



LOFTIS GROUP LLC
CERTIFIED PUBLIC ACCOUNTANTS ▪ BUSINESS ADVISORS

New Mexico Renewable Energy Transmission Authority

Financial Statements
and
Independent Auditors' Report

June 30, 2019

New Mexico Renewable Energy Transmission Authority

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New Mexico Renewable Energy Transmission Authority

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**New Mexico Renewable Energy
Transmission Authority
Official Roster
June 30, 2019**

Governing Body

Robert Busch	Chairman
Brian Moore	Member
Jonathan Elms	Member
Dr. James Miller	Member
Noah Long	Member
Louise Martinez	Member
Tim Eichenberg	Member

Management

None at June 30, 2019

Independent Auditors' Report

Honorable Brian S. Colón, Esq.
New Mexico State Auditor
and The Board of Directors
New Mexico Renewable Energy Transmission Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the general fund, and the budgetary comparison for the general fund of the New Mexico Renewable Energy Transmission Authority (the "Authority") as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express 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 auditor's 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund, and the budgetary comparison for the general fund, of the Authority as of June 30, 2019, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 8 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The schedule of cash account is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of cash account is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 5, 2019, on our consideration of the Authority'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 the Authority's internal control over financial reporting and compliance.

Loftis Group ^{uc}

Albuquerque, New Mexico
September 5, 2019

**New Mexico Renewable Energy
Transmission Authority
Management’s Discussion and Analysis
For the Year Ended June 30, 2019**

The New Mexico Renewable Energy Transmission Authority’s (the “Authority”) discussion and analysis is designed to assist the reader in focusing on significant financial issues, provide an overview of the Authority’s financial activity, identify changes in the Authority’s financial position (ability to address future year challenges), identify any material deviations from the financial plan, and identify any funding issues or concerns.

The Management’s Discussion and Analysis (MD&A) is designed to focus on the past year’s activities, resulting changes and currently known facts and the Authority’s financial statements and notes which follow this section.

Financial Highlights

- ♦ The Authority’s government-wide net position decreased by \$11,332 during the fiscal year ended June 30, 2019.
- ♦ The Authority’s total program revenues were \$550,000, while expenses totaled \$563,236 for the year ended June 30, 2019.

The Authority’s Purpose and Highlights

The Authority was created in 2007 based on the Laws of 2007, Chapter 62. The purpose of the New Mexico Renewable Energy Transmission Authority Act (the “Act”) is to create a governmental instrumentality to finance or plan electricity transmission and storage facilities within the State of New Mexico. The financing or acquisition of an eligible project would be accomplished through the issuance of renewable energy transmission revenue bonds or other debt instruments.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority’s basic financial statements. The Authority’s basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements consist of a statement of net position and a statement of activities. These statements should report all of the assets, liabilities, revenues, expenses, and gains and losses of the Authority. Fiduciary activities whose resources are not available to finance the Authority’s programs are excluded from the government-wide statements. There were no fiduciary activities in fiscal year 2019.

**New Mexico Renewable Energy
Transmission Authority
Management’s Discussion and Analysis
For the Year Ended June 30, 2019**

GASB 34 requires that infrastructure assets (roads, bridges, traffic signals, etc.) be valued and reported within the government-wide financial statements. Additionally, the government must elect to either depreciate these assets over their estimated useful life or develop a system of asset management designed to maintain the service delivery potential. The Authority does not own any interest in any infrastructure assets nor any other capital assets as of June 30, 2019.

The government-wide financial statements of the Authority consist of governmental activities (general fund) of the Authority, established pursuant to NMSA 1978, Section 62-16A-13.

Fund Financial Statements

The fund financial statements consist of the Authority’s only governmental fund. Governmental fund financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting.

Governmental Fund Types

As of June 30, 2019, the Authority only reported one governmental fund, the general fund. The general fund is the general operating fund for the Authority and is used to account for all financial resources except those required to be accounted for in another fund. In 2019, the significant revenue sources were developer contributions from Pattern Energy LLC, of \$525,000 and Sun Zia Transmission, LLC, of \$25,000.

Notes to the Financial Statements

The notes to the financial statements consist of notes that provide information that is essential to a user’s understanding of the basic financial statements.

Budgetary Comparison

The Authority does not have any legally adopted budgets by the state legislature but does have a budget approved by its board of directors and, therefore, does present the general fund budget to actual statement. The Authority exceeded its budgeted expenditures by \$313,136 for the year ended June 30, 2019, which were offset by revenues exceeding budget in the amount of \$301,204.

