

**STATE OF NEW MEXICO  
ELDORADO AREA WATER AND SANITATION DISTRICT**

**FINANCIAL STATEMENTS AND REQUIRED  
SUPPLEMENTARY INFORMATION  
WITH ACCOMPANYING AUDITORS' REPORTS**

**YEAR ENDED JUNE 30, 2007**

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**INTRODUCTORY SECTION**

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**STATE OF NEW MEXICO**  
 Eldorado Area Water and Sanitation District  
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 June 30, 2007

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**STATE OF NEW MEXICO**  
Eldorado Area Water and Sanitation District  
Directory of Officials  
June 30, 2007

<u>Name</u>	<u>Board</u>	<u>Title</u>
Mary Raynard		President
Jerry Cooper		Vice President
Mary Ann Hale		Secretary
John Mathis		Treasurer
George Haddad		Member
	<u>Administrative Officials</u>	
Paul Butt		Financial Coordinator

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**FINANCIAL SECTION**



**Accounting & Consulting Group, LLP**

**INDEPENDENT AUDITORS' REPORT**

Hector Balderas  
New Mexico State Auditor  
and  
Members of the Board of Directors  
Eldorado Area Water and Sanitation District  
Santa Fe, New Mexico

We have audited the accompanying basic financial statements consisting of the business-type activities of the Eldorado Area Water and Sanitation District (District) as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. We also have audited the budgetary comparison schedule presented as supplementary information for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed below, 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

We were unable to obtain sufficient evidence supporting the allowance for doubtful accounts for accounts receivable at June 30, 2007; nor were we able to satisfy ourselves as to the amount of the allowance for doubtful accounts for accounts receivable by other auditing procedures.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding the amount of the allowance for doubtful accounts for accounts receivable, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities of the District as of June 30, 2007, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the budgetary comparison schedule is presented fairly, in all material respects, for the year then ended in conformity with a non-GAAP budgetary basis of accounting.

*Certified Public Accountants*

2700 San Pedro Northeast [87110-333] – P.O. Box 3130, Albuquerque, New Mexico 87190-3130  
866.307.2727 – 505.883.2727 – Fax 505.884.6719 – albuquerque.office@acgnm.com – www.acgnm.com

**Alamogordo – Albuquerque – Carlsbad – Clovis – Hobbs – Lubbock**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2009 on our consideration of the District'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*The Management's Discussion and Analysis* on pages 13 through 18 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Accounting + Consulting Group, LLP

Accounting & Consulting Group, LLP  
Albuquerque, NM  
October 13, 2009

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## Introduction

As management of the Eldorado Area Water and Sanitation District (the "District"), the Board of Directors offers readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the Fiscal Year ended June 30, 2007.

## Financial Highlights

Key events for the Fiscal Year 2007 are:

- The assets of the District exceeded liabilities at the close of the most recent Fiscal Year by \$1,491,948 (*total net assets*). The components of net assets include invested in capital assets, net of related debt (\$1,772,790), associated debt exceeds capital assets, restricted net assets, \$1,429,346 and unrestricted net assets, \$1,835,392.
- The District's total net assets increased by \$85,819 compared to the prior year. This increase results primarily from an increase in property tax revenue.
- As of June 30, 2007, the District had current and noncurrent assets totaling \$3,004,084 and \$12,169,398, respectively. Capital assets, net of accumulated depreciation totaled \$11,237,210. Current liabilities includes \$15,249 in payroll related accruals, \$231,035 in accounts payable, \$325,250 in interest payable and \$450,000 in bonds payable. Noncurrent liabilities (G.O. and revenue bonds) totaled \$12,560,000.
- In preparation for making legislative grant requests, during FY 2007 the District updated its Infrastructure Capital Improvement plan, which now reflects the need for construction of a transmission line to connect new well 17 to the Utility as well as other projects, primarily rehabilitative, identified over the course of the fiscal year. The purpose of these legislative grant requests is to assist in obtaining public funding for projects needed to update the water utility system.
- The District completed a rate study, developed and proposed new rates to the District ratepayers and for review and approval by the NM Public Regulation Commission.

## Overview of the Financial Statements

The District is a special purpose government agency engaged only in business-type activities. Therefore, in accordance with GASB Statement No. 34, the District's financial statements are comprised of two components:

1. Government-wide enterprise fund financial statements consisting of:
  - a. Statement of net assets;
  - b. Statement of revenues, expenses and changes in fund net assets;
  - c. Statement of cash flows; and,
  - d. Notes to the financial statements
2. Budgetary comparison statement is presented as supplementary information

## **Overview of the Financial Statements (continued)**

These financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. The enterprise fund financial statements can be found on pages 20-23 and 41 of this report.

*The Statement of Net Assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

*The Statement of Revenues, Expenses and Changes in Fund Net Assets* presents information showing how the District's net assets changed during the most recent Fiscal Year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows only in future fiscal periods (e.g., uncollected taxes and accounts payable).

*The Statement of Cash Flows* presents information on how the District's cash was used. It shows net cash used by or provided by operating activities, capital financing activities, noncapital financing activities and investing activities. It also reconciles beginning cash balances to ending cash balances.

*The Notes to the Financial Statements* provide additional information that is essential to full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 25-38 of this report.

*The Budgetary Comparison Statement* compares current period activity on a budgetary basis of accounting to the legally adopted budget. In general, the amounts presented in the budgetary comparison statement will agree with amounts presented in the statement of revenues, expenses and changes in fund net assets. This is because the District prepares its budget on the accrual basis of accounting and, accordingly, amounts presented in the budgetary comparison statement are on the GAAP basis of accounting. The budgetary comparison statement has been presented as supplementary information to demonstrate compliance with NMAC 2.2.2.10 O (3).

**Government-Wide Financial Analysis – Broad Overview of Finance**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, a positive net asset balance (assets exceeding liabilities) of \$1,491,948 is reported at the close of the most recent Fiscal Year.

Included in assets are cash remaining from the sale of general obligation bonds that is 1) restricted for debt service and 2) restricted for acquisition of, and improvements to, the water system serving the Eldorado area; cash realized from the sale of revenue bonds that is restricted for debt service and deferred G.O. and revenue bond issue costs. The District reports \$1,835,392 of net assets as unrestricted.

**Overview of the Statement of Net Assets**

	<b>2007</b>	<b>2006</b>	<b>Variance</b>
<i>Assets:</i>			
Current assets	\$ 3,004,084	\$ 2,989,618	\$ 14,466
Capital assets, net	11,237,210	11,018,642	218,568
Other assets	832,188	880,723	(48,535)
<b>Total Assets</b>	<b>\$ 15,073,482</b>	<b>\$ 14,888,983</b>	<b>\$ 184,499</b>
<i>Liabilities:</i>			
Current liabilities	\$ 1,021,534	\$ 472,854	\$ 548,680
Noncurrent liabilities	12,560,000	13,010,000	(450,000)
<b>Total Liabilities</b>	<b>\$ 13,581,534</b>	<b>\$ 13,482,854</b>	<b>\$ 98,680</b>
<i>Net Assets:</i>			
Invested in capital assets, net of related debt	\$ (1,772,790)	\$ (2,421,358)	\$ 648,568
Restricted	1,429,346	1,703,729	(274,383)
Unrestricted	1,835,392	2,123,758	(288,366)
<b>Total Net Assets</b>	<b>\$ 1,491,948</b>	<b>\$ 1,406,129</b>	<b>\$ 85,819</b>

**Government-Wide Financial Analysis – Broad Overview of Finance (continued)**

**Overview of the Statement of Revenues, Expenses and Changes in Net Assets**

	<b>2007</b>	<b>2006</b>	<b>Variance</b>
<b>Revenues:</b>			
Water sales	\$ 1,734,145	\$ 2,445,113	\$ (710,968)
Advalorem tax (net of uncollectible amounts)	844,941	787,726	57,215
Intergovernmental grants	329,556	53,960	275,596
Interest income	120,014	69,788	50,226
Miscellaneous income	1,027	9	1,018
<b>Total Revenues</b>	<b>\$ 3,029,683</b>	<b>\$ 3,356,596</b>	<b>\$ (326,913)</b>
<b>Expenses:</b>			
Water and sanitation	\$ 1,764,647	\$ 1,568,681	\$ 195,966
Bond interest expense	1,131,650	712,467	419,183
Amortization of bond issue costs	47,567	53,726	(6,159)
<b>Total Expenses</b>	<b>\$ 2,943,864</b>	<b>\$ 2,334,874</b>	<b>\$ 608,990</b>
<b>Increase (Decrease) in Net Assets</b>	<b>\$ 85,819</b>	<b>\$ 1,021,722</b>	<b>\$ (935,903)</b>
<b>Net Assets - Beginning</b>	<b>\$ 1,406,129</b>	<b>\$ 384,407</b>	<b>\$ 1,021,722</b>
<b>Net Assets - Ending</b>	<b>\$ 1,491,948</b>	<b>\$ 1,406,129</b>	<b>\$ 85,819</b>

**Financial Analysis of the District's Funds and Fiscal Year 2007 Budgetary Highlights**

As noted above, net assets increased by \$85,819 from Fiscal Year 2006 to Fiscal Year 2007. Total revenues decreased by \$326,913, due to a large decrease in water sales revenue for the year, which was offset in part by increases in property tax collections, interest income and more significantly by an increase in the expenditure of available grant funds. It should be noted that in prior year financial statements, water sales have been presented net of gross receipt taxes. Gross receipts have now been disaggregated and are presented as a separate expense in the financial statements and as part of water and sanitation above. In Fiscal Year 2006 water sales net of gross receipts was 2,349,867 (gross receipts taxes were \$95,246). In Fiscal Year 2007 water sales net of gross receipts was 1,653,849 (gross receipts taxes were \$80,296). Total expenses also increased in Fiscal Year 2007 to \$2,943,864, an increase of \$608,990 over the Fiscal Year 2006 expenses of \$2,334,874. Major factors for this increase in spending were construction of Well 17 and the addition of payroll expense to the budget, as well as an increase bond interest due, as the first full year's interest for the 2005 Revenue bond was paid. Increases in expenditures were offset in part by a reduction in utility expense and in the expense for O&M contractual services.

The net difference between the original and final budgets was significant, due to an increase in expenditures for Well 17 from the amount originally budgeted. Well 17 expenditures were reimbursed in part from a New Mexico Environment Department (NMED) grant as further described on page 32. The additional expenditures for Well 17 were also paid in part by a draw of \$255,787 from the remainder of the proceeds of the District's 2005 Revenue bond sale. The total expenditure budget was likewise increased by this amount.



