



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

Financial Statements

June 30, 2015 and 2014

(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, 2015

**OFFICERS**

Jason Strauss  
Jeffrey Zumwalt  
Wanita Kirkman

**MEMBERS**

Robert G. Frank  
David W. Harris  
Robert M. Doughty, III  
Stephen W. McKernan  
Geraldine Forbes-Isais  
Jon Word  
Thomas J. Ruiz  
Bruno E. Carrara



**KPMG LLP**  
Two Park Square, Suite 700  
6565 Americas Parkway, N.E.  
Albuquerque, NM 87110-8179

## **Independent Auditors' Report**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Lobo Energy, Incorporated (Lobo Energy), a component unit of the University of New Mexico, which comprise the statements of net position as of June 30, 2015 and 2014, 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 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 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 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 opinions.



***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, 2015 and 2014, 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 Matter**

*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 November 11, 2015, 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  
November 11, 2015

**LOBO ENERGY, INCORPORATED**  
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Management's Discussion and Analysis

June 30, 2015 and 2014

(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, 2015, 2014, and 2013. 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 decreased \$236,395 from \$4,181,801 in 2014 to \$3,945,406 in fiscal year 2015, primarily due to a decrease in operating revenue and an increase in expenses. Lobo Energy's net position increased \$1,539,950 from \$2,641,851 in 2013 to \$4,181,801 in fiscal year 2014, primarily due to an increase in operating revenue and a decrease in expenses.
- During fiscal year 2015, Lobo Energy's operating revenue decreased by \$501,789 and operating expenses increased by \$1,632,337, resulting in net operating loss of \$27,552 in fiscal year 2015, compared to net operating income of \$2,106,574 in fiscal year 2014. During fiscal year 2014, Lobo Energy's operating revenue increased by \$378,211 and operating expenses decreased by \$463,495, resulting in net operating income of \$2,106,574 in fiscal year 2014, compared to net operating income of \$1,264,868 in fiscal year 2013.
- Cash decreased in fiscal year 2015 by \$442,513 resulting in cash on deposit with fiscal agent and cash on hand at the close of fiscal year 2015 of \$864,756. The decrease during fiscal year 2015 is primarily due to the transfer of funds to the UNM Physical Plant Department for renewable energy projects. Cash decreased in fiscal year 2014 by \$3,111,883 resulting in cash on deposit with fiscal agent and cash on hand at the close of fiscal year 2014 of \$1,307,269. The decrease during fiscal year 2014 is primarily due to the depletion of the escrow account from which the expenses were paid in connection with the installation of the second co-generation unit in Ford Utilities Center on UNM's main campus.

**Overview of the Basic Financial Statements**

The statements of net position of Lobo Energy provides 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.

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Management's Discussion and Analysis

June 30, 2015 and 2014

(unaudited)

**Financial Information**

Lobo Energy's condensed financial information as of and for the fiscal years ended June 30, 2015, 2014, and 2013 are provided in the following table:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Current assets	\$ 874,500	1,502,661	4,424,819
Other assets	30	15,030	30
Capital assets	10,489,738	11,030,097	7,908,104
Total assets	<u>\$ 11,364,268</u>	<u>12,547,788</u>	<u>12,332,953</u>
Current liabilities	\$ 1,024,423	1,015,242	1,408,969
Long-term liabilities	6,394,439	7,350,745	8,282,133
Net position	<u>3,945,406</u>	<u>4,181,801</u>	<u>2,641,851</u>
Total liabilities and net position	<u>\$ 11,364,268</u>	<u>12,547,788</u>	<u>12,332,953</u>
Operating revenues	\$ 2,788,665	3,290,454	2,912,243
Operating expenses	<u>2,816,217</u>	<u>1,183,880</u>	<u>1,647,375</u>
Operating income	(27,552)	2,106,574	1,264,868
Nonoperating revenues	13,834	14,724	1,006,272
Nonoperating expenses	<u>222,677</u>	<u>581,348</u>	<u>243,520</u>
Change in net position	(236,395)	1,539,950	2,027,620
Net position, beginning of year	<u>4,181,801</u>	<u>2,641,851</u>	<u>614,231</u>
Net position, end of year	<u>\$ 3,945,406</u>	<u>4,181,801</u>	<u>2,641,851</u>

**Statements of Net Position**

As of June 30, 2015 and 2014, Lobo Energy has cash in the amount of \$864,756 and \$1,307,269, respectively, of which \$827,620 and \$1,299,617, respectively, is held by Lobo Energy's fiscal agent, UNM, and \$37,136 and \$7,652, respectively, is held in an operating bank account at a financial institution.

