



SJT GROUP LLC
CERTIFIED PUBLIC ACCOUNTANTS

New Mexico Renewable Energy Transmission Authority

Financial Statements
and
Independent Auditors' Report

June 30, 2020

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, 2020**

Governing Body

Robert Busch	Chairman
Megan O'Reilly	Member
Dr. James Miller	Member
Noah Long	Member
Tim Eichenberg, State Treasurer Designee: Diana Rosales-Ortiz	Member
Sarah Cottrell Propst, Secretary, Energy, Minerals & Natural Resources Designee: Louise Martinez	Member

Management

Fernando Martinez, Executive Director



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, 2020, 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 of the Authority as of June 30, 2020, and the respective changes in financial position and budgetary comparison for the general fund 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 9 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 August 26, 2020, 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.

SJT Group LLC

Albuquerque, New Mexico
August 26, 2020

New Mexico Renewable Energy Transmission Authority

Management's Discussion and Analysis For the Year Ended June 30, 2020

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 increased by \$295,153 during the fiscal year ended June 30, 2020.
- ♦ The Authority's total program revenues were \$885,000, interagency transfers were \$675,000 and expenses totaled \$1,268,831 for the year ended June 30, 2020.

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 2020.

**New Mexico Renewable Energy
Transmission Authority
Management's Discussion and Analysis
For the Year Ended June 30, 2020**

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, 2020.

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, 2020, 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 2020, the significant revenue sources were developer contributions from Western Spirit of \$800,000, Sun Zia Transmission, LLC, of \$60,000, and Lucky Corridor, LLC of \$25,000 as well as three appropriations from the New Mexico Legislature totaling \$675,000 for the year ended June 30, 2020.

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's revenue exceeded its expenditures by \$304,430 for the year ended June 30, 2020.

**New Mexico Renewable Energy
Transmission Authority
Management's Discussion and Analysis
For the Year Ended June 30, 2020**

Analysis of Financial Position

Total Assets:

	<u>2020</u>	<u>2019</u>	<u>Change</u>
Cash	\$ 225,551	\$ 155,062	\$ 70,489
Local Government Investment Pool	225,734	-	225,734
Accounts receivable	20,933	-	20,933
Prepaid expenses	<u>7,583</u>	<u>6,758</u>	<u>825</u>
Total assets	<u>\$ 479,801</u>	<u>\$ 161,820</u>	<u>\$ 317,981</u>

Cash increased by \$70,489 to \$225,551. The Authority deposited monies in the New Mexico Local Government Investment Pool (LGIP) during 2020 and whose balance was \$225,734 as of June 30, 2020. The Authority had no monies on deposit with the LGIP as of June 30, 2019. Accounts receivable totaled \$20,933 as of June 30, 2020. The Authority had no receivable balance as of June 30, 2019.

Total Liabilities:

	<u>2020</u>	<u>2019</u>	<u>Change</u>
Accounts payable	\$ 70,361	\$ 56,810	\$ 13,551
Compensated absences	<u>9,277</u>	<u>-</u>	<u>9,277</u>
Total liabilities	<u>\$ 79,638</u>	<u>\$ 56,810</u>	<u>\$ 22,828</u>

Accounts payable increased by \$13,551 to \$70,361 as of June 30, 2020, due to timing of payments to professional service providers. As a result of the Authority hiring two employees during the year, a liability for compensated absences amounted to \$9,277 at year-end. The Authority had no employees during the year ended June 30, 2019. See Note 6 to the basic financial statements for more details about compensated absences activity.

Net Position:

	<u>2020</u>	<u>2019</u>	<u>Change</u>
Restricted for program activities	<u>\$ 400,163</u>	<u>\$ 105,010</u>	<u>\$ 295,153</u>
Total Net Position	<u>\$ 400,163</u>	<u>\$ 105,010</u>	<u>\$ 295,153</u>

Net position increased \$295,153 due to current year program and general revenues exceeding expenses.