## **Financial Analysis of the District's Funds and Fiscal Year 2007 Budgetary Highlights (continued)**

Other Highlights of FY 2007 financial activities include:

- Inspection and cleaning (rehabilitation) of well 9. Rehabilitation of wells 1 and 2 was completed in July 2007
- Installation of security improvements including well site fencing and locking cages on tank ladders
- Completion of Hydrology Study
- Leak detection performed on approximately 50% of the District's water lines (remainder of the system to be completed in FY 2008)
- Preparations for construction of the new North-South Pipeline, which will connect well 17 to tanks 2 and 2A
- The System Hydraulic Study/Master System Model project was started and will be completed in October 2007
- Initiation of a customer service program under the direction of the District's General Manager

A review of budget vs. actual performance shows that the District did not exceed budgeted expenses (\$2,943,864 spent on a GAAP basis of accounting vs. \$3,216,859 budgeted). On the revenue side, ad valorem tax revenue was more than budgeted by \$106,220, interest income more than budgeted by \$52,440, miscellaneous income more than budgeted by \$1,027 and water sales was less than budgeted by \$542,265. A detailed breakout of budget vs. actual revenue and expenses can be found on page 41 of this report.

The board believes that the District is in good financial shape at the close of the Fiscal Year 2007. From July 01, 2006 through June 30, 2007, District deposits from water sales averaged \$144,512 per month. The monthly average is expected to remain essentially unchanged during the new Fiscal Year.

### **Capital Asset Administration**

The District's investment in capital assets for business-type activities as of June 30, 2007 totals \$11,237,210 (net of accumulated depreciation). Major capital events during the Fiscal Year included the following:

- Construction of Well 17. Construction as a percentage of total expenditure was 53% complete at the end of FY 2007, at a cost of \$455,457.
- Improvements to the water utility system at a cost of \$110,840
- Purchase of a used dump truck and utility trailer at a cost of \$41,864
- Installment of fencing at a cost of \$16,436

Additional information on the District's capital assets can be found on pages 28 and 33 of this report.

### **Long-Term Debt Administration**

During Fiscal Year 2005, the District sold \$5,800,000 in water utility revenue bonds, \$165,000 of which is due in Fiscal Year 2008. During FY 2004, the District sold \$7,895,000 in general obligation bonds, of which \$285,000 is due during FY 2008. More information about the District's debt is presented in note 11, pages 33-36 of this report.

## **Financial Outlook for Next Year**

Water sales revenue in FY 2007 was 19.4% less than in FY 2006. In December 2006 the District completed a project to prepare budget projections for the next 5 fiscal years. The projections indicated that very little operating revenue was available for capital projects and that, without an increase in rates and fees, the District was likely to experience a budget shortfall beginning in FY 2008. The FY 2008 budget was prepared with this in mind. Budgeted operating expenses for FY 2008 are 91% of the adjusted operating expense budget for the previous year. Plans to hire two part-time staff positions were dropped. Most major expense categories were held at FY 2007 levels or cut by 10% where it was feasible to do so. A draw of up to \$141,500 from the District's operating reserve was approved in order to ensure that the District's revenue bond debt service payments were made on a timely basis.

The District filed proposals for increased rates and fees with the NM Public Regulation Commission on April 25, 2007. Although the Board hoped for timely consideration of the proposed increases, it took a conservative standpoint and did not anticipate increased revenue from rate and fee increases in FY 2008.

The FY 2008 budget includes expenditure of \$360,500 to construct a transmission line and the additional components necessary to connect Well 17 to the rest of the system. The funds for this project, for a project to upgrade two well houses to permit connection to the District's new emergency generator, and for completion of the leak detection project begun in FY 2007 are to be drawn from the funds remaining from the District's 2005 Revenue bond proceeds.

The district's approved Fiscal Year 2008 budget shows an expected net increase in total assets for Fiscal Year 2008 of approximately \$36,000. The budget for Fiscal Year 2008 includes revenues of \$2,289,000 (operating) plus \$795,970 (property tax revenue) and cash balances of \$2,536,392, for a total of \$5,621,362. Proposed expenses total \$2,055,356 (operating and capital) plus \$727,200 (GO bond debt service).

## **Requests for Information**

This financial report is designed to provide a general overview of the Eldorado Area Water and Sanitation District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Eldorado Area Water and Sanitation District, PMB 506, 7 Vista Grande B7, Santa Fe, NM 87508-9207.

**BASIC FINANCIAL STATEMENTS**

**STATE OF NEW MEXICO**  
Eldorado Area Water and Sanitation District  
Statement of Net Assets  
June 30, 2007

Exhibit A

	Business Type Activities
<i>Assets</i>	
<i>Current assets</i>	
Cash and cash equivalents (Note 3)	\$ 351,097
Investments (Note 3)	755,950
Restricted assets:	
Cash and cash equivalents (Note 3)	508,507
Investments (Note 3)	920,839
Accrued interest receivable (Note 4)	9,568
Grants receivable (Note 5)	188,591
Ad valorem taxes receivable, net of allowance for doubtful accounts (Note 6)	3,556
Accounts receivable, net of allowance for doubtful accounts (Note 7)	248,026
Prepaid expenses (Note 8)	17,950
<i>Total current assets</i>	3,004,084
<i>Noncurrent assets</i>	
Capital assets, net of accumulated depreciation (Note 9)	11,237,210
Other assets:	
Deferred bond issue costs, net	832,188
<i>Total noncurrent assets</i>	12,069,398
<i>Total assets</i>	\$ 15,073,482
<i>Liabilities and net assets</i>	
<i>Current liabilities</i>	
Accounts payable (Note 10)	\$ 231,035
Interest payable	325,250
Accrued payroll expenses	11,732
Compensated absences - current (Note 11)	3,517
General obligation bonds payable - current (Note 11)	285,000
Revenue bonds payable - current (Note 11)	165,000
<i>Total current liabilities</i>	1,021,534
<i>Noncurrent liabilities</i>	
General obligation bonds payable (Note 11)	7,085,000
Revenue bonds payable (Note 11)	5,475,000
<i>Total noncurrent liabilities</i>	12,560,000
<i>Total liabilities</i>	13,581,534
<i>Net assets</i>	
Invested in capital assets, net of related debt	(1,772,790)
Restricted for:	
Cost of utility acquisition and improvements (Note 13)	575,386
Water rights acquisition (Note 13)	90,000
Debt service-revenue bonds (Note 13)	508,500
Debt service- G.O. bonds (Note 13)	255,460
Unrestricted	1,835,392
<i>Total net assets</i>	1,491,948
<i>Total liabilities and net assets</i>	\$ 15,073,482

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**  
Eldorado Area Water and Sanitation District  
Statement of Revenues, Expenses and Changes in Net Assets  
For the Year Ended June 30, 2007

Exhibit B

	Business Type Activities
<i>Operating revenues</i>	
Charges for sales and services:	
Water sales	\$ 1,734,145
<i>Total operating revenues</i>	1,734,145
<i>Operating expenses</i>	
Contractual services	937,336
Depreciation	406,028
Other operating costs	202,538
Personnel services	109,696
Gross receipts tax	80,296
Supplies	20,676
Water conservation fee	4,999
Travel	3,078
<i>Total operating expenses</i>	1,764,647
<i>Operating income (loss)</i>	(30,502)
<i>Non-operating revenues (expenses)</i>	
Ad valorem tax	844,941
Intergovernmental grants	329,556
Interest income	120,014
Miscellaneous income	1,027
Bond interest expense	(1,131,650)
Amortization of bond issue costs	(47,567)
<i>Total non-operating revenues (expenses)</i>	116,321
<i>Change in net assets</i>	85,819
<i>Total net assets, beginning of year</i>	1,406,129
<i>Total net assets, end of year</i>	\$ 1,491,948

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**  
Eldorado Area Water and Sanitation District  
Statement of Cash Flows  
For the Year Ending June 30, 2007

	Business Type Activities
<i>Cash flows from operating activities:</i>	
Cash received from customers	\$ 1,671,714
Cash paid to suppliers and contractors	(981,673)
Cash paid to employees for services	(94,447)
	595,594
 <i>Cash flows from noncapital financing activities</i>	
Ad valorem taxes received	843,544
Miscellaneous revenue	1,027
	844,571
 <i>Cash flows from capital and financing activities</i>	
Intergovernmental capital grants received	154,619
Purchase of capital assets	(624,597)
Bond principal payments	(430,000)
Bond interest payments	(805,432)
	(1,705,410)
 <i>Cash flows from investing activities</i>	
Investment income	299,539
Interest income	116,951
	416,490
 <i>Net increase (decrease) in cash and cash equivalents</i>	 151,245
 <i>Cash and cash equivalents - beginning of year</i>	 708,359
 <i>Cash and cash equivalents - end of year</i>	 \$ 859,604

The accompanying notes are an integral part of these financial statements

	<u>Business Type Activities</u>
<i>Reconciliation of operating (loss) to net cash provided (used) by operating activities:</i>	
Operating income (loss)	\$ (30,502)
Adjustments to reconcile operating (loss) to net cash (used) by operating activities:	
Depreciation expense	406,028
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	17,866
(Increase) decrease in prepaid expenses	(1,228)
Increase (decrease) in accounts payable	188,181
Increase (decrease) in accrued payroll expenses	11,732
Increase (decrease) in current portion of compensated absences	<u>3,517</u>
Net cash provided by operating activities	<u>\$ 595,594</u>
<i>Non-cash investing, capital and financing activities:</i>	
Amortization of bond issue costs	<u>\$ 47,567</u>
<i>Reconciliation of total cash and cash equivalents to June 30, 2007 financial statements:</i>	
Cash and cash equivalents - beginning of year	\$ 2,684,687
Reclassification of LGIP from cash to investments	<u>(1,976,328)</u>
Cash and cash equivalents - beginning of year as restated	<u>\$ 708,359</u>
<i>Reconciliation of total cash and cash equivalents:</i>	
Current assets - cash and cash equivalents	351,097
Restricted assets - cash and cash equivalents	<u>508,507</u>
Total cash and cash equivalents	<u>\$ 859,604</u>

The accompanying notes are an integral part of these financial statements

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**NOTE 1. HISTORY AND ORGANIZATION**

The Eldorado Area Water and Sanitation District (District) was organized pursuant to Sections 73-21-1 through 73-21-55, NMSA, 1978 Comp, and by order of the New Mexico First Judicial District Court in Santa Fe County, New Mexico on July 3, 1997. The District is a governmental subdivision of the State of New Mexico and a body with all the powers of a public or quasi-municipal corporation. The District was created for the statutory purpose of providing water, sewer and other services to residents within the District's boundary. An elected five-member Board of Directors governs the operations of the District.

On January 1, 2003 and March 28, 2003, the District authorized resolutions for the issuance of Utility Acquisition and Improvement General Obligation Bonds to obtain funding for the acquisition of the utility and for necessary utility improvements. Utility Acquisition and Improvement General Obligation Bonds, in the amount of \$7,900,000 were issued on January 1, 2004.