Analysis of Financial Position

Total Assets:

	<u>2019</u>	2018	Change
Cash	\$ 155,062	\$ 31,741	\$ 123,321
Prepaid expenses	6,758	-	6,758
Contribution receivable	-	100,000	(100,000)
Total assets	<u>\$ 161,820</u>	<u>\$ 131,741</u>	<u>\$ 30,079</u>

**New Mexico Renewable Energy
Transmission Authority
Management's Discussion and Analysis
For the Year Ended June 30, 2019**

Cash increased by \$123,321 from the previous year and the contributions receivable balance decreased \$100,000 from the previous year. The decrease in contributions receivable was due to receiving payment on the \$100,000 contribution receivable at June 30, 2018, and receiving all other amounts owed to the Authority on or before year-end.

Total Liabilities:

	<u>2019</u>	<u>2018</u>	<u>Change</u>
Accounts payable	\$ 56,810	\$ 15,399	\$ 41,411
Total liabilities	<u>\$ 56,810</u>	<u>\$ 15,399</u>	<u>\$ 41,411</u>

Current liabilities increased by \$41,411 due to timing of payments to professional service providers.

Net Position:

	<u>2019</u>	<u>2018</u>	<u>Change</u>
Restricted for program activities	\$ 98,252	\$ 116,342	\$ (18,090)
Nonspendable	<u>6,758</u>	<u>-</u>	<u>6,758</u>
Total Net Position	<u>\$ 105,010</u>	<u>\$ 116,342</u>	<u>\$ (11,332)</u>

Net position decreased \$11,332 due to the current year expenses exceeding revenues.

Analysis of the Authority's Overall Financial Position and Results of Operations

Total Expenses, Revenues and Changes in Net Position

	<u>2019</u>	<u>2018</u>	<u>Change</u>
Expenses and Program Revenues			
Electricity transmission planning and development	\$ (563,236)	\$ (181,270)	\$ (381,966)
Developer contributions	<u>550,000</u>	<u>260,000</u>	<u>290,000</u>
Total program revenues (expenses)	<u>(13,236)</u>	<u>78,730</u>	<u>(91,966)</u>
General Revenues			
Interest income	<u>1,904</u>	<u>663</u>	<u>1,241</u>
Total general revenues	<u>1,904</u>	<u>663</u>	<u>1,241</u>
Change in Net Position	<u>\$ (11,332)</u>	<u>\$ 79,393</u>	<u>\$ (90,725)</u>

**New Mexico Renewable Energy
Transmission Authority
Management's Discussion and Analysis
For the Year Ended June 30, 2019**

Governmental-Type Activities

The Authority received no special, or other appropriations in 2019. The Authority's total expenditures for governmental-type activities during the fiscal year ended 2019 were \$563,236, which was \$381,966 more than 2018 as management had an increase in expenditures related to the additional amount of funding that was contributed as a result of increased project activities.

Capital Assets and Debt Administration

The Authority had no long-term debt or capital assets as of June 30, 2019.

Economic Factors and Next Year's Budgets

The Authority did not receive a State appropriation for the 2019 fiscal year. However, SunZia and Pattern Energy provided developer contributions totaling \$550,000 to facilitate ongoing operations. Based on the initial cash balance for 2019, continued developer contributions, and 2020 State Legislative appropriations, the Authority anticipates having sufficient cash to fund operations through 2020.

An MOU has been entered into with each developer which provides that the developers will provide financial support to the Authority as requested. None of the developer contributions are guaranteed. Funds received from these developers are available for any Authority activity and are not subject to refund.

Contacting the Authority's Financial Management

This financial report is designed to provide citizens, taxpayers, customers, legislators, investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Authority at the following address:

Sutin, Thayer & Browne
Lynn Mostoller
PO Box 1945
Albuquerque, NM 87103
P: (505) 883-2500
F: (505) 888-6565

Basic Financial Statements

**New Mexico Renewable Energy
Transmission Authority**
Statement of Net Position
June 30, 2019

	<u>Governmental Activities</u>
Assets	
Cash	\$ 155,062
Prepaid expenses	<u>6,758</u>
Total assets	<u>\$ 161,820</u>
Liabilities	
Accounts payable	<u>\$ 56,810</u>
Total liabilities	<u>\$ 56,810</u>
Net Position	
Restricted for program activities	<u>\$ 105,010</u>
Total net position	<u><u>\$ 105,010</u></u>

The accompanying notes are an integral part of these financial statements.

