



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

Financial Statements

June 30, 2013 and 2012

(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, 2013

OFFICERS

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

MEMBERS

J. E. "Gene" Gallegos
Conrad D. James
Robert G. Frank
David W. Harris
Stephen W. McKernan
Geraldine Forbes-Isais
Jon Word
Thomas J. Ruiz
Bruno E. Carrara
Steven R. Beffort



KPMG LLP
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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Lobo Energy, Incorporated, a component unit of the University of New Mexico (Lobo Energy), which comprise the balance sheet as of June 30, 2013 and 2012, 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditor considers 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 respective financial position of Lobo Energy, Incorporated as of June 30, 2013 and 2012, and the changes in its net position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis on pages 4 through 7 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 October 8, 2013, 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.

KPMG LLP

Albuquerque, New Mexico

October 8, 2013

LOBO ENERGY, INCORPORATED
(A Component Unit of the University of New Mexico)
Management's Discussion and Analysis (unaudited)
June 30, 2013 and 2012

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, 2013, 2012, and 2011. 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 \$2,027,620 from \$614,231 in 2012 to \$2,641,851 in fiscal year 2013, primarily due to an increase in funding from the University of New Mexico (UNM) and a decrease in expenses due to the conclusion of a consulting contract. Lobo Energy's net position increased \$226,872 from \$387,359 in 2011 to \$614,231 in fiscal year 2012, primarily due to additional funds received from the UNM Physical Plant Department from fees assessed to various departments for utilities services.
- During fiscal year 2013, Lobo Energy's operating revenue decreased by \$5,082 and operating expenses decreased by \$1,047,938, resulting in net operating income of \$1,264,868 in fiscal year 2013, compared to net operating income of \$222,012 in fiscal year 2012. During fiscal year 2012, Lobo Energy's operating revenue increased by \$32,525 and operating expenses increased by \$26,395, resulting in net operating income of \$222,012 in fiscal year 2012, compared to net operating income of \$215,882 in fiscal year 2011.
- Cash increased in fiscal year 2013 by \$3,642,318 resulting in cash on deposit with fiscal agent and escrow agent and cash on hand at the close of fiscal year 2013 of \$4,419,152. The increase during fiscal year 2013 is primarily due to the \$10,000,000 loan to purchase and install the second cogeneration unit in Ford Utilities Center on UNM's main campus. Cash increased in fiscal year 2012 by \$193,755, resulting in cash on deposit with fiscal agent and cash on hand at the close of fiscal year 2012 of \$776,834. The increase during fiscal year 2012 is primarily due to an increase in revenue.

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 position; 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 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.

LOBO ENERGY, INCORPORATED
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Management's Discussion and Analysis (unaudited)
June 30, 2013 and 2012

Financial Information

Lobo Energy's condensed financial information as of and for the fiscal years ended June 30, 2013, 2012, and 2011 is provided in the following table:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current assets	\$ 4,424,819	796,234	583,079
Other assets	30	30	30
Capital assets	<u>7,908,104</u>	<u>—</u>	<u>—</u>
Total assets	<u>\$ 12,332,953</u>	<u>796,264</u>	<u>583,109</u>
Current liabilities	\$ 1,408,969	182,033	195,750
Long-term liabilities	8,282,133	—	—
Net position	<u>2,641,851</u>	<u>614,231</u>	<u>387,359</u>
Total assets	<u>\$ 12,332,953</u>	<u>796,264</u>	<u>583,109</u>
Operating revenue	\$ 2,912,243	2,917,325	2,884,800
Operating expenses	<u>1,647,375</u>	<u>2,695,313</u>	<u>2,668,918</u>
Operating income	1,264,868	222,012	215,882
Nonoperating revenue	1,006,272	4,860	5,552
Nonoperating expense	<u>243,520</u>	<u>—</u>	<u>—</u>
Change in net position	2,027,620	226,872	221,434
Net position, beginning of year	<u>614,231</u>	<u>387,359</u>	<u>165,925</u>
Net position, end of year	<u>\$ 2,641,851</u>	<u>614,231</u>	<u>387,359</u>

Financial Position

As of June 30, 2013 and 2012, Lobo Energy has cash in the amount of \$4,419,152 and \$776,834, respectively, of which \$1,679,759 and \$695,785, respectively, is held by Lobo Energy's fiscal agent, UNM, and \$10,593 and \$81,049, respectively, is held in an operating bank account at a financial institution; and \$2,728,800 is held in an escrow account.

All of the June 30, 2013 and 2012 net assets are held as equity in the form of unrestricted net position of \$1,837,376 and \$614,231, respectively. Additionally, at June 30, 2013 Lobo Energy has \$804,475 shown as net investment in capital assets.

