

**STATE OF NEW MEXICO  
ELDORADO AREA WATER AND SANITATION DISTRICT  
  
FINANCIAL STATEMENTS AND REQUIRED  
SUPPLEMENTARY INFORMATION  
WITH ACCOMPANYING AUDITORS' REPORTS  
  
YEAR ENDED JUNE 30, 2008**

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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, 2008

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**STATE OF NEW MEXICO**  
Eldorado Area Water and Sanitation District  
Directory of Officials  
June 30, 2008

<u>Name</u>	<u>Board</u>	<u>Title</u>
James Jenkins		President
Jerry Cooper		Vice President
John Mathis		Treasurer
George Haddad		Member
Stephen Wust		Member
	<u>Administrative Officials</u>	
Paul Butt		Financial Coordinator

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**FINANCIAL SECTION**



**Accounting & Consulting Group, LLP**  
Certified Public Accountants

## 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 financial statements of the business-type activities of the Eldorado Area Water and Sanitation District (District) as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. We also have audited the budgetary comparison presented as supplementary information for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, 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 opinion.

We were not able to obtain sufficient evidence supporting the allowance for doubtful accounts for accounts receivable at June 30, 2008; nor were we able to satisfy ourselves as to the amount of the allowance for doubtful accounts for accounts receivable by other auditing procedures.

We were not able to verify the total cost of land owned by the District at June 30, 2008; nor were we able to satisfy ourselves as to the amount of land 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, and the total cost of land owned by the District, 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, 2008, 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 is presented fairly, in all material respects, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 28, 2010 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements of the business-type activities and budgetary comparison. The accompanying financial information listed as Supporting Schedules I through II in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP  
Albuquerque, NM  
May 28, 2010

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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, 2008.

## Financial Highlights

Key events for the Fiscal Year 2008 are:

- The assets of the District exceeded liabilities at the close of the most recent Fiscal Year by \$1,128,018 (*total net assets*). The components of net assets include invested in capital assets, net of related debt \$407,479, associated debt exceeds capital assets, restricted net assets, \$1,222,133 and unrestricted net assets, (\$501,594).
- The District's total net assets decreased by \$391,871 compared to the prior year. This decrease results primarily from an increase in operating expenses and decrease in intergovernmental grants.
- As of June 30, 2008, the District had current and noncurrent assets totaling \$1,139,550 and \$13,268,970, respectively. Capital assets, net of accumulated depreciation totaled \$11,297,346. Current liabilities includes, \$5,000 in customer deposits, \$76,252 in accounts payable, \$639,250 in interest payable and \$480,000 in bonds payable. Noncurrent liabilities (G.O. and revenue bonds) totaled \$12,080,000.
- Construction of the transmission line to connect new well 17 to the water utility system was completed March 5, 2008. The District applied for an operating permit for well 17 shortly thereafter. Protests filed with the NM Office of the State Engineer against issuance of the operating permit made it necessary for the District to begin the arduous and costly process of defending its application. An emergency operating permit was granted by NM OSE in the summer of 2008 and the well was commissioned June 6. A pre-condition for issuance of the emergency permit was that the District impose level 2 water use restrictions for the duration of its use of well 17. This had the effect of significantly reducing water sales during the summer and early fall of 2008.
- During FY 2008, in preparation for making legislative grant requests, the District updated its Infrastructure Capital Improvement plan. Major updates included requests for funding of two new wells plus transmission lines. Other projects, primarily rehabilitative, identified over the course of the fiscal year were also in the District's ICIP requests. 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 proposed a number of rate increases in its initial filing to the NM PRC in April 2007. Most of the proposed increases were protested by a number of rate payers sufficient to trigger a public hearing on the proposed rates by NM Public Regulatory Commission. This hearing was held in October 2007. After a delay of almost one year, the hearing examiner issued a Recommended Decision denying most of the proposed increases in September 2008. In November 2008 the NM PRC remanded the case to the hearing officer for "the limited purpose of developing the record in [the] case." The initial public hearing and the ensuing proceedings were a significant source of expense to the District in fy 2008 and in following years as well.
- 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 net assets;
  - c. Statement of cash flows; and,
  - d. Notes to the financial statements
2. A budgetary comparison is presented as supplementary information

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 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 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 25-37 of this report.

*The Budgetary Comparison* 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 \$1,128,018 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 \$(501,594) of net assets as unrestricted.