On February 10, 2004, the District filed, in the First Judicial District Court, a condemnation action against El Dorado Utilities, Inc. ("EDU), seeking to acquire the water utility through exercise of the District's powers of eminent domain. Initially, the District asked the Court to permit immediate possession by the District. The case was heard in May 2004 but the judge denied immediate possession. The judge, however, set up a jury trial for September, 2004, to resolve the valuation of the water system.

On September 22, 2004, the jury empanelled to determine just compensation in the condemnation action determined that the fair market value of the utility was \$11,047,128, which was 75% greater than the actual value for which the utility was offered for sale on the open market. The District's board was informed that abandonment of the condemnation action would mean that the District would not acquire the utility and could result in a requirement that the District pay the utility owner's reasonable costs and attorney fees incurred in the condemnation action, without benefit to the District or the District's residents.

On September 30, 2004 the District's board resolved to continue its efforts to acquire the utility at a reasonable purchase price, which would not, in any event, be greater than the amount of the jury verdict plus any reasonable interest thereon. The District's attorneys were instructed to take such actions as are legally reasonable and appropriate to seek a reversal or downward modification of the jury determination, including but not limited to, an appeal of the district court decision. The District's officers were instructed to seek additional funding in such amounts as may be necessary to pay the purchase price of the utility. The District's officers were further instructed to advise the owner of the utility of the District's intentions and to seek, if possible, a negotiated settlement of all issues so that the District may acquire the utility in the most expeditious manner possible, at a reasonable price.

On December 1, 2004, the District took possession of the water utility. Between that date and May 24, 2005, the District worked on obtaining additional funding to purchase the utility. Water Utility Revenue Bonds, in the amount of \$5,800,000 were issued and on May 27, 2005, the District completed the acquisition of the water utility at an adjudicated price of \$11,216,996.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted (US GAAP) in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing US GAAP for state and local government accounting and financial reporting principles.

The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes US GAAP for state and local government units. The more significant of the District's accounting policies are described below. Proprietary activities have applied all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: FASB statements and interpretations, APB opinions, and ARBS of the Committee on Accounting Procedure. FASB statements and interpretations issued after November 30, 1989 have not been applied.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

In June 1999, the GASB unanimously approved Statement No. 34, *Basic Financial Statements - Management's Discussion and Analysis-For State and Local Governments*. This Statement provided for the most significant change in financial reporting in over twenty years and was phased in based on size of government. As required, the District implemented the provisions of GASB No. 34, effective July 1, 2001 and also, as required, implemented GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and Statement No. 38, *Certain Financial Statement Note Disclosures*.

GASB Statement No. 37 clarified and modified Statement No. 34, while GASB Statement No. 38 modified, established and rescinded certain financial statement disclosure requirements. As part of these statements, there was a new reporting requirement regarding the District's infrastructure (roads, bridges, etc.). The District does not own any infrastructure and, therefore, was unaffected by this requirement.

**A. Financial Reporting Entity**

The District is a special-purpose government created pursuant to statute and is comprised of an elected Board of Directors. The officers of the District are elected for four-year terms on the second Tuesday in January of each odd-numbered year at staggered two-year intervals. The District is a governmental subdivision of the State of New Mexico and a body with all the powers of a public or quasi-municipal corporation and these financial statements include all funds and activities over which the District officers have oversight responsibility.

The officers of the District have decision-making authority, the power to designate management, the responsibility to significantly-influence' operations and primary accountability for fiscal matters. The District is not included in any other governmental reporting entity as defined in Section 2100, *Codification of Governmental Accounting and Financial Reporting Standards*. There are no component units.

**B. Basic Financial Statements - GASB Statement No. 34**

The GASB No. 34 reporting model focus is on either the District, as a whole, or major individual funds (within the fund financial statements). The District is a single-program government that engages in only business-type activities and has no component units.

Pursuant to GASB Statement No. 34, governments engaged only in business-type activities present only the financial statements for enterprise funds. For these governments, basic financial statements consist of: (a) enterprise fund financial statements consisting of the statement of net assets, the statement of revenues, expenses and changes in fund net assets and the statement of cash flows, and (b) notes to the financial statements. The enterprise fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent) associated with its activities are reported. Enterprise fund equity is classified as net assets. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the District first uses restricted resources and then unrestricted resources.

**C. Basis of Presentation -Fund Financial Statements**

The accounts of the District are organized on the basis of one fund that is considered a separate accounting entity. The operations of the fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenses. Government resources are allocated to and accounted for in the fund based upon the purpose for which spending activities are controlled. In this report, the fund is presented in the financial statements as a proprietary fund.

The *Enterprise Fund* is used to account for operations (a) that are financed and operated in a manner similar to private business enterprise -where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*D. Basis of Accounting*

Basis of accounting refers to the point at which revenues or expenditures or expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied. The proprietary fund is accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. The revenues are recognized when earned and expenses are recognized when the liability is incurred or the economic asset is used. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

*E. Budgets and Budgetary Accounting*

Water and Sanitation Districts follow procedures that are promulgated by the Department of Finance and Administration, Local Government Division (DFA-LGD). Those procedures are as follows:

1. In May, the treasurer submits to the Board a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them.
2. After the Board approves the proposed initial budget, it is then submitted to the DFA-LGD for review and certification in time to meet the DFA-LGD deadline of June 1.
3. The Board holds a public meeting to present the DFA-LGD approved initial budget in July. Fiscal Year End cash balances and any final budget adjustments are posted to the budget and the District's final budget is submitted to DFA-LGD by July 30.
4. Upon certification by the DFA-LGD, the budget becomes a legal binding document which does not allow total expenditures in any fund to exceed the amount budgeted. Appropriations lapse at year-end.
5. The Board is authorized to make budget revisions with the DFA-LGD's approval.
6. Formal budgetary integration is employed as a management control device during the year.

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. The budgets are adopted on a GAAP basis of cash receipts and disbursements; consequently, certain revenues and the related assets (receivables) are recognized when earned rather than when received and certain expenses are recognized when the obligation is incurred rather than when paid. Budgetary comparisons in this report are presented on this GAAP budgetary basis

*F. Encumbrances*

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the District.

*G. Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affects the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*H. Assets, Liabilities, Net Assets or Equity, Revenues and Expenses*

**Cash and Cash Equivalents:** The District considers highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash consists of petty cash, a change fund and cash on deposit with banks. In addition, because the State Treasurer's Local Government Investment Pool (LGIP) is sufficiently liquid to permit withdrawal of cash at any time without prior notice or penalty, equity in the pool is also deemed to be cash equivalents.

**Property Taxes:** The Board of Directors has the power and authority to levy and collect ad valorem taxes on and against all taxable property within the District. Each year the Board of Directors determine the amount of money necessary to be raised by taxation, taking into consideration other sources of revenue of the District, and submits a budget request to the Department of Finance and Administration, Local Government Division (DFA-LGD) sufficient to meet its operating, debt service, construction and other costs. The DFA-LGD utilizes property valuations obtained from the county assessor's office to set the mil levy. The results are provided to the county treasurer who presents all county-wide mil levies to the Board of County Commissioners for approval by October 1. The Board of County Commissioners levies the tax upon the assessed valuation of all taxable property within the District. Taxes levied are due one-half on November 10 and one-half on April 10. It is the duty of the Board of County Commissioners to levy taxes within the District. The County Treasurer collects the taxes and remits such taxes to the District. All taxes levied, until paid, constitute a perpetual lien on and against the property taxed.

**Operating Revenues and Expense:** Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, non-capital financing, or investing activities. Non-operating revenues are all other revenues. For the District, non-operating revenues include ad valorem taxes (property), miscellaneous income and interest income.

**Prepaid Items:** Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**Bond Issuance Costs:** The District amortizes bond issuance costs using the straight-line method over the life of the bonds. Unamortized bond issuance costs are reported as deferred charges.

**Capital Assets:** Capital assets are tangible assets that have initial useful lives that extend beyond a single reporting period. Capital assets are reported at historical cost or estimated fair value, if donated. Capital assets are depreciated using zero salvage value and the straight-line method over their estimated useful lives. Before the 2005 legislative session, only items costing more than \$1,000 were capitalized.

Effective June 19, 2005, House Bill 1074 amended Section 12-6-10, NMSA 1978, to increase the capitalization threshold to items costing more than \$5,000. The major classifications of capital assets and their related depreciable lives are as follows:

<u>Assets</u>	<u>Years</u>
Water utility system	30
Water utility improvements	7-30
Vehicle	5
Furniture and fixtures	15
Office equipment (including software)	3

The District's water system is depreciated on a provisional basis. A new estimated useful life may be determined when a detailed inventory and evaluation of the District's water system and its components are completed. G.O. and Revenue Bonds are debt related to the acquisition of the water utility system.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*H. Assets, Liabilities, Net Assets or Equity, Revenues and Expenses (continued)*

**Net Asset Classifications:** Invested in capital assets, net of related debt represent the historical cost of assets or fair value on the date of receipt less accumulated depreciation, reduced by the outstanding balances of any bonds, notes or other borrowings attributable to the acquisition or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by the District or external restrictions by other governments, creditors or grantors. Unrestricted net assets are all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

**NOTE 3. CASH, CASH EQUIVILANTS, AND INVESTMENTS**

**Cash and Cash Equivalents**

Cash deposits are reported at carrying amount which reasonably estimates fair value. At year end, the carrying amounts in the bank accounts are as follows:

Account Name	Type	Balance Per Depository	Reconciling Items		Balance Per Financial Statements
			Outstanding Deposits	Outstanding Checks / Warrants	
First National Bank of Santa Fe	Demand	\$ 349,060	\$ -	\$ (166,467)	\$ 182,593
First National Bank of Santa Fe	Savings	121,782	1,241	-	123,023
First National Bank of Santa Fe	Trust Dept.	553,833	-	-	553,833
First National Bank of Santa Fe	Trust Dept.	7	-	-	7
Total cash on deposit		<u>\$ 1,024,682</u>	<u>\$ 1,241</u>	<u>\$ (166,467)</u>	<u>\$ 859,456</u>

**Investments**

*Credit risk* is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District does not have a policy to manage the credit risk of its investments.

As of June 30, 2007, the District's investment in the State Treasurer Local Government Investment Pool was rated as AAAM by Standard & Poor's.

The State Treasurer Local Government Investment Pool is not Security and Exchange Commission (SEC) registered. Section 6-10-10 1, NMSA 1978, empowers the State Treasurer, with the advice and consent of the State Board of Finance, to invest money held in the short term investment fund in securities that are issued by the United States government or by its departments or agencies and are either direct obligations of the United States or are backed by the full faith and credit of the United States government or are agencies sponsored by the United States government. The bank trust department accounts are invested in the same type of securities.

