo Energy's management. Our responsibility is to express an opinion on these financial statements based on our audit. The accompanying financial statements of Lobo Energy as of June 30, 2010 were audited by other auditors whose report thereon dated October 12, 2010 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Lobo Energy's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2011, and the changes in its financial position and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2011, 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 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 6 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. 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.

KPMG LLP

October 26, 2011

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

Management's Discussion and Analysis

June 30, 2011, 2010 and 2009

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, 2011, 2010, and 2009. 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 assets increased \$221,434 from \$165,925 in 2010 to \$387,359 in fiscal year 2011, due to additional funds received from the UNM Physical Plant Department from fees assessed to various departments for utilities services. During fiscal year 2010, Lobo Energy's net assets decreased \$54,017 from \$219,942 in fiscal year 2009 to \$165,925 in fiscal year 2010, due to an increase in administrative expenses.
- During fiscal year 2011, Lobo Energy's operating revenue increased by \$274,272 and operating expenses increased by \$1,002, resulting in net operating income of \$215,882 in fiscal year 2011, compared to net operating loss of \$57,388 in fiscal year 2010. During fiscal year 2010, operating revenue increased by \$721,200 and operating expenses increased by \$444,374, resulting in a decrease in net operating loss of \$276,826.
- Cash increased in fiscal year 2011 by \$256,027, resulting in cash on deposit with fiscal agent and cash on hand at the close of fiscal year 2011 of \$583,079. The increase during fiscal year 2011 is primarily due to an increase in revenue compared to relatively consistent expenses in fiscal year 2011. Cash decreased in fiscal year 2010 by \$91,151, resulting in cash on deposit with fiscal agent and cash on hand at the close of fiscal year 2010 of \$327,052. The decrease during fiscal year 2010 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.

The balance sheets 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 nonoperating revenues and expenses of Lobo Energy. The statements of cash flows provide information related to the cash inflows and outflows of Lobo Energy.

LOBO ENERGY INCORPORATED
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Management's Discussion and Analysis

June 30, 2011, 2010 and 2009

Financial Information

Lobo Energy's condensed financial information as of and for the fiscal years ended June 30, 2011, 2010, and 2009 are provided in the following table:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current assets	\$ 583,079	327,052	418,203
Other assets	30	30	30
Capital assets	—	10,491	24,480
Total assets	<u>\$ 583,109</u>	<u>337,573</u>	<u>442,713</u>
Current liabilities	\$ 195,750	171,648	222,771
Net assets	<u>387,359</u>	<u>165,925</u>	<u>219,942</u>
Total liabilities and net assets	<u>\$ 583,109</u>	<u>337,573</u>	<u>442,713</u>
Operating revenue	\$ 2,919,072	2,644,800	1,923,600
Operating expenses	<u>2,703,190</u>	<u>2,702,188</u>	<u>2,257,814</u>
Operating income (loss)	215,882	(57,388)	(334,214)
Nonoperating revenue	<u>5,552</u>	<u>3,371</u>	<u>12,531</u>
Change in net assets	221,434	(54,017)	(321,683)
Net assets, beginning of year	<u>165,925</u>	<u>219,942</u>	<u>541,625</u>
Net assets, end of year	<u>\$ 387,359</u>	<u>165,925</u>	<u>219,942</u>

Balance Sheets

As of June 30, 2011 and 2010, Lobo Energy has cash in the amount of \$583,079 and \$327,052, respectively; of which \$566,968 and \$324,079, respectively, is held by Lobo Energy's fiscal agent, the University of New Mexico (UNM), and \$16,111 and \$2,973, respectively, is held in an operating bank account at a financial institution. Cash increased primarily as a result of an increase in revenue.

A majority of the June 30, 2011, 2010, and 2009 net assets are held as equity in the form of unrestricted net assets of \$387,359, \$165,925, and \$219,942, respectively. The remainder is current liabilities.