**New Mexico Renewable Energy
Transmission Authority
Management's Discussion and Analysis
For the Year Ended June 30, 2020**

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

Total Expenses, Revenues and Changes in Net Position

	<u>2020</u>	<u>2019</u>	<u>Change</u>
Expenses and Program Revenues			
Electricity transmission planning and development	\$ (1,268,831)	\$ (563,236)	\$ (705,595)
Developer contributions	<u>885,000</u>	<u>550,000</u>	<u>335,000</u>
Total program revenues (expenses)	<u>(383,831)</u>	<u>(13,236)</u>	<u>(370,595)</u>
General Revenues			
Transfer from the State of New Mexico	675,000	-	675,000
Interest income	<u>3,984</u>	<u>1,904</u>	<u>2,080</u>
Total general revenues	<u>678,984</u>	<u>1,904</u>	<u>677,080</u>
Change in Net Position	<u>\$ 295,153</u>	<u>\$ (11,332)</u>	<u>\$ 306,485</u>

Governmental-Type Activities

The Authority received three transfers during the year ended June 30, 2020. A \$400,000 transfer was made to the New Mexico Energy, Minerals and Natural Resources Department to be paid to the Authority for use in conducting a renewable energy transmission and storage study. The Authority also received \$200,000 under House Bill 2 and \$75,000 under Senate Bill 536. Both of these transfers were for operational expenses. The Authority's total expenditures for governmental-type activities during the fiscal year ended 2020 were \$1,268,831, which was \$705,595 more than 2019 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

The Authority had no capital assets as of June 30, 2020.

Economic Factors and Next Year's Budgets

The Authority has received a 2021 fiscal year State Legislative appropriation in the amount of \$250,000, and its partners are budgeted to contribute \$575,000. Given its cash and investments on hand at the beginning of the 2021 fiscal year, and funding expected during the year, the Authority anticipates having sufficient cash to fund operations through 2021 and beyond.

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

Fernando Martinez, Executive Director
1225 S. St. Francis Dr., Suite E
Santa Fe, NM 87505
P: (505) 699-0599

Basic Financial Statements

**New Mexico Renewable Energy
Transmission Authority**
Statement of Net Position
June 30, 2020

	<u>Governmental Activities</u>
Assets	
Cash	\$ 225,551
Interest in New Mexico Local Government Investment Pool	225,734
Accounts receivable	20,933
Prepaid expenses	<u>7,583</u>
Total assets	<u>479,801</u>
Liabilities	
Accounts payable	70,361
Compensated absences	<u>9,277</u>
Total liabilities	<u>79,638</u>
Net Position	
Restricted for program activities	<u>400,163</u>
Total net position	<u><u>\$ 400,163</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, 2020**

	<u>Governmental Activities</u>
Expenses	
Electricity transmission planning and development	\$ (1,268,831)
Program Revenues	
Developer contributions	<u>885,000</u>
Excess (deficiency) of revenues over expenses	<u>(383,831)</u>
General Revenues	
Transfers from the State of New Mexico	675,000
Interest income	<u>3,984</u>
Total general revenues	<u>678,984</u>
Change in net position	295,153
Net position, beginning of year	<u>105,010</u>
Net position, end of year	<u><u>\$ 400,163</u></u>

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, 2020

	<u>General Fund</u>
Assets	
Cash	\$ 225,551
Interest in New Mexico Local Government Investment Pool	225,734
Accounts receivable	20,933
Prepaid expenses	<u>7,583</u>
Total assets	<u><u>\$ 479,801</u></u>
Liabilities and Fund Balance	
Liabilities	
Accounts payable	<u>\$ 70,361</u>
Total liabilities	<u>70,361</u>
Fund balance	
Restricted for program activities	401,857
Nonspendable	<u>7,583</u>
Total fund balance	<u>409,440</u>
Total liabilities and fund balance	<u><u>\$ 479,801</u></u>
Fund balance - governmental fund	\$ 409,440
Amounts reported for governmental activities in the statement of net position are different because:	
Some liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(9,277)</u>
Net position - governmental activities	<u><u>\$ 400,163</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, 2020

