



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

Financial Statements

June 30, 2016 and 2015

(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, 2016

OFFICERS

Jason Strauss
R. Gary Smith
Wanita Kirkman

MEMBERS

Robert G. Frank
David W. Harris
Bradley Hosmer
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, as of and for the year ended June 30, 2016, 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, 2016 and 2015, 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, 2016, 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, 2016

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

Management's Discussion and Analysis

June 30, 2016 and 2015

(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, 2016, 2015, and 2014. 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 \$29,231 from \$3,945,406 in 2015 to \$3,974,637 in fiscal year 2016, primarily due to a decrease in operating expenses. 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 decrease in operating revenue and an increase in expenses.
- During fiscal year 2016, Lobo Energy's operating revenue decreased by \$617,600 and operating expenses decreased by \$847,727, resulting in net operating gain of \$202,575 in fiscal year 2016, compared to net operating loss of \$27,552 in fiscal year 2015. 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.
- Cash decreased in fiscal year 2016 by \$401,802 resulting in cash on deposit with fiscal agent and cash on hand at the close of fiscal year 2016 of \$462,954. The decrease during fiscal year 2016 is primarily due to the transfer of funds to the UNM Physical Plant Department for renewable energy projects. Cash decreased in fiscal year 2015 by \$442,512 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 a decrease in funds received from UNM physical Plant Department.

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.

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

Management's Discussion and Analysis

June 30, 2016 and 2015

(unaudited)

Financial Information

Lobo Energy's condensed financial information as of and for the fiscal years ended June 30, 2016, 2015, and 2014 are provided in the following table:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Current assets	\$ 472,554	874,500	1,502,661
Other assets		30	15,030
Capital assets	<u>9,940,425</u>	<u>10,489,738</u>	<u>11,030,097</u>
Total assets	<u>\$ 10,412,979</u>	<u>11,364,268</u>	<u>12,547,788</u>
Current liabilities	\$ 1,025,794	1,024,423	1,015,242
Long-term liabilities	5,412,548	6,394,439	7,350,745
Net position	<u>3,974,637</u>	<u>3,945,406</u>	<u>4,181,801</u>
Total liabilities and net position	<u>\$ 10,412,979</u>	<u>11,364,268</u>	<u>12,547,788</u>
Operating revenues	\$ 2,171,065	2,788,665	3,290,454
Operating expenses	<u>1,968,490</u>	<u>2,816,217</u>	<u>1,183,880</u>
Operating income	202,575	(27,552)	2,106,574
Nonoperating revenues	6,717	13,834	14,724
Nonoperating expenses	<u>180,061</u>	<u>222,677</u>	<u>581,348</u>
Change in net position	29,231	(236,395)	1,539,950
Net position, beginning of year	<u>3,945,406</u>	<u>4,181,801</u>	<u>2,641,851</u>
Net position, end of year	<u>\$ 3,974,637</u>	<u>3,945,406</u>	<u>4,181,801</u>

Statements of Net Position

As of June 30, 2016 and 2015, Lobo Energy has cash in the amount of \$462,954 and \$864,756, respectively, of which \$439,695 and \$827,620, respectively, is held by Lobo Energy's fiscal agent, University of New Mexico (UNM), and \$23,259 and \$37,136, respectively, is held in an operating bank account at a financial institution.

All of the June 30, 2016 and 2015 net assets are held as equity in the form of unrestricted net position of \$428,651 and \$806,413, respectively. Additionally, at June 30, 2016 and 2015, Lobo Energy has \$3,545,986 and \$3,138,993 shown as net investment in capital assets.

Lobo Energy's investment in capital assets as of June 30, 2016 and 2015 was \$9,940,425 and \$10,489,738, 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, 2016 and 2015

(unaudited)

At the end of the current fiscal year, Lobo Energy had total debt outstanding of \$6,394,439. This debt was incurred when Lobo Energy borrowed \$10,000,000 during FY 2012–2013 for the purchase of the co-generation project (described in note 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 2016 and 2015 for utility project management services and other project management services was \$2,171,065 and \$2,788,665, respectively, and includes \$480,000 in both fiscal years for utilities management services. Other management services for fiscal years 2016 and 2015 were \$1,691,065 and \$2,308,665, respectively. Other management services decreased \$617,600 due to a contract cancelled during 2015. In addition, Lobo Energy provided other management services on the Mesa del Sol campus for an outside company beginning April 15, 2012.