All of the June 30, 2015 and 2014 net assets are held as equity in the form of unrestricted net position of \$806,413 and \$1,433,837, respectively. Additionally, at June 30, 2015 and 2014, Lobo Energy has \$3,138,993 and \$2,747,964 shown as net investment in capital assets.

Lobo Energy's investment in capital assets as of June 30, 2015 and 2014 was \$10,489,738 and \$11,030,097, 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.

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Management's Discussion and Analysis

June 30, 2015 and 2014

(unaudited)

At the end of the current fiscal year, Lobo Energy had total debt outstanding of \$7,350,745. This debt was incurred when Lobo Energy borrowed \$10,000,000 during FY 2012–13 for the purchase of the co-generation project (described in footnote 5) 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 revenue earned during fiscal years 2015 and 2014 for utility project management services and other project management services was \$2,788,665 and \$3,290,454, respectively, and includes \$480,000 in both fiscal years for utilities management services. Other management services for fiscal years 2015 and 2014 were \$2,308,665 and \$2,810,454, respectively. 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 \$0 in 2015 and \$21,026 in 2014.

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 cash investments. The pro rata interest earnings are credited to Lobo Energy's account monthly. Lobo Energy transfers funds to its checking account as needed.

*Expenses* – Total operating expenses increased \$1,632,337 during the fiscal year ended June 30, 2015 due to an increase of \$1,268,907 in project expenses related to the transfer of funds to the UNM Physical Plant Department for renewable energy projects and an increase of \$35,469 in administrative expenses as well as an increase in depreciation expenses of \$327,961 due to the installation of the second co-generation unit on the UNM campus at the end of FY 2014. Total operating expenses decreased \$463,495 during the fiscal year ended June 30, 2014 due to a decrease of \$660,481 in project expenses upon completion of the Shimizu NA solar project at Mesa del Sol and a decrease of \$15,142 in administrative expenses offset by an increase in depreciation expenses of \$212,398 due to the installation of the second co-generation unit on the UNM campus.

**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 a 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 co-generation unit and contracted to have it installed in Ford Utilities Center on the UNM campus (note 5 for a detailed explanation of this project). This project was completed during FY 2014.

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

Lobo Energy will not continue to provide services in connection with the solar energy project on the Mesa del Sol campus for which it is compensated by Shimizu NA (see further discussion in note 1).

**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**  
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Statements of Net Position

June 30, 2015 and 2014

<b>Assets</b>	<b>2015</b>	<b>2014</b>
Current assets:		
Cash on deposit with fiscal agent	\$ 827,620	1,299,617
Cash on deposit with BBVA Compass Bank	37,136	7,652
Accounts receivable	9,744	189,844
Prepaid expenses	—	5,548
Total current assets	874,500	1,502,661
Capital assets:		
Construction in progress	—	622,579
Property, plant, and equipment	11,242,495	10,619,916
Less accumulated depreciation and amortization	(752,757)	(212,398)
Net capital assets	10,489,738	11,030,097
Noncurrent assets:		
Other assets	30	30
Equity method investment	—	15,000
Total assets	\$ 11,364,268	12,547,788
<b>Liabilities and Net Position</b>		
Current liabilities:		
Accounts payable	\$ 68,117	83,854
Current portion of long-term debt	956,306	931,388
Total current liabilities	1,024,423	1,015,242
Long-term debt, excluding current installments	6,394,439	7,350,745
Total liabilities	7,418,862	8,365,987
Net position:		
Net investment in capital assets	3,138,993	2,747,964
Unrestricted	806,413	1,433,837
Total net position	3,945,406	4,181,801
Total liabilities and net position	\$ 11,364,268	12,547,788

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, 2015 and 2014

	<b>2015</b>	<b>2014</b>
Operating revenues:		
Utilities management services	\$ 480,000	480,000
Other management services	2,308,665	2,810,454
Total operating revenues	2,788,665	3,290,454
Operating expenses:		
Administrative expenses	193,852	158,383
Depreciation expenses	540,359	212,398
Project expenses	2,082,006	813,099
Total operating expenses	2,816,217	1,183,880
Operating (loss) gain	(27,552)	2,106,574
Nonoperating revenue:		
Interest income	13,834	14,724
Nonoperating expenses:		
Loss on equity method investment	15,000	350,077
Interest expense	207,677	231,271
Change in net position	(236,395)	1,539,950
Net position, beginning of year	4,181,801	2,641,851
Net position, end of year	\$ 3,945,406	4,181,801

See accompanying notes to financial statements.