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

Management's Discussion and Analysis

June 30, 2011, 2010 and 2009

Statements of Revenues, Expenses, and Changes in Net Asset

Revenues – There were no earnings under the original Management Services Agreement (MSA) during fiscal years 2009, 2010, and 2011. The first revised MSA became effective November 1, 2005, after the expiration of the original agreement between UNM and Lobo Energy. The MSA was revised again effective November 1, 2010, to update the terms of the agreement. Under the current revised agreement, total revenue earned during fiscal years 2011 and 2010 for utility project management services and other project management services was \$2,919,072 and \$2,644,800, respectively, and includes \$480,000 in both fiscal years for utilities management services and \$2,439,072 and \$2,164,800, respectively, for other management services. The increase in revenue was due to additional funds that were assessed to various departments for support of the energy conservation program.

Expenses – Total operating expenses increased \$1,002 during the fiscal year ended June 30, 2011 due to a decrease of \$38,531 in project expenses and an increase of \$39,533 in administrative expenses. This change was primarily due to the fact that the corporation began to pay wages to the President effective July 1, 2010, increasing administrative salaries. Prior to fiscal year 2011, the President, who was a UNM employee, was paid by UNM. Total operating expenses increased \$444,375 during the fiscal year ended June 30, 2010 due to an increase of \$440,678 in project expenses and an increase of \$3,697 in administrative 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.

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.

Factors Impacting Future Periods

Under the terms of the contract that Lobo Energy entered into with Energy Education, Inc. in April 2008 Lobo Energy shall make four years of payments to Energy Education. The contract is in effect for a period of ten years. No payments were made during the first six months during the early stages of implementation of the energy-conservation program. Performance year three of the energy-conservation contract comes to an end on September 30, 2011. After the fourth performance year ends on September 30, 2012, Lobo Energy, Inc. will make no more payments to Energy Education for the duration of the ten-year contract.

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, 2011 and 2010

Assets	2011	2010
	<u> </u>	<u> </u>
Current assets:		
Cash on deposit with fiscal agent	\$ 566,968	324,079
Cash on deposit with bank	16,111	2,973
Total current assets	<u>583,079</u>	<u>327,052</u>
Noncurrent assets:		
Other assets	30	30
Total noncurrent assets	<u>30</u>	<u>30</u>
Capital assets:		
Computer software, net	—	10,491
Total assets	<u>\$ 583,109</u>	<u>337,573</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 195,750	171,648
Total liabilities	<u>195,750</u>	<u>171,648</u>
Net assets:		
Invested in capital assets	—	10,491
Unrestricted	387,359	155,434
Total net assets	<u>387,359</u>	<u>165,925</u>
Total liabilities and net assets	<u>\$ 583,109</u>	<u>337,573</u>

See accompanying 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, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating revenue:		
Utilities management services	\$ 480,000	480,000
Other management services	<u>2,439,072</u>	<u>2,164,800</u>
Total operating revenue	<u>2,919,072</u>	<u>2,644,800</u>
Operating expenses:		
Administrative expenses	141,785	102,252
Project expenses	<u>2,561,405</u>	<u>2,599,936</u>
Total operating expenses	<u>2,703,190</u>	<u>2,702,188</u>
Operating gain/loss	215,882	(57,388)
Nonoperating revenue:		
Interest revenue	<u>5,552</u>	<u>3,371</u>
Change in net assets	221,434	(54,017)
Net assets, beginning of year	<u>165,925</u>	<u>219,942</u>
Net assets, end of year	<u>\$ 387,359</u>	<u>165,925</u>

See accompanying notes to financial statements.

LOBO ENERGY INCORPORATED
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Statements of Cash Flows

Years ended June 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Receipts from customers	\$ 2,919,072	2,644,800
Payments to other suppliers of goods or services	(2,193,782)	(2,309,211)
Payments to employees for services	(474,815)	(430,111)
Net cash provided by (used in) operating activities	250,475	(94,522)
Cash flows from investing activity:		
Interest received on deposits with fiscal agent	5,552	3,371
Net increase (decrease) in cash and cash equivalents	256,027	(91,151)
Cash and cash equivalents, beginning of year	327,052	418,203
Cash and cash equivalents, end of year	\$ 583,079	327,052
Reconciliation of operating income to net cash provided by (used in) operating activities:		
Operating gain/loss	\$ 215,882	(57,388)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation expense	10,491	13,989
Change in accounts payable and accrued expenses	24,102	(51,123)
Net cash provided by (used in) operating activities	\$ 250,475	(94,522)

See accompanying notes to financial statements.