The Local Government Investment Pool investments are monitored by the same investment committee and the same policies and procedures that apply to all other state investments. 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 amounts were invested. Participation in the Local Government Investment Pool is voluntary. The statutes of the State of New Mexico place certain restrictions on the investments of public money by the State Treasurer in order to minimize risk. Permissible investments include U.S. Treasury securities and certificates of deposit at financial institutions insured by an agency of the federal government and corporate bonds that meet the investment policy criteria. In order to meet short-term investment objectives, state laws permit investment in repurchase agreements. These contracts must be fully secured by obligations of the United States or other securities backed by the United States, having a market value of at least 102% of the amount of the contract. Investments in the State Treasurer Local Government Investment Pool are valued at fair value based on quoted market prices as of the valuation date. The State Treasurer's Office issues separate financial statements that disclose the types of investments, collateral pledged to secure the investments and the risk categorization of the local government investment pool.

**NOTE 3. CASH, CASH EQUIVILANTS, AND INVESTMENTS (continued)**

**Investments (continued)**

As of June 30, 2007, the District had the following investments and maturities:

Investment Type	Type / Account Number	Rating	Weighted Average Maturity	Fair Value
State Treasurer:				
Local Government Investment Pool	LGIP			
Property Tax Revenue - G.O. Bonds	7761-5152	AAAm	38 Days	\$ 255,453
Utility Acquisition and Improvement	7783-7750	AAAm	38 Days	575,386
Operating Reserve	7810-8909	AAAm	38 Days	<u>845,950</u>
Total investments				<u>\$ 1,676,789</u>

*Interest Rate Risk – Investments* – The District does not have a formal policy limiting investment maturities that would help manage its exposure to fair value losses from increasing interest rates.

*Concentration Credit Risk – Investments* – For an investment, concentration risk is when any one issuer is 5% or more of the investment portfolio of the District. The investment in the State Treasurer’s Local Government Investment Pool represents 100% of the District’s investment portfolio.

**Restrictions on Cash, Cash Equivalents, and Investments**

The \$553,833 FNB trust department account balance has \$508,500 of which is escrow and is restricted for revenue bond debt service. The \$7 FNB trust department account balance is restricted for general obligation (G.O.) bond debt service. One Local Government Investment Pool (LGIP) account, \$255,453, is restricted for G.O. bond debt service while another LGIP account, \$575,386, is restricted for utility acquisition and improvement. A third LGIP account, \$845,950, was established in fiscal year 2006 as an operating reserve, \$90,000 of which is restricted for water rights acquisition.

**Pledged Collateral**

The District also maintains a \$39 petty cash fund and a \$109 change fund. Cash deposits are reported at cost, which reasonably estimates fair value. At year-end, and throughout the year, not all bank deposits were fully covered by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. In accordance with Section 6-10-17, NMSA, 1978 Compilation, the District is required to collateralize an amount equal to one-half of the public money in excess of \$100,000 at each financial institution.

**STATE OF NEW MEXICO**  
 Eldorado Area Water and Sanitation District  
 Notes to the Financial Statements  
 June 30, 2007

**NOTE 3. DEPOSITS AND INVESTMENTS (continued)**

**Pledged Collateral (continued)**

At June 30, 2007, bank accounts were collateralized as follows:

<u>First National Bank (FNB) of Santa Fe</u>	<u>Demand Balance</u>	<u>Savings Balance</u>	<u>Total</u>
Total amount on deposit in bank	\$ 349,060	\$ 121,782	\$ 470,842
Less FDIC coverage	<u>(100,000)</u>	<u>(100,000)</u>	<u>(200,000)</u>
Total uninsured public funds	249,060	21,782	270,842
50% collateral requirement (Section 6-10-17, NMSA 1978)	<u>124,530</u>	<u>10,891</u>	<u>135,421</u>
Subtotal	124,530	10,891	135,421
Pledged securities (see below)	<u>200,178</u>	<u>69,822</u>	<u>270,000</u>
Over (under)	<u>\$ 75,648</u>	<u>\$ 58,931</u>	<u>\$ 134,579</u>

At June 30, 2007, FNB pledged the following in the District's name held at Union Planters Bank:

<u>Collateral</u>	<u>Cusip #</u>	<u>Maturity</u>	<u>Par Value</u>
SANTA FE NM CMNTY CLG DIST	801901GW3	8/1/2011	\$ 270,000

*Custodial Credit Risk – Deposits* – Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. As discussed below, the FNB trust department and LGIP accounts are not subject to custodial credit risk. The District does not have a deposit policy for custodial credit risk, other than following state statutes as put forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978). As of June 30, 2007, \$270,842 of the District's bank balance of \$470,842 was exposed to custodial credit risk; \$270,842 was uninsured but collateralized by the pledging bank's trust department in the name of the District.

The FNB trust department accounts are invested in external investment pools which are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

**NOTE 4. ACCRUED INTEREST RECEIVABLE**

Accrued interest actually received subsequent to June 30, 2007 is as follows:

<u>Account Name</u>	<u>Account Number</u>	<u>Amount</u>
State Treasurer		
Local Governemnt Investment Pool		
Property Tax Revenue G.O. Bonds	7761-5152	\$ 1,102
Utility Acquisition and Improvement	7783-7750	2,483
Operating Reserve	7810-8909	3,651
First National Bank of Santa Fe		
Water Utility Revenue Bonds	5585231925	<u>2,332</u>
Total accrued interest		<u>\$ 9,568</u>

**NOTE 5. INTERGOVERNMENTAL GRANTS RECEIVABLE**

Laws of 2005, Chapter 347, Section 12, subsection 44, appropriated \$400,000 to the New Mexico Environment Department (NMED) to purchase a water utility system and plan, design and construct improvements to the water system, including wells, water rights acquisition and pipelines, for the District. During the fiscal year 2007, the NMED approved a grant agreement with the District to reimburse allowable costs. At June 30, 2007, \$188,591 was due from the NMED.

**NOTE 6. AD VALOREM TAXES RECEIVABLE**

At year-end, the receivables represent current and delinquent taxes. The District considers the amount fully collectible and therefore has not estimated the amount of taxes levied that will be uncollectible. Taxes receivable and the allowance for uncollectible taxes are as follows:

Ad valorem taxes receivable	\$	3,556
Less: Allowance for uncollectible taxes		-
Net taxes receivable	\$	3,556

**NOTE 7. ACCOUNTS RECEIVABLE**

Accounts receivable is water utility revenue billed but uncollected. The District has estimated an amount that will be uncollectible. However, the District's receivable records do not have enough information regarding the age of receivables to facilitate an audited determination of allowances for doubtful accounts. Accounts receivable and the allowance for doubtful accounts are as follows:

Accounts receivable	\$	280,026
Less: Allowance for doubtful accounts		(32,000)
Net taxes receivable	\$	248,026

**NOTE 8. PREPAID EXPENSES**

The District prepaid directors' and officers' liability insurance and property insurance totaling \$15,106. The District has also prepaid rent in the amount of \$2,844.



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**NOTE 9. CHANGES IN CAPITAL ASSETS**

A summary of changes in capital assets is as follows:

	Balance June 30, 2006	Additions	Deletions	Balance June 30, 2007
<b>Capital Assets:</b>				
Water utility - original	\$ 11,216,996	\$ -	\$ -	\$ 11,216,996
Water utility - improvements	169,530	110,840	-	280,370
Vehicles	55,032	41,864	-	96,896
Furniture and fixtures	-	16,436	-	16,436
Office equipment	1,560	-	-	1,560
Construction in progress - well 17	-	455,457	-	455,457
<b>Total Capital Assets</b>	<b>11,443,118</b>	<b>624,597</b>	<b>-</b>	<b>12,067,715</b>
<b>Accumulated Depreciation:</b>				
Water utility - original	(409,753)	(373,901)	-	(783,654)
Water utility - improvements	(2,054)	(17,917)	-	(19,971)
Vehicles	(11,895)	(13,143)	-	(25,038)
Furniture and fixtures	-	(282)	-	(282)
Office equipment	(774)	(786)	-	(1,560)
<b>Total Accumulated Depreciation</b>	<b>(424,476)</b>	<b>(406,029)</b>	<b>-</b>	<b>(830,505)</b>
<b>Total Capital Assets, net</b>	<b>\$ 11,018,642</b>	<b>\$ 218,568</b>	<b>\$ -</b>	<b>\$ 11,237,210</b>

Depreciation expense for the year amounted to \$406,028. G.O. and Revenue Bonds were sold to finance the acquisition of the water utility in fiscal year 2005.

**NOTE 10. ACCOUNTS PAYABLE**

Accounts payable consists of \$231,035 due for contractual services, various operating costs and gross receipts tax on water sales.

**NOTE 11. LONG-TERM DEBT**

**Compensated Absences**

During the year ended June 30, 2007, the following changes occurred in the compensated absences reported in the statement of net assets:

Account Name	Balance, July 1, 2006	Additions	Retirements and Other	Balance June 30, 2007	Due Within One Year
General obligation debt	\$ -	\$ 3,517	\$ -	\$ 3,517	\$ 3,517

**NOTE 11. LONG-TERM DEBT (continued)**

**General Obligation Bonds – Series 2004**

On August 20, 2002, the qualified electors of the District approved a proposal authorizing the District to issue general obligation bonds in an aggregate sum not to exceed \$7,900,000 for the acquisition of the Eldorado Utilities, Inc. water utility system, the acquisition of additional wells and water rights, and other necessary improvements to the system. The District's General Obligation Utility Acquisition and Improvement Bonds, Series 2004, were authorized by the Board of Directors of the District by resolutions adopted January 31, 2003 and March 28, 2003. The District issued bonds totaling \$7,895,000, dated January 1, 2004 and due February 1, 2023.

The full faith and credit of the District are pledged for payment of principal and interest thereon and the Bonds will be payable from ad valorem taxes, which may be levied on all taxable property within the District in such amounts as are necessary to pay the principal and interest due on the bonds and from revenues of the water utility system. The bonds will bear interest from January 1, 2004 at the rate of 6%, payable semi-annually on February 1 and August 1 of each year, commencing August 1, 2004 and are stated to mature on February 1, 2023.