### Overview of the Statement of Net Assets

	<u>2008</u>	<u>2007</u>
<i>Assets:</i>		
Current assets	\$ 2,329,683	\$ 3,004,084
Capital assets, net	11,297,346	11,237,210
Other assets	781,491	832,188
	<u>14,408,520</u>	<u>15,073,482</u>
<b><i>Total Assets</i></b>	<b><i>\$ 14,408,520</i></b>	<b><i>\$ 15,073,482</i></b>
<i>Liabilities:</i>		
Current liabilities	\$ 1,200,502	\$ 1,021,534
Noncurrent liabilities	12,080,000	12,560,000
	<u>13,280,502</u>	<u>13,581,534</u>
<b><i>Total Liabilities</i></b>	<b><i>13,280,502</i></b>	<b><i>13,581,534</i></b>
<i>Net Assets:</i>		
Invested in capital assets, net of related debt	(1,262,654)	(1,772,790)
Restricted	1,222,133	1,429,346
Unrestricted	1,168,539	1,835,392
	<u>1,128,018</u>	<u>1,491,948</u>
<b><i>Total Net Assets</i></b>	<b><i>1,128,018</i></b>	<b><i>1,491,948</i></b>
<b><i>Total Liabilities and Net Assets</i></b>	<b><i>\$ 14,408,520</i></b>	<b><i>\$ 15,073,482</i></b>

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

	<u>2008</u>	<u>2007</u>
<b>Revenues:</b>		
Water sales	\$ 1,645,713	\$ 1,653,848
Advalorem tax (net of uncollectible amounts)	949,709	844,941
Intergovernmental grants	66,484	329,556
Interest income	76,211	120,014
Miscellaneous income	-	1,027
<b>Total Revenues</b>	<b><u>2,738,117</u></b>	<b><u>2,949,386</u></b>
<b>Expenses:</b>		
Water and sanitation	1,983,720	1,684,349
Bond interest expense	1,094,600	1,131,650
Amortization of bond issue costs	51,668	47,568
<b>Total Expenses</b>	<b><u>3,129,988</u></b>	<b><u>2,863,567</u></b>
<b>Increase (Decrease) in Net Assets</b>	<b>(391,871)</b>	<b>85,819</b>
<b>Total net assets, beginning of year</b>	<b>1,491,948</b>	<b>1,406,129</b>
<b>Net Assets, restatement (note 16)</b>	<b><u>27,941</u></b>	<b><u>-</u></b>
<b>Total net assets - end of year</b>	<b><u>\$ 1,128,018</u></b>	<b><u>\$ 1,491,948</u></b>



## **Financial Analysis of the District's Funds and Fiscal Year 2008 Budgetary Highlights**

As noted above, net assets decreased by \$391,871 from Fiscal Year 2007 to Fiscal Year 2008. Total revenues decreased by \$211,269, 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 the financial statements, water sales have been presented net of gross receipt taxes. In Fiscal Year 2008 water sales net of gross receipts was 1,645,713 (gross receipts taxes were \$84,193). Total expenses also increased in Fiscal Year 2008 to \$3,129,988, an increase of \$266,421 over the Fiscal Year 2007 expenses of \$2,863,567. Major factors for this increase in spending were construction of Well 17, as well as depreciation expense related to the construction in progress, since the construction of Well 17 was completed in Fiscal Year 2008. Increases in expenditures were offset in part by a reduction in utility expense and in the expense for O&M contractual services.

Other Highlights of FY 2008 financial activities include:

- Construction of the transmission line to connect new Well 17 to the Utility was completed on March 5, 2008.
- Developed and proposed new rates to the District and NM Public Regulation Commission which constituted a significant expense to the District.
- Completion of System Hydraulic Study/Master System Model project in November 2007.
- Remainder of leak detection performed on the remaining of the District's water lines
- The System Hydraulic Study/Master System Model project was started and will be completed in October 2007
- Major electrical upgrades were made to two primary well houses to permit emergency connection to the District's new generator

A review of budget vs. actual performance shows that the District did not exceed budgeted expenses (\$3,129,988 spent on a GAAP basis of accounting vs. \$3,162,033 budgeted). On the revenue side, ad valorem tax revenue was more than budgeted by \$164,559, interest income more than budgeted by \$3,641 and water sales was less than budgeted by \$108,654. 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 2008. From July 01, 2007 through June 30, 2008, District deposits from water sales averaged \$137,142 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, 2008 totals \$11,297,346 (net of accumulated depreciation). Major capital events during the Fiscal Year included the following:

- Construction of Well 17 was completed during fiscal year 2008 at an additional cost of \$397,123.
- Improvements to the water utility system at a cost of \$60,574
- Purchase of a office equipment \$30,091

Additional information on the District's capital assets can be found on page 32 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 32-35 of this report.

## **Financial Outlook for Next Year**

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. The first phase was applied to the District's water sales in September-October 2009, and appeared on the ratepayer's bills in November 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. Applications to the NM Finance Authority for a \$1.44M capital projects loan and for a \$6.25M loan to refinance the District's 2004 GO bond were made in the spring of 2010. The Capital projects loan was approved in April 2010 and is scheduled for closing in late June or early July 2010. The GO bond refinancing loan application is scheduled for review and NMFA Board action on May 25 2010.

The district's approved Fiscal Year 2009 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 \$2,495,835 (operating) plus \$811,050 (property tax revenue) and cash balances of \$1,988,917. Proposed expenses total \$2,166,631 (operating and capital) plus \$730,100 (GO bond debt service) and \$503,500 (Water Utility System Revenue Bond).