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June 30, 2013 and 2012

Capital Assets and Debt Administration

Lobo Energy's investment in capital assets as of June 30, 2013 and 2012 was \$7,908,104 and \$-0-, 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.

At the end of the current fiscal year, Lobo Energy had total debt outstanding of \$9,189,252. This debt was incurred during the fiscal year 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 – There were no earnings under the original Management Services Agreement (MSA) during fiscal years 2011, 2012, and 2013. 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 2013 and 2012 for utility project management services and other project management services was \$2,912,243 and \$2,917,325, respectively, and includes \$480,000 in both fiscal years for utilities management services and \$2,404,800 in both fiscal years for other management services. In addition, Lobo Energy provided other management services on the Mesa del Sol campus for an outside company beginning April 15, 2012. Other project management services revenue realized from this project was \$27,443 in 2013 and \$32,525 in 2012.

Expenses – Total operating expenses decreased \$1,047,438 during the fiscal year ended June 30, 2013 due to a decrease of \$1,082,992 in project expenses due to the conclusion of a consulting contract offset by an increase of \$35,054 in administrative expenses. Total operating expenses increased \$26,395 during the fiscal year ended June 30, 2012 due to an increase of \$29,439 in project expenses offset by a decrease of \$3,044 in administrative expenses. This change is due to the fact that there was a decrease in project expenses. UNM is the fiscal agent of Lobo Energy. UNM holds the majority of Lobo Energy's 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

When Lobo Energy was tasked with implementing an energy conservation program on the UNM campus, Lobo Energy entered into a contract with Energy Education, Inc. (EEI) in December 2007. An implementation plan was presented to Lobo Energy Incorporated/UNM by EEI at the kickoff meeting on December 17, 2007. There was a strategic planning period through February 2008. The training and implementation period, referred to as the fast track, was planned from March through September 2008. Due to the fact that the energy conservation specialists were not hired until April 2008, the fast track did not begin until April. The contract reads that the savings would be determined during four performance years that would not begin until the fast track was over. The first performance year began October 1, 2008. Performance year four of the energy-conservation contract ended on September 30, 2012. After that date, Lobo Energy made no more payments to EEI, although the contract reads that Lobo Energy may continue the program with support from EEI for an indefinite period.

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Early in fiscal year 2013, Lobo Energy purchased a second cogeneration unit and contracted to have it installed in Ford Utilities Center on the UNM campus (see note 5 for a detailed explanation of this project).

A Lobo Energy employee has developed a software package for use by UNM that can also be used by other facilities managers (see note 5 for a detailed explanation of this project).

In addition, Lobo Energy will continue to provide services on a limited basis in connection with the solar-energy project on the Mesa del Sol campus for which it is compensated by Shimizu NA.

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 800 Bradbury Drive SE, Suite 216, Albuquerque, New Mexico 87106-4310.

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Balance Sheets

June 30, 2013 and 2012

Assets	2013	2012
Current assets:		
Cash on deposit with fiscal agent	\$ 1,679,759	695,785
Cash on deposit with BBVA Compass Bank	10,593	81,049
Cash on deposit with Bank of Albuquerque	2,728,800	—
Accounts receivable	5,667	19,400
Total current assets	4,424,819	796,234
Capital assets:		
Construction in progress	7,908,104	—
Less accumulated depreciation and amortization	—	—
Net capital assets	7,908,104	—
Noncurrent other assets	30	30
Total assets	\$ 12,332,953	796,264
Liabilities and Net Position		
Current liabilities:		
Accounts payable	\$ 501,850	182,033
Current portion of long term debt	907,119	—
Total current liabilities	1,408,969	182,033
Long-term debt, excluding current installments	8,282,133	—
Total liabilities	9,691,102	182,033
Net position:		
Net investment in capital assets	804,475	—
Unrestricted	1,837,376	614,231
Total net position	2,641,851	614,231
Total liabilities and net position	\$ 12,332,953	796,264

See accompanying notes to financial statements.

LOBO ENERGY, INCORPORATED
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Statements of Revenues, Expenses, and Changes in Net Position
Years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating revenue:		
Utilities management services	\$ 480,000	480,000
Other management services	<u>2,432,243</u>	<u>2,437,325</u>
Total operating revenue	<u>2,912,243</u>	<u>2,917,325</u>
Operating expenses:		
Administrative expenses	173,795	138,741
Project expenses	<u>1,473,580</u>	<u>2,556,572</u>
Total operating expenses	<u>1,647,375</u>	<u>2,695,313</u>
Operating gain	1,264,868	222,012
Nonoperating revenue:		
Capital funds received from UNM	1,000,000	—
Interest revenue	6,272	4,860
Nonoperating expense:		
Interest expense	<u>243,520</u>	<u>—</u>
Change in net position	2,027,620	226,872
Net position, beginning of year	<u>614,231</u>	<u>387,359</u>
Net position, end of year	<u>\$ 2,641,851</u>	<u>614,231</u>

See accompanying notes to financial statements.