**LOBO ENERGY, INCORPORATED**  
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Statements of Cash Flows

Years ended June 30, 2015 and 2014

	<b>2015</b>	<b>2014</b>
Cash flows from operating activities:		
Receipts from customers	\$ 2,968,764	3,106,277
Payments to other suppliers of goods or services	(1,634,414)	(643,964)
Payments to employees for services	(651,632)	(751,062)
Net cash provided by operating activities	682,718	1,711,251
Cash flows from investing activities:		
Construction in progress	—	(3,334,392)
Payments made for equity method investment	—	(365,077)
Net cash used in investing activities	—	(3,699,469)
Cash flow from capital financing activities:		
Payments of long-term debt	(931,388)	(907,119)
Interest earned	13,835	14,724
Interest expense	(207,677)	(231,271)
Net cash used in financing activities	(1,125,230)	(1,123,666)
Net decrease in cash and cash equivalents	(442,512)	(3,111,884)
Cash and cash equivalents, beginning of year	1,307,268	4,419,152
Cash and cash equivalents, end of year	\$ 864,756	1,307,268
Reconciliation of operating gain to net cash provided by operating activities:		
Operating (loss) gain	\$ (27,552)	2,106,574
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation expense	540,359	212,398
Change in accounts receivable	180,100	(184,177)
Change in prepaid expenses	5,548	(5,548)
Change in accounts payable	(15,737)	(417,996)
Net cash provided by operating activities	\$ 682,718	1,711,251

See accompanying notes to financial statements.

**LOBO ENERGY, INCORPORATED**  
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Notes to Financial Statements

June 30, 2015 and 2014

**(1) Description of Business**

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

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June 30, 2015 and 2014

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 regarding potential renewable energy projects for installation on the UNM campus when funding becomes available.

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.

**(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.

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(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 initially recorded its equity method investment at cost. A decline in the fair value of the investment below cost that is deemed other-than-temporary results in an impairment to reduce the carrying value to fair value. In FY 2014 and 2015, Lobo Energy recognized an impairment loss on its investment. See note 9 for further discussion.

(g) ***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.

(h) ***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

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Notes to Financial Statements

June 30, 2015 and 2014

- 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.

Under the terms of the revised MSA, effective November 1, 2010, UNM compensates Lobo Energy for these services at the rate of \$40,000 per month, over a five year period.

***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, 2015 and 2014, Lobo Energy had a book and bank balance in that pooled account of \$827,620 and \$1,299,617, 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 gain of \$13,834 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, 2015 and 2014, the bank balance in Lobo Energy's separate checking account was \$37,136 and \$7,652, respectively, and the book balance was \$37,136 and \$172,244, respectively. At June 30, 2015 and 2014, the checking account balance is insured by the FDIC.



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Notes to Financial Statements

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**(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. The escrow account was held at Bank of Albuquerque. The installation of an additional co-generation unit in the future was part of the plan when the utility infrastructure was upgraded in a project concluding in 2006. The additional unit was placed into service in January 2014. During the years ended June 30, 2015 and 2014, Lobo Energy capitalized \$0 and \$2,900,820, respectively. Lobo Energy now has a fixed asset with an original cost of \$11,242,495.

**(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. In fiscal year 2015, two pieces of software were transferred from construction in progress, to Property, plant and equipment. Lobo Energy estimates useful life of software using the straight-line method over a useful life of 5 years. Lobo Energy recorded \$752,757 and \$212,398 of accumulated depreciation at June 30, 2015 and 2014, respectively.

	<u>Balance at July 1, 2014</u>	<u>Additions</u>	<u>Retirements/ disposals</u>	<u>Balance at June 30, 2015</u>
Plant in service	\$ 10,619,916	—	—	10,619,916
Internally generated software	—	622,579	—	622,579
Accumulated depreciation	<u>(212,398)</u>	<u>(540,359)</u>	<u>—</u>	<u>(752,757)</u>
Net property, plant, and equipment	<u>\$ 10,407,518</u>	<u>82,220</u>	<u>—</u>	<u>10,489,738</u>

**(c) Lease Payments**

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, 2015 and 2014 was \$7,350,745 and \$8,282,133, respectively. The following is a summary of lease liability transactions, including the current portion:

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June 30, 2015 and 2014

	<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 2014	\$ 9,189,252	—	(907,119)	8,282,133	931,388
Lease liability, FY 2015	8,282,133	—	(931,388)	7,350,745	956,306

At June 30, 2015, minimum future lease payments are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal years ending June 30:			
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	1,035,132	103,933	1,139,065
2020	1,062,826	76,239	1,139,065
2021 to 2022	2,306,430	66,622	2,373,052
	<u>\$ 7,350,745</u>	<u>717,632</u>	<u>8,068,377</u>

**(d) Internally generated software**

Lobo Energy completed the process of developing an internally generated software. The software is used 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, 2015 and 2014, Lobo Energy has capitalized \$0 and \$545,834, respectively, and was transferred to property, plant, and equipment line item on the balance sheet as it was placed in service.