## **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, 2008

Exhibit A

	<u>Business Type Activities</u>
<i>Assets</i>	
<i>Current assets</i>	
Cash and cash equivalents (Note 4)	\$ 361,943
Investments (Note 4)	470,174
Accrued interest receivable (Note 5)	2,126
Ad valorem taxes receivable	38,328
Accounts receivable, net of allowance for doubtful accounts (Note 7)	249,973
Prepaid expenses (Note 8)	17,006
<i>Total current assets</i>	<u>1,139,550</u>
<i>Noncurrent assets</i>	
Restricted assets:	
Cash and cash equivalents (Note 4)	508,500
Investments (Note 4)	681,633
Capital assets, net of accumulated depreciation (Note 9)	11,297,346
Other assets:	
Deferred bond issue costs, net	781,491
<i>Total noncurrent assets</i>	<u>13,268,970</u>
<i>Total assets</i>	<u><u>\$ 14,408,520</u></u>
<i>Liabilities and net assets</i>	
<i>Current liabilities</i>	
Accounts payable (Note 10)	\$ 76,252
Interest payable	639,250
Customer deposits	5,000
General obligation bonds payable - current (Note 11)	305,000
Revenue bonds payable - current (Note 11)	175,000
<i>Total current liabilities</i>	<u>1,200,502</u>
<i>Noncurrent liabilities</i>	
General obligation bonds payable (Note 11)	6,780,000
Revenue bonds payable (Note 11)	5,300,000
<i>Total noncurrent liabilities</i>	<u>12,080,000</u>
<i>Total liabilities</i>	<u>13,280,502</u>
<i>Net assets</i>	
Invested in capital assets, net of related debt	407,479
Restricted for:	
Cost of utility acquisition and improvements (Note 13)	119,611
Water rights acquisition (Note 13)	90,000
Debt service-revenue bonds (Note 13)	508,500
Debt service- G.O. bonds (Note 13)	504,022
Unrestricted	(501,594)
<i>Total net assets</i>	<u>1,128,018</u>
<i>Total liabilities and net assets</i>	<u><u>\$ 14,408,520</u></u>

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, 2008

Exhibit B

	<u>Business Type Activities</u>
<i>Operating revenues</i>	
Charges for sales and services:	
Water sales	\$ 1,645,713
<i>Total operating revenues</i>	<u>1,645,713</u>
<i>Operating expenses</i>	
Contractual services	1,192,598
Depreciation	427,652
Other operating costs	316,121
Personnel services	37,520
Supplies	2,401
Water conservation fee	5,945
Travel	1,483
<i>Total operating expenses</i>	<u>1,983,720</u>
<i>Operating income (loss)</i>	<u>(338,007)</u>
<i>Non-operating revenues (expenses)</i>	
Ad valorem tax	949,709
Interest income	76,211
Bond interest expense	(1,094,600)
Amortization of bond issue costs	(51,668)
<i>Total non-operating revenues (expenses)</i>	<u>(120,348)</u>
Income (loss) before contributions and transfers	(458,355)
Capital grants	66,484
<i>Change in net assets</i>	(391,871)
<i>Total net assets, beginning of year</i>	1,491,948
<i>Net assets, restatement (note 16)</i>	<u>27,941</u>
<i>Total net assets, beginning of year, as restated</i>	<u>1,519,889</u>
<i>Total net assets, end of year</i>	<u><u>\$ 1,128,018</u></u>

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, 2008

	<u>Business Type Activities</u>
<i>Cash flows from operating activities:</i>	
Cash received from customers	\$ 1,648,766
Cash paid to suppliers and contractors	(1,672,387)
Cash paid to employees for services	(52,769)
	<u>(76,390)</u>
 <i>Cash flows from noncapital financing activities</i>	
Ad valorem taxes received	942,878
	<u>942,878</u>
 <i>Cash flows from capital and financing activities</i>	
Intergovernmental capital grants received	255,075
Purchase of capital assets	(487,788)
Bond principal payments	(450,000)
Bond interest payments	(781,571)
	<u>(1,464,284)</u>
 <i>Cash flows from investing activities</i>	
Proceeds from sale of investments	524,982
Interest income	83,653
	<u>608,635</u>
 <i>Net increase (decrease) in cash and cash equivalents</i>	 10,839
 <i>Cash and cash equivalents - beginning of year</i>	 859,604
 <i>Cash and cash equivalents - end of year</i>	 \$ <u><u>870,443</u></u>