UNM is the fiscal agent of Lobo Energy. UNM holds the majority of Lobo Energy's cash 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 decreased \$847,727 during the fiscal year ended June 30, 2016 due to a decrease of \$790,706 in project expenses related to the transfer of funds to the UNM Physical Plant Department for renewable energy projects and a decrease of \$65,975 in administrative expenses as well as an increase in depreciation expenses of \$8,954 due to a full year of depreciation on the Facility Fact Software. 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 and an increase of \$35,479 in administrative expenses offset by an increase in depreciation expenses of \$327,961 due to the depreciation of EnergyCap and Facility Facts Software and a full year of depreciation of Cogen Unit #2.

Factors Impacting Future Periods

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, INCORPORATED
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Management's Discussion and Analysis

June 30, 2016 and 2015

(unaudited)

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
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Statements of Net Position

June 30, 2016 and 2015

Assets	2016	2015
Current assets:		
Cash on deposit with fiscal agent	\$ 439,695	827,620
Cash on deposit with bank	23,259	37,136
Accounts receivable	9,600	9,744
Total current assets	472,554	874,500
Capital assets:		
Property, plant, and equipment	11,242,495	11,242,495
Less accumulated depreciation and amortization	(1,302,070)	(752,757)
Net capital assets	9,940,425	10,489,738
Noncurrent assets:		
Other assets	—	30
Equity method investment	—	—
Total assets	\$ 10,412,979	11,364,268
Liabilities and Net Position		
Current liabilities:		
Accounts payable	\$ 43,903	68,117
Current installments of obligations under capital lease	981,891	956,306
Total current liabilities	1,025,794	1,024,423
Obligations under capital lease, excluding current installments	5,412,548	6,394,439
Total liabilities	6,438,342	7,418,862
Net position:		
Net investment in capital assets	3,545,986	3,138,993
Unrestricted	428,651	806,413
Total net position	3,974,637	3,945,406
Total liabilities and net position	\$ 10,412,979	11,364,268

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, 2016 and 2015

	2016	2015
Operating revenues:		
Utilities management services	\$ 480,000	480,000
Other management services	1,691,065	2,308,665
Total operating revenues	2,171,065	2,788,665
Operating expenses:		
Administrative expenses	127,877	193,852
Depreciation expenses	549,313	540,359
Project expenses	1,291,300	2,082,006
Total operating expenses	1,968,490	2,816,217
Operating gain (loss)	202,575	(27,552)
Nonoperating revenue:		
Interest income	6,717	13,834
Nonoperating expenses:		
Loss on equity method investment	—	15,000
Interest expense	180,061	207,677
Change in net position	29,231	(236,395)
Net position, beginning of year	3,945,406	4,181,801
Net position, end of year	\$ 3,974,637	3,945,406

See accompanying notes to financial statements.

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Statements of Cash Flows

Years ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Receipts from customers	\$ 2,171,209	2,968,764
Payments to other suppliers of goods or services	(929,096)	(1,634,414)
Payments to employees for services	(514,265)	(651,632)
Net cash provided by operating activities	727,848	682,718
Cash flow from capital financing activities:		
Principal payments on capital lease obligations	(956,306)	(931,388)
Interest earned	6,717	13,835
Interest expense	(180,061)	(207,677)
Net cash used in financing activities	(1,129,650)	(1,125,230)
Net decrease in cash and cash equivalents	(401,802)	(442,512)
Cash and cash equivalents, beginning of year	864,756	1,307,268
Cash and cash equivalents, end of year	\$ 462,954	864,756
Reconciliation of operating gain to net cash provided by operating activities:		
Operating gain (loss)	\$ 202,575	(27,552)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation expense	549,313	540,359
Change in accounts receivable	144	180,100
Change in accounts payable	(24,214)	5,548
Change in other assets	30	(15,737)
Net cash provided by operating activities	\$ 727,848	682,718

See accompanying notes to financial statements.

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Notes to Financial Statements

June 30, 2016 and 2015

(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 2015–2020 (note 3). The agreement continues for consecutive one-year periods after its expiration or until such time as it is terminated. UNM may terminate the MSA thirty-days after written notice to Lobo Energy. UNM has not notified Lobo Energy that it intends to exercise this right. Upon termination of this agreement all rights and privileges granted, assigned or shared between Lobo Energy and UNM shall terminate. Upon termination of the agreement, all property of Lobo Energy shall transfer to UNM subject to the prior rights, if any, of any creditors of Lobo Energy.