LOBO ENERGY INCORPORATED
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Notes to Financial Statements

June 30, 2011 and 2010

(1) Description of 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 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 currently provides services to UNM under the terms of a revised MSA, which is effective November 2010 – 2015 (note 3). 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 fiscal year 2008. Lobo Energy entered into a contract with Energy Education, Inc. (EEI), a corporation that specializes in this field. Lobo Energy hired six energy conservation educators (ECEs). 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 fiscal year 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.

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Notes to Financial Statements

June 30, 2011 and 2010

Lobo Energy provides services only to UNM.

(2) Summary of Significant Accounting Policies and Practices

(a) Basis of Accounting

Effective July 1, 2010, Lobo Energy adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Contained in Pre-November 30, 1989 and AICPA Pronouncements*, which supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*. GASB 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The adoption of GASB 62 had no impact on Lobo Energy's accounting policies, as Lobo Energy had previously elected in accordance with GASB 20 to not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, and applicable FASB pronouncements issued on or before November 30, 1989 have now been incorporated into GASB pronouncements.

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 Assets

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

- *Invested in capital assets* – capital assets, net of accumulated depreciation.
- *Unrestricted* – Net assets that are not subject to externally imposed constraints.

(c) 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.

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Notes to Financial Statements

June 30, 2011 and 2010

(d) 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.

(e) 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.

(f) Capital Assets

Lobo Energy has no capital assets as of June 30, 2011. 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.

(g) 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; and

LOBO ENERGY INCORPORATED
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Notes to Financial Statements

June 30, 2011 and 2010

- h. assistance with developing the energy and administrative capabilities described in items a through g above.

Under the revised MSA, as of November 1, 2010, UNM compensates Lobo Energy for these services at the rate of \$40,000 per month.

Other Management Services

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

Under the revised MSA, as of November 1, 2010, UNM pays Lobo Energy a mutually agreed-upon monthly fee for the duration of each project.

(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, 2011 and 2010, Lobo Energy had a balance in that pooled account of \$566,968 and \$324,079, 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, 2011 and 2010, the bank and book balance in Lobo Energy's separate checking account was \$16,111 and \$2,973, respectively. Of the bank balance, the entire amount (up to \$250,000) is insured by the FDIC.

(5) Capital Assets

A summary of the Lobo Energy's capital assets at June 30, 2011 is as follows:

	<u>Beginning of year</u>	<u>Increase</u>	<u>decrease</u>	<u>End of year</u>
Capital assets being amortized – software	\$ 42,432	—	—	42,432
Accumulated amortization	(31,941)	(10,491)	—	(42,432)
Capital assets, net	<u>\$ 10,491</u>	<u>(10,491)</u>	<u>—</u>	<u>—</u>

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(A Component Unit of the University of New Mexico)

Notes to Financial Statements

June 30, 2011 and 2010

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

(6) Major Contracts

UNM requested that Lobo Energy implement an energy conservation program on the campus during 2008. Lobo Energy entered into a contract with 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 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 fiscal years 2008 and 2009, 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 2010 and 2011.

LOBO ENERGY INCORPORATED
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Notes to Financial Statements

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(7) 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, 2011 and 2010 were \$44,266 and \$48,958, respectively, which consisted of \$23,333 and \$25,679 contributed by employees and \$20,933 and \$23,279 contributed by Lobo Energy, respectively.

(8) 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.

(9) 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.



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**Independent Auditors' 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
Mr. Hector Balderas, State Auditor:

We have audited the 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, 2011, and have issued our report thereon dated October 26, 2011. 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 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 over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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, others within the entity, and the New Mexico State Auditor, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

October 26, 2011

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

Schedule of Findings and Responses

June 30, 2011 and 2010

Findings – Financial Statements Audit

There are no current or prior year state compliance or operational findings to report.

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

Exit Conference

June 30, 2011 and 2010

We discussed the recommendations contained in this letter during the exit conference held October 3, 2011. 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

KPMG LLP

John T. Kennedy, Partner

Gregory C. Monk, Manager