	General Fund
Revenues	
Developer contributions	\$ 885,000
Interest income	3,984
Total revenue	888,984
Expenditures	
Current	
Contractual services	1,069,071
Personnel	147,550
Rent	13,680
Office	9,606
Insurance	8,575
Telephone and internet	5,978
Travel and meetings	2,595
Other	2,499
Total expenditures	1,259,554
Excess (deficiency) of revenues over expenditures	(370,570)
Other Financing Sources	
Transfers from the State of New Mexico	675,000
Total other financing sources	675,000
Net change in fund balance	304,430
Fund balance, beginning of year	105,010
Fund balance, end of year	\$ 409,440
Net change in fund balance - governmental fund	\$ 304,430
Amounts reported for governmental activities in the statement of activities are different because:	
Compensated absences are expensed as used in the governmental funds; however, they are expensed as earned on the statement of activities	(9,277)
Change in net position - governmental activities	\$ 295,153

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 (Budgetary Basis) – General Fund
For the Year Ended June 30, 2020

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
Revenues				
Developer contributions	\$ 1,325,000	\$ 1,325,000	\$ 885,000	\$ (440,000)
Transfers from the State of New Mexico	675,000	675,000	675,000	-
Interest income	<u>1,400</u>	<u>1,400</u>	<u>3,984</u>	<u>2,584</u>
Total budgeted revenues	2,001,400	2,001,400	<u>1,563,984</u>	<u>(437,416)</u>
Cash balance carry forward	<u>155,062</u>	<u>155,062</u>		
Total revenues and budgeted fund balance	<u>\$ 2,156,462</u>	<u>\$ 2,156,462</u>		
Expenditures				
Contractual services	\$ 1,724,200	\$ 1,724,200	\$ 1,069,071	\$ 655,129
Personnel services and benefits	223,000	223,000	147,550	75,450
Other costs	<u>43,200</u>	<u>43,200</u>	<u>42,933</u>	<u>267</u>
Total budgeted expenditures	<u>\$ 1,990,400</u>	<u>\$ 1,990,400</u>	<u>1,259,554</u>	<u>\$ 730,846</u>
Net change in fund balance			<u>\$ 304,430</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, 2020**

1) History and Organization

This summary of significant accounting policies of the New Mexico Renewable Energy Transmission Authority (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 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, 2020**

1) History and Organization – 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, 2020**

1) History and Organization – 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, 2020.

2) **Summary of Significant Accounting Policies**

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 as well as transfers received from the State. 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, 2020. 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 for the year ended June 30, 2020.

**New Mexico Renewable Energy
Transmission Authority
Notes to the Financial Statements
June 30, 2020**

2) 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, 2020.

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, 2020

2) Summary of Significant Accounting Policies – continued

Assets, Liabilities and Net Position or Fund Equity

Deposits and Investments

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

The Authority participates in the State Treasurer Local Government Investment Pool (LGIP). This pool is regulated by state law. Investment in the pool is reported at carrying amount, which reasonably estimates fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

Capital Assets

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

Compensated Absences

Qualified employees are entitled to accumulate vacation leave according to a graduated leave schedule of 120 to 160 hours per year, depending upon the length of service and the employees hire date. The maximum number of vacation hours which may be carried over from one calendar year to the next is 240 hours. Upon separation from Authority employment or retirement, payout will be made for accrued and unused vacation hours.

Regular full and part-time employees accrue sick leave benefits. For full-time employees regularly working at least 36 hour per week, the accrual rate is 8 hours for each calendar month of employment. For part-time employees, the accrual rate is pro-rated at 4 hours per month for employees regularly working 20 to 25 hours per week and 6 hours per month for employees regularly working 26 to 35 hours per week. There is no cap on the accrual of sick leave hours and upon separation from Authority employment the Authority will pay 25 percent of the employees hourly wages for accrued unused sick leave.