General obligation long-term debt balances and transactions for the year ended June 30, 2007 are as follows:

Account Name	Balance, July 1, 2006	Additions	Retirements and Other	Balance June 30, 2007	Due Within One Year
General obligation debt	\$ 7,640,000	\$ -	\$ (270,000)	\$ 7,370,000	\$ 285,000

**Redemption of Bonds**

- a. Optional redemption -the Bonds are subject to redemption in whole or in part on any date on or after February 1, 2008 at a redemption price (expressed as a percentage of the principal amount) plus accrued interest to the redemption date as set forth below:

Redemption Period	Redemption Price
February 1, 2008 through January 31, 2009	102%
February 1, 2009 through January 31, 2010	101%
February 1, 2010 and thereafter	100%

- b. Mandatory sinking fund redemption - the principal and interest requirements of the above general-obligation debt at June 30, 2007 are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2008	\$ 285,000	\$ 442,200	\$ 727,200
2009	305,000	425,100	730,100
2010	325,000	406,800	731,800
2011	340,000	387,300	727,300
2012	360,000	366,900	726,900
2013-2017	2,165,000	1,482,000	3,647,000
2018-2022	2,900,000	749,100	3,649,100
2023	690,000	41,400	731,400
	<u>\$ 7,370,000</u>	<u>\$ 4,300,800</u>	<u>\$ 11,670,800</u>

**NOTE 11. LONG-TERM DEBT (continued)**

**General Obligation Bonds – Series 2004 (continued)**

- c. Extraordinary optional redemption - the Bonds are subject to extraordinary optional redemption in whole or in part, by lot selected by the Paying Agent at its discretion, at a redemption price of one hundred percent (100%) of the par value of the bonds so redeemed, plus accrued interest to the redemption date, if and only if a court of competent jurisdiction enters a final, non-appealable order precluding the District from acquiring or otherwise proceeding with the project.

**Water Utility System Revenue Bonds – Series 2005**

The District's Water Utility System Revenue Bonds, Series 2005, were authorized by the Board of Directors of the District by a resolution adopted May 17, 2005. The District issued bonds totaling \$5,800,000, dated May 24, 2005 and due February 1, 2025. The full faith and credit of the District are pledged for payment of principal and interest thereon and the Bonds will be payable from revenues of the water utility system.

The bonds will bear interest from May 24, 2005 at the rate of 6%, payable semi-annually on February 1 and August 1 of each year, commencing August 1, 2005 and are stated to mature on February 1, 2025. The District's first interest payment on August 1, 2005 amounted to \$64,767. Revenue bond long-term debt balances and transactions for the year ended June 30, 2007 are as follows:

Account Name	Balance, July 1, 2006	Additions	Retirements and Other	Balance June 30, 2007	Due Within One Year
Revenue bond debt	\$ 5,800,000	\$ -	\$ (160,000)	\$ 5,640,000	\$ 165,000

**Redemption of Bonds**

- a. Optional redemption -the Bonds are subject to redemption in whole or in part on any date on or after February 1, 2014 at a redemption price (expressed as a percentage of the principal amount) plus accrued interest to the redemption date as set forth below::

Redemption Period	Redemption Price
February 1, 2013 through January 31, 2014	102%
February 1, 2014 through January 31, 2015	101%
February 1, 2015 and thereafter	100%

- b. Mandatory sinking fund redemption -the principal and interest requirements of the above revenue bond debt at June 30,2007 are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2008	\$ 165,000	\$ 338,400	\$ 503,400
2009	175,000	328,500	503,500
2010	190,000	318,000	508,000
2011	200,000	306,600	506,600
2012	210,000	294,600	504,600
2013-2017	1,260,000	1,371,000	2,631,000
2018-2022	1,690,000	790,200	2,480,200
2023	1,750,000	189,600	1,939,600
	<u>\$ 5,640,000</u>	<u>\$ 3,936,900</u>	<u>\$ 9,576,900</u>

**NOTE 11. LONG-TERM DEBT (continued)**

**Water Utility System Revenue Bonds – Series 2005 (continued)**

- c. Extraordinary mandatory redemption - the Bonds are subject to extraordinary mandatory redemption at a redemption price of par plus accrued interest to the date of such extraordinary mandatory redemption in the event that a final and non-appealable decision of a court of competent jurisdiction directs that the District transfer the water utility system to an entity other than the District.

**Purchase in Lieu of Redemption**

In lieu of mandatory sinking fund redemption as set forth above, in any six-month period immediately preceding any February 1, the District may purchase Series 2005 Bonds then outstanding in an aggregate principal amount not exceeding the principal amount of Bonds required to be redeemed on such February 1, at the most advantageous price obtainable, such price not to exceed the principal thereof plus accrued interest to date of delivery of such Series 2005 Bonds.

Payment shall be made on the date of delivery of any Bonds to be purchased from moneys in the Series 2005 Bond Fund.

The principal amount of Series 2005 Bonds called for redemption on any such February 1 shall be reduced by any Series 2005 Bonds purchased (or presented for cancellation) by the Trustee during the preceding six month period. No such purchase shall be made in the 45-day period immediately preceding any such February 1 in order for the District to make the notice of redemption.

**NOTE 12. LEASES**

The District leases administrative office space for \$250 per month. The administrative office lease was on a month-to-month basis through February 13, 2006. Effective February 14, 2006, a new sixteen (16) month lease was signed through June 30, 2007. Either party may cancel the lease at any time upon sixty (60) days written notice to the other party.

The District also leases water utility operations office space for the contracted utility operator (see note 15 below) for \$1,832 per month through May 31, 2007 but increased to \$1,994, effective June 1, 2007. The utility operations office space is on a month-to-month basis.

Finally, the District leases real property for the purpose of storing trucks, heavy equipment, materials, and machinery and for limited construction activities such as, but not limited to meter assembly, pipefitting, and equipment maintenance, which to the maximum extent possible will be performed within the shop building and garage on the property. The term of the lease is for five (5) years, commencing on January 1, 2005 and ending on December 31, 2009 at a rate of \$7,200 per year or \$600 per month.

The term may be extended by mutual written agreement of the parties. However, the lease may be terminated at will be (sic) either lessor or lessee upon ninety (90) days prior written notice to the other party.

Since all leases are month-to-month or have an early termination clause, there are no future minimum lease payments. Rent expense for the year ended June 30, 2007 was \$30,902.

**NOTE 13. NET ASSETS**

At June 30, 2007, net assets (\$575,386) are restricted for costs of utility acquisition and improvements (new wells, pipes, pumps reservoirs, structures, etc.) and may not be used for general operating expenses.

Also, net assets (\$508,500) are restricted while the 2006 Water Utility Revenue Bonds are outstanding, to ensure availability of funds for payment of debt service in the event of a serious water utility revenue shortfall. Those funds revert to the District upon final payment of the bonds or can be used to make the last payment.

Net assets (\$255,453) and (\$7) are restricted for general obligation bond debt service. Also, net assets (\$90,000) are restricted for water rights acquisition. The remaining net assets of \$1,835,392 are unrestricted at June 30, 2007.

**NOTE 14. RISK MANAGEMENT AND LITIGATION**

The District covers its insurance needs through various insurance policies. The coverage includes business and personal property, commercial general liability, owned, non-owned and hired automobiles, fidelity bond, and directors' and officers' liability. The premiums paid on the policies during the year were \$37,051. This consists of \$33,377 to Manuel Lujan Agencies, \$2,500 to Glatfelter Claims Management and \$1,174 to New Mexico Mutual Casualty.

If the District's losses exceed its premiums, there is no supplemental assessment; on the other hand, if the District's losses are low, they do not receive a refund. Therefore, except for deductible amounts, risk has been transferred to the insurance carrier.

There are no pending or known threatened legal proceedings involving material matters to which the District is a party.

**NOTE 15. COMMITMENTS AND CONTINGENCIES**

Effective March 15, 2004, the District hired a contractor to provide day-to-day operations and management of the water system upon acquisition by the District. The terms of the agreement will be for four years commencing on the project start date (December 1, 2004), with an option to extend the agreement for an additional four-year period. The District shall pay to the contractor as compensation for services performed under this agreement a base fee of six hundred sixty-seven thousand, four hundred twenty-two dollars (\$667,422) for the first year of this agreement. Subsequent years' base fees are adjusted based on the consumer price index and other factors. The original base fee for fiscal year 2007 was \$752,109, but was adjusted through the budget process to \$778,220. The aggregate commitment under this agreement for fiscal year 2008 was \$772,109, which was adjusted through the budget process to \$784,264.

**NOTE 16. SUBSEQUENT EVENTS**

We have evaluated all events subsequent to the balance sheet date of June 30, 2007 through the date of issuance of these financial statements, October 13, 2009, and have determined the following subsequent events that require disclosure:

**Water Utility Rates**

On March 5, 2009, the New Mexico Public Regulation Commission approved the District's request for interim rate relief. The new, interim rates were implemented effective the first week in April 2009 and included on June 2009 water bills. These interim rates were in effect until the final rate review process was completed by the New Mexico Public Regulation Commission. The final rates are different from those of the interim rates..

On August 4, 2009 the New Mexico Public Regulation Commission issued its final order granting, with minor modifications, the District's proposed rates from 2007. The final New Mexico Public Regulation Commission approved rates are higher, and the approved rates are phased, with the first phase to be applied to the District's water sales in September 2009, and appearing on the ratepayer's bills in October 2009. The second phase is contingent upon the District's obtaining loans for bond refinancing or capital improvements. There is a deadline of January 1, 2011 for the District's securing such loans, or its ability to implement the second phase of the rates will be rescinded by the New Mexico Public Regulation Commission.

**NOTE 16. SUBSEQUENT EVENTS (continued)**

**LGIP Investment in the Reserve Primary Fund**

At June 30, 2007, Eldorado Area Water and Sanitation District's interest in the LGIP Investment in the Reserve Primary Fund was \$1,676,789.

The New Mexico State Treasurer's Office invested a portion of the LGIP in The Reserve Primary Fund ("the Fund"), a money market fund, in fiscal years 2006, 2007, 2008 and 2009. On September 15, 2008, the balance of the LGIP's investment in the Fund was \$381.7 million. On September 16, 2008, The Reserve Primary Fund's net asset value fell below \$1.00 and holdings in the Fund were frozen. Since September 2008, The Reserve Primary Fund has returned approximately \$0.90 per share to shareholders. On February 26, 2009, The Reserve Primary Fund announced that it was withholding \$3.5 billion of the Fund's assets for anticipated and pending litigation against it, which amount could increase or decrease as the Fund evaluates information related to such litigation. As a result, the State Treasurer's Office cannot anticipate what the actual loss to the LGIP from The Reserve Primary Fund may be or when the actual loss may be realized. No actual loss has been realized to date. The total remaining Reserve Primary Fund position as of June 30, 2009, is \$39.5 million. The LGIP's remaining position in The Reserve Primary Fund is a non-performing asset.

On May 5, 2009, the U.S. Securities and Exchange Commission ("SEC") filed a civil lawsuit in federal court against the operators of The Reserve Primary Fund, alleging fraud; seeking the pro rata distribution of the remaining the Fund's assets; and seeking the release of the \$3.5 billion currently being withheld from investors pending the outcome of the lawsuits against The Reserve Primary Fund. The court is scheduled to hold a hearing on the SEC's proposed plan of distribution on September 23, 2009.

On May 20, 2009, the New Mexico Attorney General filed a civil complaint and injunction petition in state district court against The Reserve Primary Fund. The Attorney General's complaint alleges that the Fund setting aside \$3.5 billion to pay legal fees and expenses is a willful and intentional conversion of the investors' assets and a breach of contract. The complaint further alleges that the Fund's failure to honor redemption requests on September 16, 2008, is a breach of contract. Additionally, the Attorney General's injunction petition seeks the release of the investors' pro rata share of the \$3.5 billion The Reserve Primary Fund set aside for its anticipated and pending legal costs.