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Statements of Cash Flows

Years ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Receipts from customers	\$ 2,925,976	2,947,504
Payments to other suppliers of goods or services	(735,236)	(2,209,733)
Payments to employees for services	(592,322)	(548,876)
Net cash provided by operating activities	1,598,418	188,895
Cash flows from investing activities:		
Construction in progress	(7,908,104)	—
Net cash provided by (used in) investing activities	(7,908,104)	—
Cash flow from capital financing activities:		
Proceeds on long-term debt	10,000,000	—
Payments of long-term debt	(810,748)	—
Capital contribution from UNM	1,000,000	—
Interest earned	6,272	4,860
Interest expense	(243,520)	—
Net cash provided by financing activities	9,952,004	4,860
Net increase in cash and cash equivalents	3,642,318	193,755
Cash and cash equivalents, beginning of year	776,834	583,079
Cash and cash equivalents, end of year	\$ 4,419,152	776,834
Reconciliation of operating gain to net cash provided by operating activities:		
Operating gain	\$ 1,264,868	222,012
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Change in accounts receivable	13,733	(19,400)
Change in accounts payable	319,817	(13,717)
Net cash provided by operating activities	\$ 1,598,418	188,895

See accompanying notes to financial statements.

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Notes to Financial Statements

June 30, 2013 and 2012

(1) Description of Business

Lobo Energy, Incorporated (a 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, Incorporated (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 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 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 project. The four-year contract with EEI expired on September 30, 2012. The energy conservation project continues on the campus.

During fiscal year 2009, Lobo Energy was asked by UNM to explore renewable energy applications that might be viable on the campus. 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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During fiscal year 2012, 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. That project has continued through fiscal year 2013.

(2) Summary of Significant Accounting Policies and Practices

(a) Basis of Accounting

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) 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.

(d) Cash and Cash Equivalents

Lobo Energy considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. For purposes of the statement of cash, Lobo Energy considers cash and cash equivalents 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. Note 2 describes these services in detail. Revenues are recognized for each type of service based on the terms of the MSA.

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Notes to Financial Statements

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(f) 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.

(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.

(h) Recently Issued Accounting Standards

In fiscal year 2013 the Lobo Energy adopted Governmental Accounting Standards Board (GASB) No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63), which establishes a new statement of net position format that reports separately all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). The Statement requires deferred outflows of resources and deferred inflows of resources to be reported separately from assets and liabilities. The financial reporting impact resulting from the implementation of GASB 63 in the Lobo Energy's financial statements was the renaming of "Net Assets" to "Net Position," including changing the name of the financial statement from "Statement of Net Assets" to Statement of Net Position."

(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;

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Notes to Financial Statements

June 30, 2013 and 2012

- 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, 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
- 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, 2013 and 2012, Lobo Energy had a balance in that pooled account of \$1,679,759 and \$695,785, 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. Lobo Energy realized a loss of \$6,751 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, 2013 and 2012, the bank and book balance in Lobo Energy's separate checking account was \$10,593 and \$81,049, respectively. Of the bank balance, the entire amount is insured by the FDIC. Lobo Energy's cash at the Bank of Albuquerque represents the proceeds of long-term debt held in trust in the name of Lobo Energy.

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Notes to Financial Statements

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(5) Capital Assets and Long-Term Debt

Co-Generation unit

In July 2012, Lobo Energy entered into a \$10,000,000 commitment to finance the construction of a new cogeneration 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. The escrow account is held at Bank of Albuquerque. The installation of an additional cogeneration unit in the future was part of the plan when the utility infrastructure was upgraded in a project concluding in 2006. It is anticipated that the unit will be placed into service in 2014. At June 30, 2013 and 2012, Lobo Energy has capitalized \$7,719,096 and \$-0-, respectively, and is included in the construction in progress line item in the balance sheets.