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)	\$ (338,007)
<i>Adjustments to reconcile operating (loss) to net cash (used) by operating activities:</i>	
Depreciation expense	427,652
<i>Changes in assets and liabilities:</i>	
(Increase) decrease in accounts receivable	(1,947)
(Increase) decrease in prepaid expenses	944
Increase (decrease) in accounts payable	(154,783)
Increase (decrease) in accrued payroll expenses	(11,732)
Increase (decrease) in customer deposits	5,000
Increase (decrease) in current portion of compensated absences	<u>(3,517)</u>
Net cash provided by operating activities	<u>\$ (76,390)</u>
<i>Non-cash investing, capital and financing activities:</i>	
Amortization of bond issue costs	<u>\$ 51,668</u>
<i>Reconciliation of total cash and cash equivalents to June 30, 2008 financial statements:</i>	
Cash and cash equivalents - beginning of year	\$ 2,536,393
Reclassification of LGIP from cash to investments	<u>(1,676,789)</u>
Cash and cash equivalents - beginning of year as restated	<u>\$ 859,604</u>
<i>Reconciliation of total cash and cash equivalents:</i>	
Current assets - cash and cash equivalents	361,943
Restricted assets - cash and cash equivalents	<u>508,500</u>
Total cash and cash equivalents	<u>\$ 870,443</u>

The accompanying notes are an integral part of these financial statements

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**STATE OF NEW MEXICO**  
Eldorado Area Water and Sanitation District  
Notes to the Financial Statements  
June 30, 2008

**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.

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**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.

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**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. 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 affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates for the District include management's estimate of the allowance for uncollectible accounts for water sales, depreciation on assets over their estimated useful lives.

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

**Deposits and Investments:** The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the district to invest in Certificates of Deposit, obligation of the U.S. Government, and the State Treasurer's Investment Pool.

Investments for the Town are reported at fair value. The State Treasurer's Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

**Ad Valorem 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.

**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.

**Restricted Assets:** Restricted assets consist of those funds expendable for the operating purposes but restricted by donors or other outside agencies as to the specific purpose for which they may be used.

**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.

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

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

**Capital Assets (Continued):** 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 - original	30
Water utility - improvements	7-30
Water utility- Well 17	30
Vehicles	5
Furniture and fixtures	15
Office equipment (including software)	3

The District's water system is depreciated on a provisional basis. G.O. and Revenue Bonds are debt related to the acquisition of the water utility system.

**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.

**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. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

*A. 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.

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**NOTE 3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)**

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.

The budgetary information presented in these financial statements has been properly amended by the District's board in accordance with the above procedures. These amendments resulted in the following changes:

	Excess (deficiency) of revenues over expenditures	
	Original Budget	Final Budget
Budgeted Funds:		
Water utility	\$ 568,489	\$ (294,871)

**NOTE 4. DEPOSITS AND INVESTMENTS**

State statutes authorize the investment of District funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, money market accounts, and United States Government obligations. The District is not aware of any invested funds that did not meet the State investment requirements as of June 30, 2008.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more banks or savings and loan associations within the geographical boundaries of the District. Deposits may be made to the extent that they are insured by an agency of the United States or collateralized as required by statute.

The rate of interest in non-demand interest-bearing accounts shall be set by the State Board of Finance, but in no case shall the rate of interest be less than one hundred percent of the asked price on United States treasury bills of the same maturity on the day of deposit.

Excess of funds may be temporarily invested in securities which are issued by the State or by the United States government, or by their departments or agencies, and which are either direct obligations of the State or the United States or are backed by the full faith and credit of those governments.

According to the Federal Deposit Insurance Corporation, public unit deposits are funds owned by the public unit. Time deposits, savings deposits and interest bearing NOW accounts of a public unit in an institution in the same state will be insured up to \$100,000 in aggregate and separate from the \$100,000 coverage for public unit demand deposits at the same institution.

Custodial Credit Risk – Custodial credit risk is the risk that in the event of bank failure, the Districts's deposits may not be returned to it. The District does not have a 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). New Mexico State Statutes require collateral pledged for deposits in excess of the federal deposit insurance to be delivered, or a joint safekeeping receipt be issued, to the County for at least one half of the amount on deposit with the institution. At June 30, 2008, \$211,743 of the County's deposits of \$411,743 were exposed to custodial credit risk, \$211,743 was uninsured and collateralized by collateral held by the pledging bank's department or agent, not in the District's name, and no amounts were uninsured and uncollateralized.

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**NOTE 4. DEPOSITS AND INVESTMENTS (Continued)**

At June 30, 2008, bank accounts were collateralized as follows:

	First National Bank of Santa Fe
	<u>                    </u>
Amount of deposits	\$ 411,743
FDIC Coverage	(200,000)
Total uninsured public funds	<u>211,743</u>
Collateralized by securities held by pledging institutions or by its trust department or agent in other than the District's name	211,743
Uninsured and uncollateralized	<u>\$ -</u>
Collateral requirement (50% of uninsured funds)	\$ 105,872
Pledged Collateral	211,743
Over (Under) collateralized	<u>\$ 105,872</u>

**Investments**

The District's investments at June 30, 2008 included the following:

Investment Type	Rating	Fair Value	Weighted Average Maturity
State Treasurer:			
Local Government Investment Pool			
Property Tax Revenue - G.O. Bonds	AAA	\$ 504,022	46 Days
Utility Acquisition and Improvement	AAA	119,611	46 Days
Operating Reserve	AAA	<u>528,174</u>	46 Days
 Total investments		 <u>\$ 1,151,807</u>	

The New MexiGROW Local Government Investment Pool's (LGIP) investments are valued at fair value based on quoted market prices as of the valuation date. The LGIP is not SEC registered. The New Mexico State Treasurer is authorized to invest the short-term investment funds, with the advice and consent of the State Board of Finance, in accordance with Section 6-10-10 I through 6-10-10 P and Sections 6-10-1.1 A and E, NMSA 1978. The pool does not have unit shares. Per Section 6-10-10.1 F, NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the fund amounts were invested. Participation in the LGIP is voluntary. See **NOTE 17** for additional information regarding the District's investment in the Local Government Investment Pool.

*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. The District follows state law with investment activities.

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**NOTE 5. ACCRUED INTEREST RECEIVABLE**

Accrued interest actually received subsequent to June 30, 2008 is as follows:

Account Name	Account Number	Amount
State Treasurer		
Local Government Investment Pool		
Property Tax Revenue G.O. Bonds	7761-5152	\$ 844
Utility Acquisition and Improvement	7783-7750	237
Operating Reserve	7810-8909	<u>1,045</u>
Total accrued interest		<u><u>\$ 2,126</u></u>

**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 are as follows:

Ad valorem taxes receivable	\$ 38,328
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**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	\$ 281,973
Less: Allowance for doubtful accounts	<u>(32,000)</u>
Net accounts receivable	<u><u>\$ 249,973</u></u>

**NOTE 8. PREPAID EXPENSES**

The District prepaid directors' and officers' liability insurance and property insurance totaling \$13,788. The District has also prepaid rent in the amount of \$3,218.

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**NOTE 9. CHANGES IN CAPITAL ASSETS**

A summary of changes in capital assets is as follows:

	Balance June 30, 2007	Additions	Deletions	Balance June 30, 2008
<b>Capital Assets:</b>				
Water utility - original	\$ 11,216,996	\$ -	\$ -	\$ 11,216,996
Water utility - improvements	280,370	60,574	-	340,944
Water utility- Well 17	455,457	397,123	-	852,580
Vehicles	96,896	-	-	96,896
Furniture and fixtures	16,436	-	-	16,436
Office equipment	1,560	30,091	-	31,651
<b>Total Capital Assets</b>	<b>12,067,715</b>	<b>487,788</b>	<b>-</b>	<b>12,555,503</b>
<b>Accumulated Depreciation:</b>				
Water utility - original	783,654	373,899	-	1,157,553
Water utility - improvements	19,971	28,009	-	47,980
Water utility- Well 17	-	4,268	-	4,268
Vehicles	25,038	19,379	-	44,417
Furniture and fixtures	282	1,096	-	1,378
Office equipment	1,560	1,001	-	2,561
<b>Total Accumulated Depreciation</b>	<b>830,505</b>	<b>427,652</b>	<b>-</b>	<b>1,258,157</b>
<b>Total Capital Assets, net</b>	<b>\$ 11,237,210</b>	<b>\$ 60,136</b>	<b>\$ -</b>	<b>\$ 11,297,346</b>

Depreciation expense for the year amounted to \$427,652. 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 \$76,252 due for contractual services, various operating costs and gross receipts tax on water sales.

**NOTE 11. LONG-TERM DEBT**

During the year ended June 30, 2008, the following changes occurred in the liabilities reported in the statement of net assets:

	Balance June 30, 2008	Additions	Deletions	Balance June 30, 2009	Due Within One Year
Governmental activities					
<b>Bonds:</b>					
General obligation bond- Series 2004	\$ 7,370,000	\$ -	\$ 285,000	\$ 7,085,000	\$ 305,000
Water Utility System Revenue Bond- Series 2005	5,640,000	-	165,000	5,475,000	175,000
Subtotal bonds	13,010,000	-	450,000	12,560,000	480,000
Accrued compensated absences	3,517	2,596	6,113	-	-
<b>Total</b>	<b>\$ 13,013,517</b>	<b>\$ 2,596</b>	<b>\$ 456,113</b>	<b>\$ 12,560,000</b>	<b>\$ 480,000</b>



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**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.