**New Mexico Renewable Energy
Transmission Authority**
Statement of Activities
For the Year Ended June 30, 2019

	Governmental Activities
Expenses	
Electricity transmission planning and development	\$ (563,236)
Program Revenues	
Developer contributions	550,000
Net program revenues	(13,236)
General Revenues	
Interest income	1,904
Total general revenues	1,904
Decrease in net position	(11,332)
Net position, beginning of year	116,342
Net position, end of year	\$ 105,010

The accompanying notes are an integral part of these financial statements.

Fund Financial Statements

**New Mexico Renewable Energy
Transmission Authority**
Balance Sheet—Governmental Fund and Reconciliation to
Statement of Net Position
June 30, 2019

	<u>General Fund</u>
Assets	
Cash	\$ 155,062
Prepaid expenses	<u>6,758</u>
Total assets	<u><u>\$ 161,820</u></u>
Liabilities and Fund Balance	
Liabilities	
Accounts payable	<u>\$ 56,810</u>
Total liabilities	<u>56,810</u>
Fund balance	
Restricted for program activities	98,252
Nonspendable	<u>6,758</u>
Total fund balance	<u>105,010</u>
Total liabilities and fund balance	<u><u>\$ 161,820</u></u>
Fund balance - governmental fund	\$ 105,010
There are no differences in the amounts reported for governmental activities in the statement of net position:	<u>-</u>
Net position of governmental activities	<u><u>\$ 105,010</u></u>

The accompanying notes are an integral part of these financial statements.

**New Mexico Renewable Energy
Transmission Authority**
Statement of Revenues, Expenditures and Changes in Fund Balance—
Governmental Fund and Reconciliation to Statement of Activities
For the Year Ended June 30, 2019

	<u>General Fund</u>
Revenues	
Developer contributions	\$ 550,000
Interest income	<u>1,904</u>
Total revenue	<u>551,904</u>
Expenditures	
Current	
Contractual services	543,622
Rent	6,644
Travel and meetings	4,078
Insurance	2,152
Postage	1,698
Telephone and internet	1,688
Other	<u>3,354</u>
Total expenditures	<u>563,236</u>
Net change in fund balance	(11,332)
Fund balance, beginning of year	<u>116,342</u>
Fund balance, end of year	<u><u>\$ 105,010</u></u>
Net change in fund balance - governmental fund	\$ (11,332)
There are no differences in the amounts reported for governmental activities in the statement of activities:	<u>-</u>
Change in net position of governmental activities	<u><u>\$ (11,332)</u></u>

The accompanying notes are an integral part of these financial statements.

**New Mexico Renewable Energy
Transmission Authority**
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – General Fund
For the Year Ended June 30, 2019

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
Revenues				
Revenues	\$ 250,000	\$ 250,000	\$ 550,000	\$ 300,000
Interest income	<u>700</u>	<u>700</u>	<u>1,904</u>	<u>1,204</u>
Total budgeted revenues	250,700	250,700	<u>551,904</u>	<u>301,204</u>
Cash balance carry forward	<u>31,741</u>	<u>31,741</u>		
Total revenues and budgeted fund balance	<u>\$ 282,441</u>	<u>\$ 282,441</u>		
Expenditures				
Contractual services	\$ 245,600	\$ 245,600	\$ 543,622	\$ (298,022)
Other costs	<u>4,500</u>	<u>4,500</u>	<u>19,614</u>	<u>(15,114)</u>
Total budgeted expenditures	<u>\$ 250,100</u>	<u>\$ 250,100</u>	<u>563,236</u>	<u>\$ (313,136)</u>
Net change in fund balance			<u>\$ (11,332)</u>	

The accompanying notes are an integral part of these financial statements.

**New Mexico Renewable Energy
Transmission Authority
Notes to the Financial Statements
June 30, 2019**

1) Summary of Significant Accounting Policies

This summary of significant accounting policies of the Authority is presented to assist in the understanding of the Authority's financial statements. The financial statements and notes are the representation of the Authority's management who is responsible for their integrity and objectivity. The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to agencies of the government. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The financial statements have incorporated all applicable GASB pronouncements.