Payments are due monthly to Banc of America and the lease charges interest at 2.64% and matures on July 25, 2022. The outstanding principal balance at June 30, 2013 and 2012 was \$9,189,252 and \$-0-, respectively. The following is a summary of lease liability transactions, including the current portion:

	Beginning of year <u>balance</u>	<u>Proceeds</u>	<u>Payments</u>	End of year <u>balance</u>	Due within <u>one year</u>
Lease liability	\$ -	\$ 10,000,000	\$ 810,748	\$ 9,189,252	\$ 907,119

Future minimum lease payments is as follows:

Fiscal year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 907,119	\$ 231,926	\$ 1,139,045
2015	931,388	207,677	1,139,065
2016	956,306	182,759	1,139,065
2017	981,891	157,174	1,139,065
2018	1,008,160	130,905	1,139,065
2019 to 2022	4,404,388	246,794	4,651,182
	<u>\$ 9,189,252</u>	<u>\$ 1,157,235</u>	<u>\$ 10,346,487</u>

Internally generated software

Lobo Energy is in the process of developing internally generated software. The software is intended to gather and retain information related to the efficient management of energy consumption. It was developed for use by UNM and potentially other educational institutions as well as emergency responders and other facility managers who could benefit from having a database that collects institutional knowledge about their assets. At June 30, 2013 and 2012, Lobo Energy has capitalized \$189,008 and \$-0-, respectively, and is included in the construction in progress line item in the balance sheets.

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June 30, 2013 and 2012

(6) Major Contracts

UNM requested that Lobo Energy implement an energy conservation program on the campus during 2008. Effective December 7, 2007, Lobo Energy entered into a contract with EEI (now known as Cenergistic), a corporation that specializes in the reduction of consumption of electricity, gas, propane, fuel oil, water, and sewer. There was a strategic planning and implementation period that extended through March of 2008. A six-month fast track followed (April–September 2008) in which Lobo Energy hired energy conservation specialists (ECSs) to work on UNM’s Albuquerque campus. Four performance years, during which Lobo Energy pays EEI \$1,924,800 per year, or a total of \$7,699,200, commenced on October 1, 2008. EEI estimated a cumulative net cost avoidance of \$10,838,672 during the four performance years. The four-year contract expired on September 30, 2012. Net avoided costs realized at that time were \$10,956,660.

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 2012 and 2013.

During fiscal year 2012, at the request of UNM, Lobo Energy entered into a contract with Shimizu NA whereby Lobo Energy began providing technical support for the smart-grid solar-energy project owned by Shimizu NA on the Mesa del Sol campus. Lobo Energy is compensated by Shimizu for labor and materials per terms of the contract. The contracts for the periods April 15–June 14, 2012, and June 15–August 14, 2012, provided for billing of a fixed fee of \$12,500 per month for 40 hours of labor per week, plus overtime billed at \$50/hr. Lobo Energy realized revenue in the amount of \$32,525 during fiscal year 2012. The contract for the period of August 15, 2012 through March 31, 2014 provides for services to be provided on a limited, as-needed basis. Services are limited to 25 hours per month to be billed at \$60/hr. Overtime hours are limited to 32 hours per month at a rate of \$100/hr. Lobo Energy recognized revenue in the amount of \$27,443 during fiscal year 2013. In July 2012 Lobo Energy entered into a Memorandum of Understanding with UNM’s Physical Plant Department to define the responsibilities of both parties with respect to provision of and payment for materials and services to be provided by UNM Physical Plant on the Shimizu project on the Mesa del Sol campus.

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

Notes to Financial Statements

June 30, 2013 and 2012

(7) 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 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, 2013 and 2012 were \$54,167 and \$52,650, respectively, which consisted of \$33,017 and \$27,975 contributed by employees and \$28,220 and \$24,675 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 organizations designated by a resolution of UNM's Board of Regents.

(9) 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.

(10) Subsequent Events

Lobo Energy has evaluated subsequent events from the balance sheet date through October 8, 2013, the date at which the financial statements were available to be issued, and determined that there were no other items to disclose.



KPMG LLP
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Albuquerque, NM 87110-8179

**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, 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 component unit of the University of New Mexico, which comprise the balance sheet as of June 30, 2013, 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 October 8, 2013.

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'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.

KPMG LLP

Albuquerque, New Mexico
October 8, 2013

LOBO ENERGY, INCORPORATED
(A Component Unit of the University of New Mexico)
Schedule of Findings and Responses
Year ended June 30, 2013

Findings – Financial Statements Audit

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

LOBO ENERGY, INCORPORATED
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Exit Conference

Year ended June 30, 2013

An exit conference was conducted on October 8, 2013. During this meeting, the contents of this report were discussed with the following individuals:

Lobo Energy, Incorporated

Steven R. Beffort, President/CEO

Jewel M. Glavey, Secretary/Treasurer

KPMG LLP

John T. Kennedy, Partner

Caroline M. Garcia, Senior Manager