**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. 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.
- c. The annual requirements to amortize the General Obligation Bond as of June 30, 2008, including interest payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2008	\$ 305,000	\$ 425,100	\$ 730,100
2009	325,000	406,800	731,800
2010	340,000	387,300	727,300
2011	360,000	366,900	726,900
2012	385,000	345,300	730,300
2014-2018	2,295,000	1,352,100	3,647,100
2019-2023	3,075,000	575,100	3,650,100
2023	-	-	-
	\$ 7,085,000	\$ 3,858,600	\$ 10,943,600

**STATE OF NEW MEXICO**  
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**NOTE 11. LONG-TERM DEBT (Continued)**

**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, 2008 are as follows:

**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. 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.

- d. The annual requirements to amortize the Water Utility System Revenue Bond as of June 30, 2008, including interest payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2008	\$ 175,000	\$ 328,500	\$ 503,500
2009	190,000	318,000	508,000
2010	200,000	306,600	506,600
2011	210,000	294,600	504,600
2012	225,000	282,000	507,000
2014-2018	1,335,000	1,192,200	2,527,200
2019-2023	1,790,000	739,500	2,529,500
2024-2025	1,350,000	137,100	1,487,100
	\$ 5,475,000	\$ 3,598,500	\$ 9,073,500

**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.

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

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, 2008. 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, 2008 was \$36,450.

**NOTE 13. NET ASSETS**

At June 30, 2008, net assets (\$119,611) 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 of (\$508,500) of account balance of \$576,915 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 (\$504,022) are restricted for general obligation bond debt service. Also, net assets (\$90,000) are restricted for water rights acquisition. The remaining net assets of \$1,135,327 are unrestricted at June 30, 2008.

A third LGIP account, \$528,174, was established in fiscal year 2006 as an operating reserve, \$58,000 of which is restricted for water rights acquisition.

**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 \$34,588. This consists of \$31,432 to Manuel Lujan Agencies, \$2,500 to Glatfelter Claims Management and \$656 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.

**STATE OF NEW MEXICO**  
Eldorado Area Water and Sanitation District  
Notes to the Financial Statements  
June 30, 2008

**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 2008 was \$752,109, but was adjusted through the budget process to \$784,264. 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. NET ASSETS RESTATEMENT**

In the prior year the entire amount of property tax receivable was understated by \$27,941, due to the entire outstanding receivable not being recorded. Only distribution from July 2008 was recorded as the property tax receivable in the previous year.

**NOTE 17. SUBSEQUENT EVENTS**

We have evaluated all events subsequent to the balance sheet date of June 30, 2008 through the date of issuance of these financial statements, May 28, 2010, 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.

Applications to the NM Finance Authority for a \$1.44M capital projects loan and for a \$6.25M loan to refinance the District's 2004 GO bond were made in the spring of 2010. The Capital projects loan was approved in April 2010 and is scheduled for closing in late June or early July 2010. The GO bond refinancing loan application is scheduled for review and NMFA Board action on May 25 2010.

**LGIP Investment in the Reserve Primary Fund**

At June 30, 2008, Eldorado Area Water and Sanitation District's interest in the LGIP Investment in the Reserve Primary Fund was \$1,151,807.

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.

**STATE OF NEW MEXICO**  
Eldorado Area Water and Sanitation District  
Notes to the Financial Statements  
June 30, 2008

**NOTE 17. SUBSEQUENT EVENTS (continued)**

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.

**NOTE 18. SUBSEQUENT PRONOUCEMENTS**

In July 2007, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets, which is effective for periods beginning after June 15, 2009. For governments that were classified as phase 1 or phase 2 governments, retroactive reporting is required for intangible assets acquired in fiscal years ending after June 30, 1980, except for those considered to have indefinite useful lives as of the effective date of this Statement and those that would be considered internally generated. Retroactive reporting of these intangible assets by phase 3 governments is encouraged but not required. Retroactive reporting is not required but is permitted for intangible assets considered to have indefinite useful lives as of the effective date of this Statement and those considered to be internally generated. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce these inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. The County is analyzing the effect that this standard will have on the financial statements, and currently believes it will have no significant effect on the financial statements for the upcoming year.

In March 2009, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, which is effective for financial statements for periods beginning after June 15, 2010 with earlier implementation encouraged. GASB Statement No. 54 distinguishes fund balance between amounts that are considered nonspendable, such as fund balance associated with inventories, and other amounts that are classified based on the relative strength of the constraints that control the purpose for which specific amounts can be spent. This statement is intended to improve the usefulness of information provided to financial report users about fund balance by providing clearer, more structured fund balance classifications, and by clarifying the definitions of existing governmental fund types. The County is analyzing the effect that this standard will have on the financial statements.

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**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  
For the Year Ended June 30, 2008