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, 2020.

- 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.

**New Mexico Renewable Energy
Transmission Authority**
Notes to the Financial Statements
June 30, 2020

2) Summary of Significant Accounting Policies – continued

- 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.
- 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.

3) **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.

**New Mexico Renewable Energy
Transmission Authority
Notes to the Financial Statements
June 30, 2020**

4) Deposits and Investments

Deposits consist of cash on deposit with New Mexico Bank & Trust (NMB&T). Deposits may be made to the extent that they are insured by an agency of the United States or are collateralized as required by statute. The financial institution must provide pledged collateral for 50% of the deposit amount in excess of the deposit insurance.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Authority’s deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk, other than following state statutes as set forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978). At June 30, 2020, \$250,000 of the Authority’s bank balance of \$322,135 was insured by the Federal Deposit Insurance Corporation while the remainder was fully collateralized under an Insured Cash Sweep agreement with NMB&T.

Investments. The Authority invests in the New MexiGROW Local Government Investment Pool (LGIP) in an effort to distribute their interest-bearing accounts among various entities. The LGIP investments are valued at fair value based on quoted market prices as of the valuation date. The LGIP is not SEC registered. The New Mexico State Treasurer is authorized to invest the short-term investment funds, with the advice and consent of the State Board of Finance, in accordance with Sections 6-10-10 I through 6-10-10 P and Sections 6-10-10.1 A and E, NMSA 1978. The pool does not have unit shares. Per Section 6-10-10.1F, NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the fund amounts were invested. Participation in the LGIP is voluntary.

The Authority’s investments at June 30, 2020 were as follows:

Investments	Rated	Weighted Average Maturity (R)	Weighted Average Maturity (F)	Fair Market Value
Local Government Investment Pool	*AAAm	25	77	\$ 225,734

**Based off Standard & Poor's rating*

Interest Rate Risk – Investments. The Authority’s policy related to interest rate risk with investments is to comply with the State as put forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA).

**New Mexico Renewable Energy
Transmission Authority
Notes to the Financial Statements
June 30, 2020**

4) Deposits and Investments – continued

Concentration of Credit Risk – Investments. For an investment, concentration of credit risk is when any one issuer is 5% or more of the investment portfolio of the Authority. The investments in the LGIP represents 100% of the investment portfolio. The Authority’s policy related to concentration of credit risk is to comply with the State statute as put forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978).

GASB Statement No. 72 requires investments to be presented at fair value. This statement provides the framework for measuring fair value and provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted, quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under GASB Statement No. 72 are described below:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the plan has the ability to access.
- Level 2 Quoted prices in markets that are not considered to be active or financial instruments without quoted market prices, but for which all significant inputs are observable, either directly or indirectly.
- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The Authority’s investment of \$225,734 in the LGIP are valued using Level 1 inputs as of June 30, 2020.

5) **Accounts Receivable**

Accounts receivable of \$20,933 represents the final drawdown of funds under State Appropriation ZD 5041 for expenses incurred on or before June 30, 2020. The Authority received payment in full in July 2020.

**New Mexico Renewable Energy
Transmission Authority**
Notes to the Financial Statements
June 30, 2020

6) Compensated Absences

Changes in the Authority’s compensated absences liability for the year ended June 30, 2020 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
<i>Governmental activities</i>					
Compensated absences	\$ -	\$ 11,324	\$ (2,047)	\$ 9,277	\$ 9,277
Total compensated absences	<u>\$ -</u>	<u>\$ 11,324</u>	<u>\$ (2,047)</u>	<u>\$ 9,277</u>	<u>\$ 9,277</u>

7) 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 2020, the Authority acquired Directors and Officers coverage.

8) Operating Lease

The Authority leases office space under a lease that expires on December 31, 2020. Monthly lease payments are \$1,140. Lease expense was \$13,680 for the year ended June 30, 2020.