Financial Reporting Entity

The Laws of 2007, Chapter 62, created the New Mexico Renewable Energy Transmission Authority (the "Authority"). The purpose of the New Mexico Renewable Energy Transmission Authority Act (the "Act") is to create a quasi-governmental entity to finance or plan the acquisition, maintenance and operation of certain electricity transmission and storage facilities within the State of New Mexico. The financing or acquisition of the eligible projects would be accomplished through the issuance of renewable energy transmission revenue bonds and other debt instruments.

The Authority's governing body is composed of six voting members and one ex-officio non-voting member. The Governor, with the advice and consent of the Senate, appoints three members. The State Treasurer, or its designee, is an ex-officio member of the Authority with voting privileges. One member is appointed by the Speaker of the House of Representatives and serves at the pleasure of the Speaker of the House. One member is appointed by the President Pro Tempore of the Senate and serves at the pleasure of the President Pro Tempore. The Secretary of Energy, Minerals and Natural Resources serves as an ex-officio non-voting member to the Authority. The Governor shall designate an appointed member of the Authority to serve as chair, and the Authority may elect annually such other officers as it deems necessary.

The Authority is not subject to the supervision or control of any other board, bureau, department or agency of the state, except as specifically provided in the Act. The Act specifically excludes the Authority from the definition of "state agency" or "instrumentality" in any other law of the state, unless specifically referred to in the law. Authority employees are not covered by any state retirement or post-retirement benefit plans. Accordingly, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, are not applicable to the Authority's financial statements.

**New Mexico Renewable Energy
Transmission Authority
Notes to the Financial Statements
June 30, 2019**

1) Summary of Significant Accounting Policies – continued

The Act created the Renewable Energy Transmission Bonding Fund, which shall consist of revenues received by the Authority from operating or leasing eligible facilities, fees and service charges collected and, if the Authority has provided financing or eligible facilities, money from payments of principal and interest on loans. Money in the Renewable Energy Transmission Bonding Fund is pledged for the payment of principal and interest on all bonds issued pursuant to the Act. Bonds issued pursuant to the Act shall be payable solely from the Renewable Energy Transmission Bonding Fund or, with the approval of the bondholders, such other special funds as may be provided by law. These bonds do not create an obligation or indebtedness of the state within the meaning of any constitutional provision. No bond has been issued thus this fund has no activity.

The Act established the Renewable Energy Transmission Authority Operations Fund within the State Treasury. However, due to the State's current accounting system, the Department of Finance and Administration (*DFA*) and the State Treasurer have agreed to establish the Authority's Operations Fund outside the State Treasury but under the control mechanisms that apply to state funds. This fund consists of money appropriated and transferred to the fund. Earnings from investment of the fund shall be credited to the fund. Money in the fund is appropriated to the Authority for the purpose of carrying out the provisions of the Act. Any unexpended or unencumbered balance remaining in the fund at the end of a fiscal year shall not revert to the general fund of the state.

The Authority is a quasi-governmental entity in accordance with GASB Statement No. 39. The Authority is a governmental entity because it was established by statute; its relationship with other governmental entities; the governmental composition of the Authority's governing board; sources of operational revenue and its ability to issue tax-exempt debt.

The financial reporting entity as defined by GASB Statement No. 39 consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. This definition of the reporting entity is based primarily on the notion of financial accountability as the "cornerstone of all financial reporting in government".

**New Mexico Renewable Energy
Transmission Authority
Notes to the Financial Statements
June 30, 2019**

1) Summary of Significant Accounting Policies – continued

The Authority is a component unit of the primary government, the State of New Mexico. These financial statements present the financial position and changes in financial position of that portion of the governmental activities, each major fund, and aggregate remaining fund information of the State that is attributable to the transactions of the Authority.

Based upon the application of the criteria in GASB Statements No. 14, No. 39 and No. 61, the Authority had no component units as of June 30, 2019.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all the nonfiduciary activities of the Authority. There is no effect from interfund activity that needs elimination because the Authority has only one fund. The Authority's governmental activities are supported by developer contributions and cash carried forward from the prior year. The Authority has no business-type activities.

The Statement of Net Position and the Statement of Activities were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*.

In the government-wide Statement of Net Position, the governmental activities column is reported on a full accrual, economic resource basis, which recognized all long-term assets, deferred inflows and receivables as well as deferred outflows and long-term debt obligations. There were no deferred inflows or outflows for the year ended June 30, 2019. The Authority's net position is comprised of restricted net position as required by the enabling legislation. (Section 62-16A-1 NMSA 1978).

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function, which is electricity transmission planning and development. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. The Authority did not receive any federal revenues or state appropriations for the year ended June 30, 2019.