Schedule I

	Budgeted Amounts		GAAP	Variances
	Original	Final	Basis Actual	Favorable (Unfavorable) Final to Actual
<i>Revenues and sources:</i>				
Water sales	\$ 1,769,367	\$ 1,754,367	\$ 1,645,713	\$ (108,654)
Ad valorem taxes	785,150	785,150	949,709	164,559
Intergovernmental grant	605,075	255,075	66,484	(188,591)
Interest income	72,570	72,570	76,211	3,641
<i>Total revenues and sources</i>	<u>3,232,162</u>	<u>2,867,162</u>	<u>\$ 2,738,117</u>	<u>\$ (129,045)</u>
<i>Expenses and uses:</i>				
Contractual services	\$ 1,051,062	\$ 1,449,366	\$ 1,192,598	\$ 256,768
Other operating costs	190,900	289,756	316,121	(26,365)
Personnel services	174,811	174,811	37,520	137,291
Supplies	9,000	9,000	2,401	6,599
Water conservation fee	5,500	6,700	5,945	755
Travel	1,800	1,800	1,483	317
Debt service				
Principal	450,000	450,000	-	450,000
Interest	780,600	780,600	1,094,600	(314,000)
<i>Total expenses and uses</i>	<u>2,663,673</u>	<u>3,162,033</u>	<u>2,650,668</u>	<u>511,365</u>
<i>Excess (deficiency) of revenues and sources over expenses and uses</i>	<u>\$ 568,489</u>	<u>\$ (294,871)</u>	<u>\$ 87,449</u>	<u>\$ 382,320</u>
<i>Net change in net assets</i>	568,489	(294,871)	87,449	382,320
<i>Net assets - beginning of year</i>	<u>1,474,596</u>	<u>1,474,596</u>	<u>1,519,889</u>	<u>45,293</u>
<i>Net assets - end of year</i>	<u>\$ 2,043,085</u>	<u>\$ 1,179,725</u>	<u>\$ 1,607,338</u>	<u>\$ 427,613</u>
<i>Change in net assets, above</i>			\$ 87,449	
Depreciation			(427,652)	
Amortized issuance costs			(51,668)	
<i>Change in net assets, Exhibit B</i>			<u>\$ (391,871)</u>	

\* Debt principal payments are reflected on the Statement of Net Assets as a reduction of debt and how much was actually paid on principal reduction during the year.

The accompanying notes are an integral part of these financial statements

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**SUPPORTING SCHEDULES**

**STATE OF NEW MEXICO**  
 Eldorado Area Water and Sanitation District  
 Schedule of Collateral Pledged by Depository For Public Funds  
 June 30, 2008

<u>Name of Depository</u>	<u>Description of Pledged Collateral</u>	<u>Maturity</u>	<u>CUSIP Number</u>	<u>*Par Value June 30, 2009</u>	<u>Name and Location of Safekeeper</u>
<b>First National Bank of Santa Fe</b>	Santa Fe NM Community College District	8/1/2011	801901GW3	\$ 270,000	62 Lincoln Avenue, Santa Fe, New Mexico

\* Par Value used for New Mexico Securities Pledged

See accompanying independent auditor's report

**STATE OF NEW MEXICO**  
 Eldorado Area Water and Sanitation District  
 Schedule of Deposit and Investment Accounts  
 June 30, 2008

Bank Name	Deposits	Investments	Totals
	First National Bank of Santa Fe	NewMexigrow LGIP	
Deposits:			
First National Bank of Santa Fe			
Demand	\$ 333,455	\$ -	\$ 333,455
Savings	78,288	-	78,288
Revenue Bond Trust Department	576,915	-	576,915
LGIP	-	504,022	504,022
LGIP	-	119,611	119,611
LGIP	-	528,174	528,174
Total on deposit	988,658	1,151,807	2,140,465
Reconciling items	(118,215)	-	(118,215)
Reconciled balance	<u>\$ 870,443</u>	<u>\$ 1,151,807</u>	<u>\$ 2,022,250</u>
Total unrestricted cash and cash equivalents per Exhibit A			\$ 361,943
Total restricted cash and cash equivalents per Exhibit A			<u>508,500</u>
Total cash and cash equivalents			<u>\$ 870,443</u>

See accompanying independent auditor's report

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**COMPLIANCE SECTION**



**Accounting & Consulting Group, LLP**  
Certified Public Accountants

**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 accompanying financial statements of the business-type activities of the Eldorado Area Water and Sanitation District (District), as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents, and have issued our report thereon May 28, 2010. We have also audited the budgetary comparison for the year ended June 30, 2008, 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 and the total cost of land for capital assets. 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 opinion 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, and FS 2007-04.

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.



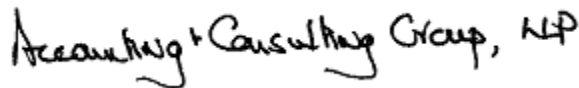
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose 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 item FS 2007-01.

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, audit committee, Board of Directors, others within the District, applicable federal and state grantors, 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  
May 28, 2010

**STATE OF NEW MEXICO**  
Eldorado Area Water and Sanitation District  
Schedule of Findings and Responses  
June 30, 2008

**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       |

**B. FINDINGS-FINANCIAL STATEMENT AUDIT**

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

***Condition:***

The District's audit report for the year ended June 30, 2008 was not submitted to the State Auditor by the required due date of December 1, 2008. The audit was submitted to the State Auditor on June 14, 2010.