9) 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 \$60,000 during the year ended June 30, 2020.

The Authority 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, Western Spirit Transmission LLC, a Pattern Development entity, acquired Western Spirit from Clean Line.

**New Mexico Renewable Energy
Transmission Authority
Notes to the Financial Statements
June 30, 2020**

9) Developer Contributions – continued

In May 2019, the Authority entered into an Amended and Restated Lease, a Master Lease, and a Letter Agreement with Western Spirit Transmission LLC (*see* Note 11), which govern the roles and responsibilities between the Authority and Western Spirit Transmission LLC with respect to Western Spirit. Pattern Development provided \$800,000, or 90%, of current year general revenues.

On May 1, 2019, the Authority entered into an MOU with Lucky Corridor, LLC and Mora Line, LLC for the Mora Line Renewable Energy Transmission Project. The Authority received \$25,000 in contributions under this MOU during the year ended June 30, 2020.

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

10) **Interagency Transfers**

The Authority received the following transfers from the State during the year ended June 30, 2020:

Transferring Agency (Business Unit Code)	Reference	Transfer Amount
Department of Finance and Administration (34100)	House Bill 2, Section 5	\$ 200,000
Energy, Minerals and Natural Resources Department (52100)	House Bill 548, Section 12	260,000
Energy, Minerals and Natural Resources Department (52100)	House Bill 548, Section 47	140,000
Department of Finance and Administration (34100)	Senate Bill 536, Section 11	<u>75,000</u>
		<u>\$ 675,000</u>

During fiscal year 2020, these transfers received from the State represented special appropriations as follows:

- Special appropriation of \$200,000 for operating expenses. The Authority expended all of this appropriation during fiscal year 2020 and no encumbrances were outstanding at June 30, 2020, related to this appropriation.
- Special appropriation of \$260,000 to study renewable energy transmission. The Authority expended all of this appropriation during fiscal year 2020 and no encumbrances were outstanding at June 30, 2020, related to this appropriation.

**New Mexico Renewable Energy
Transmission Authority
Notes to the Financial Statements
June 30, 2020**

11) Interagency Transfers - continued

- Special appropriation of \$140,000 for the authority to undertake a renewable energy transmission and storage study. The Authority expended all of this appropriation during fiscal year 2020 and no encumbrances were outstanding at June 30, 2020, related to this appropriation.
- Special appropriation of \$75,000 for operating expenses. The Authority expended all of this appropriation during fiscal year 2020 and no encumbrances were outstanding at June 30, 2020, related to this appropriation.

12) **Build Transfer Agreement**

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. The BTA is not scheduled to close until late 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 (as amended), 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. Under the Amended Letter Agreement, the Authority will be able to request an advance on its annual lease payment after the northern 40-mile section of the Project has been in commercial operation for four months. It is anticipated that the Authority will not receive any payments under the Amended Letter Agreement until September 2021, at the earliest.

Other Supplementary Information

**New Mexico Renewable Energy
Transmission Authority
Schedule of Cash Account
June 30, 2020**

New Mexico Bank & Trust	Type	New Mexico Bank & Trust
Operational	Interest bearing	\$ 321,635
Reconciling item - outstanding checks		(96,584)
Reconciled balance		\$ 225,051
As reported in the financial statements:		
Cash in bank		\$ 225,051
Petty cash		500
		\$ 225,551

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, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated August 26, 2020.

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.

SJT Group LLC

Albuquerque, New Mexico
August 26, 2020

**New Mexico Renewable Energy
Transmission Authority
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2020**

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, 2020**

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, 2020**

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

The content of this report was discussed at an exit conference held on August 26, 2020, with the following in attendance:

New Mexico Renewable Energy Transmission Authority

Dr. James Miller, Board Member and Chair, Audit Committee

Megan O'Reilly, Board Member

Diana Rosales-Ortiz, Board Member

Fernando Martinez, Executive Director

Ginny Selvin, Contract Accountant

SJT 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.