The New Mexico State Treasurer's Office believes that The Reserve Primary Fund will ultimately end up distributing between 98.38% and 98.77% of the balance that the LGIP had in The Reserve Primary Fund as of September 15, 2008. This means that of the remaining undistributed balance as of June 30, 2009, it is expected the LGIP is to recover between 83.84% and 87.78%. Uncertainty remains, however, as to the timing of these distributions.

**SUPPLEMENTARY INFORMATION**

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**STATE OF NEW MEXICO**  
Eldorado Area Water and Sanitation District  
Schedule of Revenues, Expenses and Changes in Net Assets  
Budget (GAAP Basis) and Actual - Proprietary Fund  
For the Year Ended June 30, 2007

Schedule I

	Budgeted Amounts		GAAP	Variances
	Original	Final	Basis Actual	Favorable (Unfavorable) Final to Actual
<i>Revenues and sources:</i>				
Water sales	\$ 2,276,410	\$ 2,276,410	\$ 1,734,145	\$ (542,265)
Ad valorem taxes	738,721	738,721	844,941	106,220
Intergovernmental grant	359,694	359,694	329,556	(30,138)
Interest income	67,574	67,574	120,014	52,440
Miscellaneous income	-	-	1,027	1,027
	<u>3,442,399</u>	<u>3,442,399</u>	<u>\$ 3,029,683</u>	<u>\$ (412,716)</u>
<i>Total revenues and sources</i>				
Prior year funds re-budgeted	-	-		
	<u>\$ 3,442,399</u>	<u>\$ 3,442,399</u>		
<i>Expenses and uses:</i>				
Contractual services	\$ 1,519,764	\$ 1,523,389	\$ 937,336	\$ 586,053
Depreciation	-	-	406,028	(406,028)
Other operating costs	213,300	222,550	202,538	20,012
Personnel services	198,440	124,690	109,696	14,994
Gross receipts tax	94,350	94,350	80,296	14,054
Supplies	6,940	6,940	20,676	(13,736)
Water conservation fee	5,940	5,940	4,999	941
Travel	5,000	2,600	3,078	(478)
Debt service				
Principal	430,000	430,000	-	430,000
Interest	806,400	806,400	1,131,650	(325,250)
Other costs	-	-	47,567	(47,567)
	<u>3,280,134</u>	<u>3,216,859</u>	<u>2,943,864</u>	<u>272,995</u>
<i>Total expenses and uses</i>				
<i>Excess (deficiency) of revenues and sources over expenses and uses</i>	<u>\$ 162,265</u>	<u>\$ 225,540</u>	<u>\$ 85,819</u>	<u>\$ (139,721)</u>
<i>Net change in net assets</i>	162,265	225,540	85,819	(139,721)
<i>Net assets - beginning of year</i>	<u>1,406,129</u>	<u>1,406,129</u>	<u>1,406,129</u>	<u>-</u>
<i>Net assets - end of year</i>	<u>\$ 1,568,394</u>	<u>\$ 1,631,669</u>	<u>\$ 1,491,948</u>	<u>\$ (139,721)</u>

The accompanying notes are an integral part of these financial statements

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**COMPLIANCE SECTION**



**Accounting & Consulting Group, LLP**

**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***

Hector Balderas  
New Mexico State Auditor  
and  
Members of the Board of Directors  
Eldorado Area Water and Sanitation District  
Santa Fe, New Mexico

We have audited the basic financial statements consisting of the business-type activities of the Eldorado Area Water and Sanitation District (District), as of and for the year ended June 30, 2007, and have issued our report thereon dated October 13, 2009. We have also audited the budgetary comparison schedule for the year ended June 30, 2007, presented as supplementary information. We qualified our opinion because we were unable to obtain sufficient evidence supporting the allowance for doubtful accounts for accounts receivable. 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.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting. These are items FS 2007-01, FS 2007-02 FS 2007-03, FS 2007-04, FS 2007-05, and FS 2007-06.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

*Certified Public Accountants*

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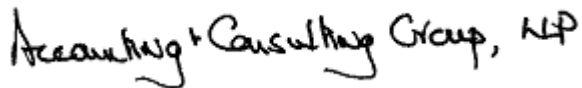
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items FS 2007-02, FS 2007-03, and FS 2007-04 to be material weaknesses.

### **COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items FS 2007-01, FS 2007-04, and FS 2007-05.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Office of the State Auditor, the New Mexico State Legislature and its committees and is not intended to be and should not be used by anyone other than these specified parties.



Accounting & Consulting Group, LLP  
Albuquerque, NM  
October 13, 2009

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**STATE OF NEW MEXICO**  
 Eldorado Area Water and Sanitation District  
 Schedule of Findings and Responses  
 June 30, 2007

**A. SUMMARY OF AUDIT RESULTS**

*Financial Statements:*

1.	Type of auditors' report issued	Qualified
2.	Internal control over financial reporting:	
a.	Material weakness identified?	Yes
b.	Significant deficiencies identified not considered to be material weaknesses?	Yes
c.	Noncompliance material to the financial statements noted?	Yes
3.	Summary of audit findings:	
a.	Current Year Audit Findings:	Type of <u>Finding*</u>
	FS 2007-01 — Audit Report Submitted Late	B D
	FS 2007-02 — Preparation of Financial Statements and Journal Entries	A
	FS 2007-03 — Deficiencies in Internal Control Structure Design, Operation, and Oversight	A
	FS 2007-04 — Internal Control Deviations	A C
	FS 2007-05 — Overpayment of Mileage Reimbursement	B E
	FS 2007-06 — Repair and Maintenance Cost	B
b.	Follow-up on Prior-Year Audit Findings:	Status of Prior Year <u>Findings</u>
	None	N/A

\* Legend for Type of Finding:

- A. Material Weakness in the Internal Control Structure Over Financial Reporting
- B. Significant Deficiency Related to the Internal Control Structure Over Financial Reporting
- C. Material Instance of Noncompliance
- D. Significant Instance of Noncompliance
- E. Immaterial Instance of Noncompliance
- F. Other Matters Involving the Internal Control Structure

**B. FINDINGS-FINANCIAL STATEMENT AUDIT**

**FS 2007-01 — Audit Report Submitted Late**

***Condition:***

The District's audit report for the year ended June 30, 2007 was not submitted to the State Auditor by the required due date of December 1, 2007. The audit was submitted to the State Auditor on October 13, 2009.

***Criteria:***

Audit reports for water and sanitation districts are due on or before the due date, December 1, according to New Mexico State Auditor regulations, Section 2.2.2.9A(1)(d)NMAC.

***Effect:***

The District is in noncompliance with financial reporting requirements established by state regulation. Timely financial statements were not available for the use of management or third party stakeholders.

***Cause:***

The District did not procure audit services for the fiscal year ended June 30, 2007 in a timely manner. Accounting & Consulting Group, LLP was not engaged to perform the audit until January 30, 2009. In addition, the condition of District records was also a factor in the late filing of the audit report.

***Auditor's Recommendation:***

We recommend that the District procure audit services in a more timely manner and that it maintain adequate accounting records.

***Management's Response:***

The District obtained approval for a contract with Macias-Gutierrez & Co., CPAs P.C. for the Fiscal Year 2007 audit on May 7, 2007, from the New Mexico Office of the State Auditor (OSA). On November 16 the contracted auditors broke the contract with the District in a phone conversation with the District Financial Coordinator. On November 30 the District Treasurer notified the OSA in writing that the contract had been broken and that the Fiscal Year 2007 audit would be late.

The District issued a Request For Proposals for audit services in April 2008. 35 accounting firms on the OSA approved auditor list for Fiscal Year 2007 were contacted by email or regular mail and invited to propose. Of these firms, two responded by email declining to propose. No response was received from the other 33 firms. On September 16, 2008 a status report regarding the District's search for an approved Independent Public Accountant (IPA) to provide audit services was sent to the OSA. A number of telephone conversations with Frank Valdez in the OSA were held in September. Frank stated that the chances the OSA would be able to conduct the District's audit were essentially nil. He confirmed that an informal bid solicitation was permissible, and the District began the solicitation of informal bids. Thirty firms that were on the OSA Fiscal Year 2008 list of IPAs approved for audit services were contacted. Two requested supplementary information in order to consider bidding. Only one firm agreed to perform the District's audits.

On November 20, 2008 the District sent a request for approval of its selection of Accounting and Consulting Group, LLP (ACG) as the District's IPA for the financial and compliance audit of the District for Fiscal Year 2007. The request was approved on January 8 2009. An initial delivery date was set for April 30 2009. For a number of reasons, it was not possible to complete the audit by the April deadline, and the OSA was notified accordingly on April 9 by ACG. By far the most significant factor in the District's delay is the enormous increase in the preparatory work required for the audit. The work list received from Macias, Gutierrez & Co. in 2007 was one page in length and the requested materials were available when the Macias, Gutierrez & Co audit began. In contrast, the work list, questionnaires and other interrogatory materials the District received in January 2009 were over 70 pages in length, and preparing responses and requisite supplementary material have strained the District's limited resources to their limit.



**B. FINDINGS-FINANCIAL STATEMENT AUDIT (continued)**

**FS 2007-01 — Audit Report Submitted Late (continued)**

*Management's Response (continued):*

The District will continue to try to obtain audit services in a timely fashion and conclude its annual audits accordingly. However, District experience over the last 3 years indicates that circumstances beyond its control, particularly the amount of work that is required, may continue to complicate and delay the process.

**B. FINDINGS-FINANCIAL STATEMENT AUDIT (continued)**

**FS 2007-02 — Preparation of Financial Statements and Journal Entries**

***Condition:***

The financial statements and related footnote disclosures were not prepared by Eldorado Area Water and Sanitation District. In addition, certain journal entries were prepared in order to present the financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). Journal entries were prepared in the areas of accounts receivable, accrued payroll, accounts payable, capital assets and long term debt. Furthermore, the District was unable to provide sufficient evidence supporting the allowance for doubtful accounts for accounts receivable.

***Criteria:***

According to the American Institute of Certified Public Accountants' Statement on Auditing Standards No. 112, a system of internal control over financial reporting does not stop at the general ledger. It includes controls over financial statement preparation, including footnote disclosures. The recording of appropriate journal entries is a significant part of the controls over financial statement preparation. The fact that the auditor prepares the financial statements and assisted in the preparation of the journal entries may mean the financial statements are correct, but it doesn't eliminate the control deficiency.

***Effect:***

The District's ability to prevent or detect a misstatement in its financial statements is limited when sufficient controls over the recording of appropriate journal entries, the preparation of financial statements and related disclosures is not designed, implemented and operating effectively.