**New Mexico Renewable Energy
Transmission Authority
Notes to the Financial Statements
June 30, 2019**

1) Summary of Significant Accounting Policies – continued

Taxes and other items not properly included among program revenues are reported as general revenues. The Authority's policy is to use restricted resources first, then unrestricted resources as needed.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The Authority did not have any funds classified as proprietary or fiduciary for the year ended June 30, 2019.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual* basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements of time, reimbursement and contingencies imposed by the provider are met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual* basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

The Authority reports the following major governmental fund:

- The General Fund is the Authority's operating fund. It is used to account for resources traditionally associated with a government that are not required legally or by sound financial management to be accounted for in some other fund. The general fund is a non-reverting fund as stipulated in Section 62-16A-1 NMSA 1978, and is not part of the state-wide accounting system.

**New Mexico Renewable Energy
Transmission Authority**
Notes to the Financial Statements
June 30, 2019

1) Summary of Significant Accounting Policies – continued

Assets, Liabilities and Net Position or Fund Equity

Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Capital Assets

The Authority has no capital assets that meet the \$5,000 requirement to capitalize.

Net Position

The government-wide financial statements utilize a net position presentation. Net position is categorized as investments in capital assets, restricted and unrestricted. Net position is defined by GAAP as the residual of all assets, liabilities, deferred outflows of resources and deferred inflows of resources. There were no deferred inflows or deferred outflows at June 30, 2019.

- Net Investment in Capital Assets – Consist of capital assets, net of accumulated depreciation and reduced by debt that is attributed to the acquisition, construction or improvement of those assets.
- Restricted Net Position – Restricted net position results from constraints placed on the use of net position when externally imposed by creditors, grantors, laws or regulations, or imposed by law through enabling legislation.
- Unrestricted Net Position – Unrestricted net position consists of net position that does not meet the definition of the two preceding categories.

Fund Balance

The Authority follows GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Fund balance is reported by the most binding constraint which is restricted by an external resource or enabling legislation. Beginning with the most binding constraints, fund balance amounts are reported in the following classifications:

- Non-spendable – Amounts that cannot be spent because they are either in a non-spendable form or are contractually required to be maintained until expended for its restricted purpose.

**New Mexico Renewable Energy
Transmission Authority
Notes to the Financial Statements
June 30, 2019**

1) **Summary of Significant Accounting Policies – continued**

- Restricted – Amounts can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. The Authority is a non-reverting agency and the funds are restricted by its enabling legislation to carry out the provisions of the Authority. Accordingly, all of the Authority's fund balance is restricted.
- Committed – Amounts that can be used only for the specific purposes determined by a formal action of the Authority's highest level of decision-making authority, which is the Board of Directors.
- Assigned – Amounts intended to be used by the Authority for specific purposes but do not meet the criteria to be classified as restricted or committed.
- Unassigned – The residual classification for the Authority's general fund and includes all amounts not contained in the other classifications.

2) **Budget**

The Authority prepares a budget for the General Fund. The budget is approved by the Board of Directors but is not required to be approved by the State Legislature. It is used as a measuring mechanism to gauge the Authority's progress. The budget is not legally binding, but is presented to inform the reader of the financial statements. The level of budgetary control is at the fund level.

3) **Cash and Cash Equivalents**

Cash and cash equivalents consist of cash on deposit with Bank of America. The bank balance is not in excess of FDIC coverage provided by federal agencies. If the bank balance exceeds FDIC coverage, the Authority is required to ensure Bank of America provides collateral equal to 50% of the uninsured amount. The State Treasurer's Office ensures the Authority's General Fund bank account is covered by the State Treasurer's Collateralization Policy. Accordingly, the State Treasurer requires the depository financial institution to provide collateral of State money as necessary to comply with the State law requirements. The Authority received documentation that the General Fund is therefore covered by these collateralization requirements at June 30, 2019. The State Treasurer issues separate financial statements, which disclose the collateral pledged to secure these deposits, the categories of risk involved and the market value of the collateral.

**New Mexico Renewable Energy
Transmission Authority
Notes to the Financial Statements
June 30, 2019**

4) Risk Management

The Authority is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Section 15-7-2 NMSA 1978 requires the General Services Department, Risk Management Division (RMD), to be responsible for the acquisition and administration of all insurance purchased by the state. Since 1977, various state statutes have been passed which allow RMD to insure, self-insure or use a combination of both. Risk management expenditures for the Authority are accounted for in the general fund. Any claims are processed through RMD. There is no pending or known threatened legal proceedings involving material matters to which the Authority is a party. During 2019 the Authority acquired Directors and Officers coverage.