UNM requested that Lobo Energy implement an energy conservation program on the campus during fiscal year 2008. Lobo Energy entered into a contract with Energy Education, Inc. (EEI), a corporation that specializes in energy conservation (EEI is now known as Cenergistic). Lobo Energy hired six energy conservation specialists (ECSs). Contract payments began after the first six months the contract was in effect. The ongoing program continues to be very effective. UNM has experienced a dramatic decrease in its energy consumption, as well as a reduction in the size of its carbon footprint, since the onset of the project. The four-year contract with EEI expired on September 30, 2012. The energy conservation project continues on the campus.

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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.

(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.

(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.

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June 30, 2016 and 2015

(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.

(i) *Adoption of New Accounting Pronouncement*

During the year ended June 30, 2016, Lobo Energy adopted GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB 76) that supersedes GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB 76 identifies the hierarchy of generally accepted accounting principles for state and local governments which did not have a significant effect.

(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

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Notes to Financial Statements

June 30, 2016 and 2015

- f. Recommendations for appropriate actions and strategies in response to regulatory opportunities or events
- g. Administrative tools capable of providing utility operational budgeting, capital project budgeting, major maintenance budgeting, cash flow tracking, and energy savings tracking
- h. Assistance with developing the energy and administrative capabilities described in items a through g above.

Under the terms of the revised MSA, effective November 1, 2015, UNM compensates Lobo Energy for these services at the rate of \$40,000 per month, 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, 2015, 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, 2016 and 2015, Lobo Energy had a book and bank balance in that pooled account of \$439,695 and \$827,620, 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 \$6,717 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, 2016 and 2015, the bank balance in Lobo Energy's separate checking account was \$25,027 and \$37,136, respectively, and the book balance was \$23,259 and \$37,136, respectively. At June 30, 2016 and 2015, the checking account balance is insured by the FDIC.

(5) Capital Assets and Capital Lease

(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

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on July 25, 2022. 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.

(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 \$1,302,070 and \$752,757 of accumulated depreciation at June 30, 2016 and 2015, respectively.

	Balance at June 30, 2015	Additions	Retirements/ disposals	Balance at June 30, 2016
Plant in service	\$ 10,619,916	—	—	10,619,916
Internally developed software	622,579	—	—	622,579
Accumulated depreciation	<u>(752,757)</u>	<u>(549,313)</u>	<u>—</u>	<u>(1,302,070)</u>
Net property, plant, and equipment	<u>\$ 10,489,738</u>	<u>(549,313)</u>	<u>—</u>	<u>9,940,425</u>

	Balance at June 30, 2014	Additions	Retirements/ disposals	Balance at June 30, 2015
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>

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(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, 2016 and 2015 was \$6,394,439 and \$7,350,745, respectively. The following is a summary of lease liability transactions, including the current portion:

	<u>Balance at July 1</u>	<u>Proceeds</u>	<u>Payments</u>	<u>Balance at June 30</u>	<u>Due within one year</u>
Lease liability, FY 2015	\$ 8,282,133	—	(931,388)	7,350,745	956,306
Lease liability, FY 2016	7,350,745	—	(956,306)	6,394,439	981,891

At June 30, 2016, minimum future lease payments are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal years ending June 30:			
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	1,091,261	47,804	1,139,065
2022	1,120,456	18,609	1,139,065
2023	94,713	209	94,922
	<u>\$ 6,394,439</u>	<u>534,873</u>	<u>6,929,312</u>

(d) **Internally generated software**

In FY 2015, 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, 2016 and 2015, Lobo Energy capitalized \$0 and \$545,834, respectively, that 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.

LOBO ENERGY, INCORPORATED
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Notes to Financial Statements

June 30, 2016 and 2015

(6) Major Contracts

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 2015 and 2016.

(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, 2016 and 2015 were \$72,638 and \$74,980, respectively, which consisted of \$45,568 and \$45,385 contributed by employees and \$27,070 and \$29,595 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.

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 or 2016. 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, 2016 and 2015.

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Notes to Financial Statements

June 30, 2016 and 2015

(9) Equity Method Investment

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

Subsequent events are evaluated by management through the date the accompanying financial statements are available to be issued, which is November 11, 2016.



KPMG LLP
Two Park Square, Suite 700
6565 Americas Parkway, N.E.
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. 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, 2016, 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, 2016.

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
November 11, 2016

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

Schedule of Findings and Responses

Year ended June 30, 2016

Findings – Financial Statement Audits

Prior Year Findings

Finding Number: 2015-001

Finding Title: Investments

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

Disposition: Resolved

Current Year Findings

None

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Exit Conference

Year ended June 30, 2016

An exit conference was held on October 18, 2016. 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

Jonathan Roepcke Manager

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