***Cause:***

District personnel have not been adequately trained in understanding the elements of financial reporting including the preparation of financial statements and related footnote disclosures. As a result, the District is not aware of all the necessary journal entries that are required to be prepared to present their financial statements in accordance with GAAP.

***Auditor's Recommendation:***

We recommend District personnel receive training on understanding the requirements of financial reporting and the journal entries required. In addition, we recommend that the District develop and implement policies and procedures designed to prevent or detect possible misstatements in its financial statements and related footnote disclosures.

***Management's Response:***

In previous fiscal years, the District's financial statements and related footnote disclosures were prepared by the Independent Public Accountant (IPA) performing the audit. This circumstance was explained to Accounting & Consulting Group, LLP staff very early in the audit process. The District Finance Committee will take under consideration whether in the future it may be preferable to contract a second IPA to produce the financial statements and related footnote disclosures, or to continue to request the IPA performing the audit to do so, with the understanding that a similar finding will result. The District does not have the financial resources to employ a Certified Public Accountant to produce financial statements, related footnote disclosures and other "attest" services.

The District's official position in regard to customer Accounts Receivable for Fiscal Year 2007 is that all amounts are fully collectible and therefore had not estimated the amount that will be uncollectible. In September 2009 the District Board approved policy modifying this position, which will be reflected in Fiscal Year 2010 and subsequent audits.

**B. FINDINGS-FINANCIAL STATEMENT AUDIT (continued)**

**FS 2007-03 — Deficiencies in Internal Control Structure Design, Operation, and Oversight**

***Condition:***

The District does not have comprehensive policies and procedures to communicate to management and employees the importance of internal controls over financial transaction cycles and account balances. Specifically:

- Lack of consistent application of significant accounting policies
- Lack of job descriptions and descriptions of duties of personnel
- Lack of a code of conduct for employees and management
- Lack of a whistleblower process that meets regulatory compliance requirements and promotes internal control and allows for anonymity
- Lack of an Organizational Chart
- The District is overly dependent on third party service providers for managing it day to day operations
- Lack of segregation of duties, particularly with respect to financial reporting, transaction processing, and information technology
- Lack of formal monitoring activities by the governing board
- Payroll
  - The District does not maintain employee contracts, and instead authorizes employees and their wages through board resolutions
  - Employees do not maintain a time sheet. Payroll is set up to be 80 hours for bi-weekly pay. If any leave is used than it is deducted from the 80 hours. As such, employees do not actually log their hours, they just report hours not worked.
  - While it is apparent that employees pay 20% and Employer pay 80% of benefits, it is not a written policy

***Criteria:***

The Codification of Statements on Auditing Standards (SAS AU) paragraph 110.03 states that the financial statements are management's responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

***Effect:***

Because the internal control structure is inadequate and not documented, management and staff can not be certain about what procedures and processes to follow. Adequate controls are not in place to prevent or detect intentional or unintentional misstatements of accounting information.

**B. FINDINGS-FINANCIAL STATEMENT AUDIT (continued)**

**FS 2007-03 — Deficiencies in Internal Control Structure Design, Operation, and Oversight (continued)**

***Cause:***

For the fiscal year 2007 management did not have a documented internal control policy in place to follow and for management and the board to monitor compliance with. While the District does have policies and procedures that are outlined in the *District By-Laws* and its *Summary of Benefits and Polices for Employees*, and others have been made through board resolutions, they do not adequately address internal controls and are not comprehensive.

***Auditor's Recommendation:***

We recommend that the District establish and document internal control policies and procedures and that it address the following:

- Consistent application of significant accounting policies
- Job descriptions and descriptions of duties of personnel
- Code of conduct for employees and management
- Whistleblower process that meets regulatory compliance requirements and promotes internal control and allows for anonymity
- Organizational Chart
- The District's dependence on third party service providers for managing it's day to day operations
- Segregation of duties, particularly with respect to financial reporting, transaction processing, and information technology
- Monitoring activities by the governing board
- Payroll
  - Employee contracts
  - Employee time sheets
  - Employer and employee shared responsibilities for benefit costs

We also recommend that the District's finance committee devise and implement a *Finance Committee Checklist* to monitor compliance with internal control polices on a monthly basis.

***Management's Response:***

The Financial Coordinator and the District Treasurer will prepare a list of recommendations, based on those presented above by the auditor, and present them as policy and procedure recommendations for Board consideration and action. The District's particular circumstances will be taken into account as the recommendations are developed. Examples of circumstances where the most effective policy for the District may not conform to the audit recommendations include the decision whether or not to develop contracts for at-will employees and whether or not employees paid on an hourly basis will continue to be required to report their time on an exception basis or if policy will be changed to require "positive reporting." The recommendations to be presented to the board will be prepared with an emphasis on developing proposed policies and procedures in a manner that facilitates their integration into a comprehensive internal control structure.

**B. FINDINGS-FINANCIAL STATEMENT AUDIT (continued)**

**FS 2007-04 — Internal Control Deviations**

***Condition:***

During our review of internal controls, the following deviations in internal control were identified:

- Payroll:
  - Tests performed on five (5) out five (5) randomly selected payroll disbursements totaling approximately \$10,335 revealed the following:
    - Employee contracts are not maintained to support the employee wages
    - Time sheets are not utilized to track employee work hours worked
- Disbursements:
  - Tests performed on one (1) disbursement for approximately \$269 out five (5) randomly selected disbursements totaling approximately \$11,281 revealed that the purchase order was issued after the invoice date
- Receipts:
  - Tests performed on one (1) receipt for approximately \$191 out five (5) randomly selected receipts totaling approximately \$433 revealed that the District did not maintain the monthly deposit summary report from OMI, its operations service provider, for the month of September 2006.
- Bank Reconciliations:
  - During our evaluation of the District's cash, we noted that the District did not properly reconcile its bank accounts. We noted several reconciliation discrepancies in the operational and LGIP Property Tax Revenue – G.O. Bonds bank accounts for an aggregate amount of approximately \$303,821.

***Criteria:***

- Payroll:
  - Employee contracts
    - Good internal controls and sound business practices over payroll require that all wages be properly authorized and approved in the form of an employee contract, and that that employee contract be maintained as a part of personnel records
  - Time sheets
    - Good internal controls and sound business practices over payroll require that all wages for a pay period be properly authorized and approved in the form of a time sheet, and that that time sheet be reviewed, approved and maintained as a part of payroll records
- Disbursements:
  - District procedures require purchase orders to be fully completed and approved prior to the purchase of goods and services. Pursuant to Section 13-1-158, NMSA 1978, no payment can be issued for any purchase of services, construction or items of tangible personal property unless the using agency certifies that the services, construction or item of tangible personal property have been received and meet specifications or unless prepayment is permitted under Section 13-1-98, NMSA 1978, by exclusion of the purchase from the procurement code.

**B. FINDINGS-FINANCIAL STATEMENT AUDIT (continued)**

**FS 2007-04 — Internal Control Deviations (continued)**

*Criteria (continued):*

- Receipts:
  - Good internal controls and sound business practice requires that the District provide adequate support for its daily receipts and be able to trace the daily receipt totals to the OMI monthly deposit summary, the general ledger and the bank statements
  
- Bank Reconciliations:
  - Good internal controls and sound business practice over cash require that the bank statements be reconciled on a timely basis to the District's general ledger, at least monthly. Any transfers between bank accounts, that are a reflection of transfers between cash accounts in the general ledger as well, should be recorded in the general ledger on a timely basis, and the balances reflected on the reconciliation should agree to the balances reflected in the general ledger.

*Effect:*

- Payroll:
  - Internal controls over payroll are not sufficiently monitored and maintained to prevent or detect intentional misappropriation of the District's assets. Employees could be paid for time not worked.
  
- Disbursements:
  - Internal controls over disbursements are not sufficiently monitored and maintained to prevent or detect intentional misappropriation of the District's assets. This may result in many issues, including but not limited to, purchase of unauthorized or unnecessary items.
  
- Receipts:
  - Internal controls over receipts are not sufficiently monitored and maintained to prevent or detect intentional misappropriation of the District's assets. Without adequate documentation over the receipt process, it can become difficult to verify that a receipt occurred and was properly deposited.
  
- Bank Reconciliations:
  - The balances that were reflected in the general ledger and bank reconciliation were not in agreement. This could result in confusion and decisions being made with out correct information.

*Cause:*

- Payroll:
  - Due to the size of the organization and the small number of employees that it has had, payroll and personnel procedures over internal control have not been adequately addressed, developed and implemented. The District has only required its employees to notify it if time has not been worked rather than tracking time worked.
  
- Disbursements:
  - The District failed to process the purchase order prior to purchasing services

**B. FINDINGS-FINANCIAL STATEMENT AUDIT (continued)**

**FS 2007-04 — Internal Control Deviations (continued)**

*Cause (continued):*

- Receipts:
  - The District failed to maintain its supporting documentation for receipts for the month of September 2006.
  
- Bank Reconciliations:
  - The District had several cash transactions that affected the cash accounts subsequent to having prepared the account reconciliations:
    - There was a transfer from the operating account to the LGIP Property Tax Revenue – G.O. Bonds account that was voided, effectively reducing outstanding items by approximately \$305,209
    - There was a check to a vendor that was recorded incorrectly and corrected to be recorded at a lower amount, effectively reducing outstanding items by approximately \$478
    - There were three (3) checks to vendors that were voided, effectively reducing outstanding items by approximately \$627
    - There were four (4) checks to vendors that were posted late to reconciliations, effectively increasing outstanding items by approximately \$2,493
    - The net effect of these subsequent transactions was to reduce outstanding items by approximately \$303,821

***Auditor's Recommendation:***

We make the following recommendations for the District's internal controls:

- Payroll:
  - Employee contracts
    - The District should implement the use of employee contracts. The District should ensure that the contract includes, but is not limited to, the following:
      - Job title
      - Job description and duties
      - Compensation
      - Benefits
      - Effective date
      - Performance evaluation
      - Terms for amendment
      - Termination
  - Time sheets
    - The District should implement the use of employee time sheets. Time sheet record documentation should include, but is not limited to, the following:
      - The name of the employee
      - Dates and hours worked for the time period
      - Employees signature attesting to the dates and hours worked
      - Board member signature authorizing approval of dates and hours worked
  
- Disbursements:
  - The District should always follow the policy as required to ensure that purchase orders are fully completed and approved prior to the purchase of goods and services

**B. FINDINGS-FINANCIAL STATEMENT AUDIT (continued)**

**FS 2007-04 — Internal Control Deviations (continued)**

*Auditor's Recommendation (continued):*

- Receipts:
  - The District should ensure that OMI, its operations service provider, provides sufficient documentation to the District so that the District can independently reconcile all water billing receipts from individual customers to its daily receipt totals, the OMI monthly deposit summary, the general ledger and the bank statements. Additionally, the District should ensure that all financial documentation, particularly with respect to third party service providers, is adequately maintained and available for inspection.
  