5) Operating Lease

The Authority leases office space under a lease that expires on December 31, 2019. Monthly lease payments are \$1,140. Lease expense was \$6,644 for the year ended June 30, 2019.

6) Developer Contributions

On July 26, 2017, the Authority entered into an MOU with SunZia Transmission, LLC, for a renewable energy transmission project proposed by SunZia. SunZia provided contributions totaling \$25,000 during the year ended June 30, 2019.

The Authority has had a lease agreement with Clean Line Energy to develop the Central New Mexico Collector Project known as the Western Spirit Transmission Project (Western Spirit). In May 2018, Pattern Development acquired Western Spirit from Clean Line. Pattern Development provided \$525,000, or 95%, of current year revenue.

Contributions received are unrestricted and may be used by the Authority for any operational purpose it sees fit.

7) Subsequent Event

On May 1, 2019, Public Service Company of New Mexico (PNM), as buyer, and the Authority and Western Spirit Transmission LLC (Western Spirit), as sellers, entered into a Build Transfer Agreement (BTA) through which the Authority and Western Spirit agree to build and then sell the Western Spirit Transmission Project (Project) to PNM.

**New Mexico Renewable Energy
Transmission Authority
Notes to the Financial Statements
June 30, 2019**

7) Subsequent Event – continued

That transaction is not scheduled to close until 2021, which is when commercial operation of the Project is estimated to begin. The Authority receives no monetary consideration through the BTA. In addition, three documents, the Amended and Restated Lease Agreement, the Master Lease Agreement, and the Letter Agreement, define the responsibilities, rights, and obligations of the Authority and Western Spirit during the development, construction, and commercial operation phases of the Project. The Amended and Restated Lease Agreement primarily addresses the Authority's and Western Spirit's responsibilities during the development phase of the Project, and specifically provides the processes through which the Authority and Western Spirit make various development decisions and perform various development tasks. The Master Lease Agreement is a ground lease agreement between the Authority and Western Spirit and governs the ownership, possession, and use of the land and improvements constituting the Project. The Letter Agreement, which is between the Authority and Pattern New Mexico Wind LLC, an affiliate of Western Spirit, is the agreement through which the Authority will receive annual lease payments and engineering and consulting services once the Project reaches commercial operation of the Project, which again is not estimated to begin until 2021.

Other Supplementary Information

**New Mexico Renewable Energy
Transmission Authority**
Schedule of Cash Account
June 30, 2019

<u>Bank of America</u>	<u>Type</u>	<u>Bank of America</u>
Operational	Interest bearing	\$ 154,696
Reconciling item - outstanding checks		(134)
Reconciled balance		<u>\$ 154,562</u>
As reported in the financial statements:		
Cash in bank		\$ 154,562
Petty cash		500
		<u>\$ 155,062</u>

Compliance Section

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*

Honorable Brian S. Colón, Esq.
New Mexico State Auditor
and The Board of Directors
New Mexico Renewable Energy Transmission Authority

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 the governmental activities, the general fund, and the budgetary comparison for the general fund of the New Mexico Renewable Energy Transmission Authority (the "Authority") as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 5, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 a 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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 the Authority'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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Loftis Group ^{uc}

Albuquerque, New Mexico
September 5, 2019

**New Mexico Renewable Energy
Transmission Authority
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2019**

Section I – Status of Prior Year Audit Findings

There were no prior year findings.

**New Mexico Renewable Energy
Transmission Authority
Schedule of Findings and Responses
For the Year Ended June 30, 2019**

Section II — Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified?	None reported
Noncompliance material to financial statements noted?	No
Other findings required to be reported under section 12-6-5 NMSA 1978?	No

**New Mexico Renewable Energy
Transmission Authority
Exit Conference
June 30, 2019**

The financial statements presented in this report were prepared by the auditors, Loftis Group, LLC.

The content of this report was discussed at an exit conference held on September 5, 2019, with the following in attendance:

New Mexico Renewable Energy Transmission Authority

Brian Moore, Board Member and Chair, Audit Committee

Megan O'Reilly, Board Member

Ginny Selvin, Contract Accountant

Loftis Group, LLC

Armando Sanchez, CPA, CFE, Managing Principal

We appreciate the many courtesies and assistance extended to us by management of the New Mexico Renewable Energy Transmission Authority.