***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, 2008 in a timely manner. Accounting & Consulting Group, LLP was not engaged to perform the audit until January 30, 2009

***Auditor's Recommendation:***

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

***Agency's Response:***

Details of the District's experience with the FY2007 audit are presented in the management response to FS 2007-01 in the FY2007 audit. The FY2007 audit was completed October 13, 2009. It was approved by the NM Office of the State Auditor on October 28. The District obtained NMOSA approval for the Accounting and Consulting Group to perform both the FY2007 and FY2008 audits in January 2009, and preliminary work on the FY2008 audit was started simultaneously with the FY2007 audit.

The District has finite resources for carrying out its financial management and reporting duties, including the conduction of the annual audit. The District made completion of the FY2008 audit the first priority of the District Financial Coordinator in February 2010 and work on the audit has continued steadily since then.

The District is aware of the financial and legal requirements for completing its audits in a timely manner. It is in the process of engaging an independent public accountant for FY2009 and subsequent years. The District plans to complete the FY2009 audit in September, 2010, and will make a concerted effort to complete the FY2010 and subsequent annual audits in a timely manner

**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.

***Agency's Response:***

The District Finance Committee is in the process of carrying out auditor's recommendations regarding training in two areas. The Financial Coordinator will receive National Association of State Boards of Accountancy (NASBA)-approved training in preparation and analysis of financial statements as outlined in Government Accounting Standards Bulletin (GASB)-34. The Finance Committee will begin reviewing the Committee of Sponsoring Organizations (COSO) "Internal Control Framework" and incorporate essential elements of the framework into District financial policy, either as clarification of existing policy or as new policy.

The District's official position in regard to customer Accounts Receivable for FY2008 is that all amounts are considered to be fully collectible and therefore the District has not estimated the amount that will be uncollectible. In September 2009 the District Board approved policy modifying this position, which will be reflected in FY2010 and subsequent audits.

In FY2008 the District collaborated with its Operations and Maintenance Contractor, OMI, to correct problems that existed in the reporting of aged accounts receivable. Reliable reports were produced for the fiscal year-end and have been produced on a monthly basis since then. In FY2009 the District will have two year's of data regarding the aging of accounts receivable and believes that this information will resolve the problem stated in the finding, that there is insufficient evidence supporting the allowance for doubtful accounts for accounts receivable.

**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
- 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 2008 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
- 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.

***Agency's Response:***

The District Finance Committee believes it is important to clarify the meaning of condition one cited above, "Lack of consistent application of significant accounting policies." This is not a statement regarding the overall condition of the District's financial and accounting policy. It is a technical reference to a number of issues, some of which are outside the District's control. These include detailed reporting of property taxes receivable. This data has not been made available by Santa Fe County. The findings refer also to the requirement, effective in FY2011, that the District capitalize and report on its intangible assets, i.e. water rights and easements. A third instance concerns the District's reporting of doubtful accounts, which is treated in FS2007-02. I

In regard to the remaining conditions cited above, the District Finance Committee has prepared a number of documents, which have subsequently been adopted by the District Board as policy, including an Organizational Chart, Code of Conduct, Whistleblower Process and Job Descriptions of Duties of Personnel. The District Finance Committee has been tasked by the District Board to continue to address the items remaining in the auditor's recommendation, and to prepare draft 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 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

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

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

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.

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

***Condition:***

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

- Disbursements:
  - Tests performed on two (2) disbursement for approximately \$20,219 out five (5) randomly selected disbursements totaling approximately \$23,294 revealed that the purchase order was issued after the invoice date

***Criteria:***

- 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.

***Effect:***

- 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.

***Cause:***

- Disbursements:
  - The District failed to process the purchase order prior to purchasing services

***Auditor's Recommendation:***

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

- 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

***Agency'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.

As anticipated in Management's response to the finding in FY2007, there is incremental improvement in the audit for Fiscal Year 2008, and it is anticipated that the same will be true for Fiscal Year 2009. As outlined previously, the findings in the Fiscal Year 2008 audit will be used 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.

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**STATE OF NEW MEXICO**  
Eldorado Area Water and Sanitation District  
Schedule of Findings and Responses  
June 30, 2008

**STATUS OF PRIOR YEAR FINDINGS**

	<u>Status of Prior Year Findings</u>
FS 2007-01 — Audit Report Submitted Late	Repeated
FS 2007-02 — Preparation of Financial Statements and Journal Entries	Repeated
FS 2007-03 — Deficiencies in Internal Control Structure Design, Operation, and Oversight	Repeated
FS 2007-04 — Internal Control Deviations	Repeated and Modified
FS 2007-05 — Overpayment of Mileage Reimbursement	Resolved
FS 2007-06 — Repair and Maintenance Cost	Resolved

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**STATE OF NEW MEXICO**  
Eldorado Area Water and Sanitation District  
Other Disclosures  
June 30, 2008

**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 May 28, 2010. 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  
Dave Denig-Chakroff, General Manager

Accounting & Consulting Group, LLP  
Jeff McWhorter, CPA, Audit Director  
Lorie Montano, Senior Accountant