- Bank Reconciliations:
  - We recommend that the District ensure that all current fiscal year end processes and all subsequent fiscal year beginning processes are completed prior to finalizing financial records for any given fiscal year. This includes, but is not limited to, the last month's bank reconciliation in the current fiscal year and the first month's bank reconciliations in the subsequent fiscal year. In doing so, management's standard operating procedures should be sufficient to resolve data entry errors and ensure that the general ledger is in agreement with supporting documents such as the bank reconciliation and that ending balances for a fiscal year will be in agreement with beginning balances in the subsequent year.

***Management's Response:***

The internal control deviations described above were the result of the lack of sufficient internal controls, as described in Finding FS 2007-03. None of the deviations presented in the finding above resulted in a material misstatement of the District's finances. The deviations were caused primarily by the lack of funds for staff and other resources necessary for optimal internal control. It is anticipated that incremental improvement will be observed in the audits for Fiscal Year 2008 and Fiscal Year 2009. As outlined previously, the findings in the Fiscal Year 2007 will be used as a foundation for developing and implementing policy and procedure to ameliorate the cited conditions in Fiscal Year 2010 (the current fiscal year as of the date of the audit report) and subsequently.



**B. FINDINGS-FINANCIAL STATEMENT AUDIT (continued)**

**FS 2007-05 — Overpayment of Mileage Reimbursement**

***Condition:***

During our review of travel and per diem expenses, we noted one (1) disbursement for approximately \$145 out five (5) randomly selected disbursements totaling approximately \$2,310 revealed that the District reimbursed a board member at a rate forty and a half cents (\$.405) a mile, which exceeds the allowable rate for reimbursement. Of the reimbursement amount \$113 was for mileage reimbursement and the remaining portion was a repayment for supplies purchased. Therefore the reimbursement for mileage should have been \$89, and the District has overpaid the board member \$24.

***Criteria:***

The Mileage and Per Diem Act, NMSA 1978, Sections 10-8-1 through 10-8-8, and Section 2.42.2 NMAC requires that the District reimburse each public officer or employee thirty-two cents (\$.32) a mile for each mile traveled in a privately owned vehicle if the travel is necessary for the individual to perform their official duties. Proper internal controls should be in place to ensure that the District is in compliance with allowable rates and that the District becomes aware of any changes to the rates as they occur.

***Effect:***

The District has over compensated the board member for his travel and is in violation of the Mileage and Per Diem Act.

***Cause:***

The overpayment appears to be an error due not having an adequate understanding of the proper rates to be used for mileage reimbursement.

***Auditor's Recommendation:***

We recommend the District follow the Mileage and Per Diem Act, when paying per diem and travel reimbursements. The District should ensure that it has access to and has reviewed the Mileage and Per Diem Act as well as the New Mexico State Auditor Rule. Furthermore, the District should be certain that it updates these on an annual basis.

We also recommend that the District request that the board member reimburse the District in the amount of \$24.

***Management's Response:***

The reimbursements made for mileage through November 2007 were at the federal rate for the year rather than the State rate. In February 2007 the issue was addressed during a comprehensive review of the District's by-laws, which were clarified, in part by citing the language of the New Mexico Mileage and Per Diem Act. The first reimbursement for mileage after the change in by-laws was made in March 2007. This and all subsequent reimbursements for mileage have been made at the correct rate.

Since 2007, the Financial Coordinator has checked the New Mexico Legislative website at the end of each legislative session to determine whether the Mileage and Per Diem Act had been modified. When the Act was changed in 2009, it was so noted. The New Mexico Department of Finance and Administration Local Government Division sent a memo to local governments, including the District, notifying them of the change. The change was implemented in the District's calculations for mileage reimbursement beginning June 19, 2009.

The District Financial Coordinator, in collaboration with the District Treasurer, will prepare a report on the matter for presentation to the District Board for consideration and action.

**B. FINDINGS-FINANCIAL STATEMENT AUDIT (continued)**

**FS 2007-06 —Repair and Maintenance Cost**

***Condition:***

During our review of the District's repair and maintenance costs provided by OMI its operations service provider, tests were performed on two hundred sixty-three (263) repair and maintenance charges, from December 2005 through June 2007, totaling approximately \$138,487. From our review of the repair and maintenance costs, there do not appear to be any incidents of "government waste, fraud and abuse." However, the following deviations in internal control were identified:

- Charges to repair and maintenance that should not have been made:
  - Tests performed on one (1) repair and maintenance cost for approximately \$286, revealed a charge for copy supplies, and that does not meet the definition of "non-routine and non-repetitive activities." The charge should not have been a part of repair and maintenance costs.
  - Tests performed on two (2) repair and maintenance costs for approximately \$150, revealed charges for disconnect notices, and those do not meet the definition of "non-routine and non-repetitive activities." The charges should not have been a part of repair and maintenance costs.
- Inadequate supporting documentation:
  - Tests performed on six (6) repair and maintenance costs for approximately \$6,083 had invoices that exceeded more than one page, but only the page showing the total charge was retained. As such, the billing could not be recalculated.
  - Tests performed on five (5) repair and maintenance costs for approximately \$310 had invoices that were copied, and when doing so, the vendor names and the dates of purchase were cut off, hindering review of the of the billing.
  - Tests performed on one (1) repair and maintenance cost for approximately \$55, revealed that while the charge was included on the April 2006 repair and maintenance charges, the invoice was dated July 7, 2006. This is due to having lost the invoice and contacting vendor to fax a new invoice. The vendor generated a new invoice as of that date.
  - Tests performed on one (1) repair and maintenance cost for approximately \$149, revealed that the purchase was made online. The data was printed done before the confirmation of purchase, so there was no date provided and no proof that purchase was in fact made.

***Criteria:***

The State Auditor Office issued an incident report regarding a complaint from a water utility customer on December 3, 2008. The customer alleged and raised concern at the State Auditor's office that through the use of OMI, its operations service provider, that Eldorado Area Water and Sanitation District has "government waste, fraud and abuse." Specifically the complaint reads that there is "suspected duplicated services and problems with the repair budget, details declined."

The repair budget for OMI for OMI is for \$60,000. Repair costs is defined in the contract with OMI as follows: "Repairs Costs means the cost of those non-routine and non-repetitive activities required for operational continuity, safety, and performance generally resulting from failure or to avert a failure of the equipment, water system, vehicle, or facility or some component thereof." The contract states that OMI will cover repair costs up to \$60,000 as part of their services. It states, if expenses exceed the \$60,000, than EASWD, will reimburse OMI for the difference. Furthermore, if expenses fall under the \$60,000, than OMI will rebate the difference to EASWD.

**B. FINDINGS-FINANCIAL STATEMENT AUDIT (continued)**

**FS 2007-06—Repair and Maintenance Cost (continued)**

***Criteria (continued):***

This incident report mandates an investigation into whether charges to repairs and maintenance were necessary, appropriate and for non-duplicated services. Because the incident report was lacking in details as to the dates the alleged "government waste, fraud and abuse" occurred, all repair and maintenance from December 2005 through June 2007 were inspected.

***Effect:***

There does not appear to be "government waste, fraud and abuse." However, the deviations in internal control indicate that the District has not sufficiently monitored and maintained internal controls over repair and maintenance cost records.

***Cause:***

The investigation into the repairs and maintenance costs was a response to the State Auditor's Office's incident report citing an allegation of "government waste, fraud and abuse" by OMI, the District's operations service provider. The deviations in internal control are due to the District not sufficiently monitoring and maintaining internal controls over repair and maintenance cost records provided by OMI.

***Auditor's Recommendation:***

We make the following recommendations for the District's maintenance of repair and cost records:

- The District should publicize monthly summaries of repair and maintenance cost records on its website, and ensure that information provided includes, but is not limited to, the following:
  - The date(s) costs were incurred
  - The vendor(s) responsible for the for the costs
  - A description of what was repaired and/or maintained
  - The amount of the costs incurred
  - The individual who made the request for the repair and/or maintenance
  - The individual who authorized the repair and/or maintenance
- The District should adequately review items charged as repair and maintenance costs on a monthly basis and ensure that charges are appropriate and meet the definition of repair costs: "the cost of those non-routine and non-repetitive activities required for operational continuity, safety, and performance generally resulting from failure or to avert a failure of the equipment, water system, vehicle, or facility or some component thereof."
- The District should improve internal controls over repair and maintenance cost records and ensure that supporting documentation is adequate and includes, but is not limited to, the following:
  - Entire original invoices for costs incurred are maintained and that pertinent information such as the vendor name, date of purchase, description of the purchase and amounts are clearly visible
  - Purchases made on line include a print out of the confirmation of the purchase that it includes the date and amount of the purchase

***Management's Response:***

The Financial Coordinator and the District Treasurer will prepare a model for periodic disclosure of expenditures from the repair budget using the reporting template provided by the auditors. This model will be presented to the Board for consideration and action regarding whether or not periodic summaries should be posted to the District website.

**B. FINDINGS-FINANCIAL STATEMENT AUDIT (continued)**

**FS 2007-06 —Repair and Maintenance Cost (continued)**

***Management's Response (continued):***

Limitations on the District's financial and staff resources have already been described. Currently (October 2009), the District is in the process of hiring a General Manager; part of the General Manager's duties include the activities described in item 2 of the auditor's recommendation.

The District has already engaged its O&M contractor, OMI in informal discussion regarding the auditor's recommendations for more stringent collection and maintenance of supporting documentation for expenditures made from the Repair Budget, and the OMI Project Manager for the District does not foresee any problems in coming into compliance with the specifics of item 3 of the auditor's recommendation, beginning with the current fiscal year, Fiscal Year 2010.

**STATE OF NEW MEXICO**  
Eldorado Area Water and Sanitation District  
Other Disclosures  
June 30, 2007

**A. AUDITOR PREPARED FINANCIAL STATEMENTS**

The financial statements and notes to the financial statements were prepared by the independent certified public accountants performing the audit. Although it would be preferred and desirable for the District to prepare its own GAAP-basis financial statements, it is felt that the District's personnel do not have the time to prepare them. Therefore, the outside auditor prepared the GAAP-basis financial statements and footnotes for inclusion in the annual audit report. Eldorado Area Water and Sanitation District is responsible for ensuring the books and records adequately support the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and the records are current and in balance. Management has reviewed and approved the financial statements and notes to financial statements.

**B. EXIT CONFERENCE**

The contents of this report were discussed on October 13, 2009. The following individuals were in attendance.

Eldorado Area Water and Sanitation District  
James Jenkins, President of Board of Directors  
Roberta Armstrong, Secretary of Board of Directors  
Gene Schofield, Treasurer (Non-Director)  
Paul Butt, Financial Coordinator

Accounting & Consulting Group, LLP  
Jo Ann Chavez, CPA, Audit Manager  
Chris Parrino, Audit Senior