In addition, Lobo Energy bought a commercially available software package on March 20, 2014, for \$76,745 and completed the process of modifying it using more than minimal incremental effort, and was placed into operation in fiscal year 2015, and is was transferred to the property, plant, and equipment line item on the balance sheet.

**(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 Cenergetic), 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 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 (unaudited).

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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 2014 and 2015.

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 was 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 \$27,443 during fiscal year 2013. 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 \$0 during fiscal year 2015. 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. This project was completed in March 30, 2014.

**(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 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, 2015 and 2014 were \$74,980 and \$64,406, respectively, which consisted of \$45,385 and \$34,851 contributed by employees and \$29,595 and \$29,554 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.

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June 30, 2015 and 2014

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 2015. Lobo Energy accounts for its investment in Facility Facts, Inc. using the equity method of investment.

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 did not purchase goods or services of companies that board members are employed by during the fiscal years ended June 30, 2015 and 2014.

**(9) Equity Method Investments**

Investments accounted for under the equity method consist of 10% of the common stock of Facility Facts, Inc. Lobo Energy received 7% of common stock upon execution of the licensing agreement discussed in note 8 to the financial statements. The remaining 3% of common stock was issued to Lobo Energy as consideration for \$365,077 of funding provided during FY 2014. Under this method, there was no recorded goodwill; however, the investment was analyzed for impairment. As a result of impairment testing during FY 2014, Lobo Energy recognized a loss related to its investment in the amount of \$350,077. In FY 2015, Lobo Energy recognized its portion of Facility Facts, Inc.'s net loss, resulting in a decrease of the investment by an additional \$15,000.

**(10) 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.

**(11) Subsequent Events**

On August 25, 2015, the Board of Directors for Lobo Energy approved a revised Management Services Agreement (MSA) between Lobo Energy and the University of New Mexico. The MSA was approved by the UNM Board of Regents on October 9, 2015. The effective date of the MSA is November 1, 2015 for a five year term which expires on November 1, 2020.

Subsequent events are evaluated by management through the date the accompanying financial statements are available to be issued, which is November 11, 2015.

**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. Timothy Keller, 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 statement of net position as of June 30, 2015, 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 November 11, 2015.

**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*.

**Management’s Response to the Finding**

Lobo Energy’s response to the finding identified in our audit is described in the accompanying schedule of findings. Lobo Energy’s response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on the response.

**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  
November 11, 2015

**LOBO ENERGY, INCORPORATED**  
(A Component Unit of the University of New Mexico)  
Schedule of Findings and Responses  
Year ended June 30, 2015

**Findings – Financial Statement Audits**

**Prior Year Findings**

*Finding Number:* 2014-001

*Finding Title:* Expenses

*Type of Finding:* Findings that do not rise to the level of a significant deficiency

*Disposition:* Resolved

**Current Year Findings**

*Finding Number:* 2015-001

*Finding Title:* Investments

*Type of Finding:* Findings that do not rise to the level of a significant deficiency

*Condition and Criteria*

Per GASB Codification (GASB) 150.127h, Lobo Energy is required to recognize its share of the net income of an investee, and adjust the carrying value investment accordingly. They should discontinue the use of the equity method once the investment is reduced to zero, and should not recognize any additional losses.

For the fiscal year ended June 30, 2015, it was determined that the valuation of the equity method investment was not done in accordance with GASB, and that there were inadequate controls in place to ensure the proper valuation of the investment.

*Effect*

Lack of internal controls could result in an inappropriate valuation of Lobo Energy's equity method security.

*Cause*

Internal controls related to the recognition and revaluation of the equity method security has not been properly designed or implemented.

*Auditor's Recommendation*

We recommend that Lobo Energy institute controls around the recognition and valuation of the equity method security to ensure that the value and any associated gains or losses of the security is appropriately recognized in a timely and accurate fashion.

*Management's Response*

The equity method security will be evaluated at year-end to ensure proper valuation of the equity method security.

**LOBO ENERGY, INCORPORATED**  
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Exit Conference

Year ended June 30, 2015

An exit conference was held on October 14, 2015. 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

Wanita Kirkman                      CFO, LEI

**KPMG LLP**

Caroline M. Garcia                      Partner

Jessa Huybrechts                      Manager

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