

Accounting & Consulting Group, LLP

Certified Public Accountants

STATE OF NEW MEXICO
ELDORADO AREA WATER AND SANITATION DISTRICT

FINANCIAL STATEMENTS AND REQUIRED
SUPPLEMENTARY INFORMATION
WITH ACCOMPANYING AUDITORS' REPORTS

YEAR ENDED JUNE 30, 2009



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

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

YEAR ENDED JUNE 30, 2009

STATE OF NEW MEXICO
 Eldorado Area Water and Sanitation District
 Table of Contents
 June 30, 2009

	Exhibit / Schedule	Page
INTRODUCTORY SECTION:		
Table of Contents		5
Directory of Officials		6
FINANCIAL SECTION:		
Independent Auditors' Report		8-9
Management's Discussion and Analysis		10-15
BASIC FINANCIAL STATEMENTS:		
Statement of Net Assets	A	18
Statement of Revenues, Expenses and Changes in Net Assets	B	19
Statement of Cash Flows	C	20-21
Notes to the Financial Statements		22-34
SUPPLEMENTARY INFORMATION:		
Schedule of Revenues, Expenses and Changes in Net Assets Budget (Non GAAP Basis) and Actual	I	36
SUPPORTING SCHEDULES:		
Schedule of Collateral Pledged by Depository for Public Funds	II	38
Schedule of Deposit and Investment Accounts	III	39
COMPLIANCE SECTION:		
Report on Internal Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		42-43
Schedule of Findings and Responses	IV	44-49
OTHER DISCLOSURES		50

STATE OF NEW MEXICO
Eldorado Area Water and Sanitation District
Directory of Officials
June 30, 2009

<u>Name</u>	<u>Board</u>	<u>Title</u>
James Jenkins		President
Jerry Cooper		Vice President
Gene Schofield		Treasurer
Roberta Armstrong		Secretary
Jerry Bradley		Director
Stephen Wust		Director
	<u>Administrative Officials</u>	
Paul Butt		Financial Coordinator



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, 2009, 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, 2009, 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.

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 on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of June 30, 2009, 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 financial statements referred to above present fairly, in all material respects, the budgetary comparison 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 February 21, 2011 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 10 through 15 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 an opinion 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 II through III 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
February 21, 2011

STATE OF NEW MEXICO
Eldorado Area Water and Sanitation District
Management's Discussion and Analysis
June 30, 2009

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, 2009.

Financial Highlights

Key events for the Fiscal Year 2009 are:

- The assets of the District exceeded liabilities at the close of the most recent Fiscal Year by \$1,705,315 (*total net assets*). The components of net assets include restricted net assets of \$1,339,623 and unrestricted net assets, \$365,692.
- The District's total net assets increased by \$577,297 compared to the prior year originally reported net assets. This increase results from restating beginning net assets in the amount of \$385,030 and an increase for the current year's activity of \$192,267. The increase in current year operations is due to increased revenues and ongoing cost control efforts.
- As of June 30, 2009, the District had current and noncurrent assets totaling \$1,034,760 and \$13,152,992, respectively. Capital assets, net of accumulated depreciation totaled \$11,057,253. Current liabilities includes, \$26,200 in customer deposits, \$74,237 in accounts payable, \$302,000 in interest payable and \$515,000 in bonds payable. Noncurrent liabilities (G.O. and revenue bonds) totaled \$11,565,000.
- Well 17 was commissioned June 6, 2008, the date an emergency operating permit was granted by NM OSE. A pre-condition for issuance of the emergency permit was that the District imposes 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 (the emergency permit expired October 1, 2008 and Well 17 was not used to produce water for sale for the remainder of FY2009).
- In response to a number of problems with the utility system, notably a series of failures in air-relief valves in the District's primary distribution line, an Emergency Action plan was developed and approved by the Board in June 2008. Part of the plan included use of up to \$150,000 from property tax receipts for utility repairs in FY2009.
- 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 the NMPRC. 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 NMPRC remanded the case to the hearing officer for "the limited purpose of developing the record in [the] case." Post-remand hearings were held in December 2008, February 2009 and May 2009.

Preparation and testimony required for the PRC-ordered proceedings continued to be a significant source of expense to the District in FY2008 and in FY2009 as well. The impact of un-realized revenue from the rate increases ultimately approved by the PRC in August 2009 is also significant.

The District petitioned the PRC for interim relief in February 2009, which was granted in March 2009. The interim rates were adopted as advice notice 5 and implemented in May 2009. This had the effect of increasing revenue from the customer base fee ("monthly system charge") and water sales during the last month of FY2009 and into FY2010.

The PRC issued a final order in PRC case 07-00169-UT on August 4, 2009. The final order mandated commodity rates essentially equivalent to those requested by the District over two years earlier. The final order also mandated a two-phase implementation of the new rates. Phase I rates, which did not include a recovery component for capital expenditures, were approved by the District Board on August 20 and made effective October 1, 2009.

Additional information regarding the District's rate case is available on the District website <http://eldoradowaterdistrict.com/financial/rate.php>.

STATE OF NEW MEXICO
Eldorado Area Water and Sanitation District
Management's Discussion and Analysis
June 30, 2009

Financial Highlights (continued)

- In January 2009 the District held its regularly scheduled biennial election. In addition to the ballot for Board members, an item was placed on the ballot requesting authorization by the District's ratepayer and taxpayer-electors for the Board to refinance the series 2004 GO bond (with no increase in annual debt service payments) and to incur additional debt by obtaining loans for up to \$3.3 million dollars for capital improvements to the District's utility. The loan authorization was approved in the January 13 election.
- The District was awarded a \$75,000 grant from the NM Water Trust Board in April 2009. The grant was expended in FY2010.
- During FY 2009, in preparation for making legislative grant requests, the District updated its Infrastructure Capital Improvement plan. Major updates included requests for funding of a new well (well 18) plus transmission lines, for performing a major upgrade of the system's automated reporting and control (SCADA) system and for replacing a significant number of the District's customer meters at or beyond the end of their useful life. 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.

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.

STATE OF NEW MEXICO
 Eldorado Area Water and Sanitation District
 Management's Discussion and Analysis
 June 30, 2009

Overview of the Financial Statements (continued)

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 22-34 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 with the exception of depreciation, amortized bond issuance costs and principal payment on debt and, accordingly, amounts presented in the budgetary comparison statement are on the non 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 \$1,705,315 is reported at the close of the most recent Fiscal Year.

Included in assets is cash remaining from the sale of revenue bonds that is 1) restricted for debt service and 2) restricted for acquisition of, and improvements to, the water system serving the Eldorado area. The District reports \$365,692 of net assets as unrestricted.

Overview of the Statement of Net Assets

	2009	2008 (Restated)
<i>Assets:</i>		
Current assets	\$ 1,034,760	\$ 1,139,550
Capital assets, net	11,057,253	11,345,126
Other assets	2,095,739	1,971,624
Total Assets	\$ 14,187,752	\$ 14,456,300
<i>Liabilities:</i>		
Current liabilities	\$ 917,437	\$ 863,252
Noncurrent liabilities	11,565,000	12,080,000
Total Liabilities	12,482,437	12,943,252
<i>Net Assets:</i>		
Invested in capital assets, net of related debt	-	407,479
Restricted	1,339,623	1,222,133
Unrestricted	365,692	(116,564)
Total Net Assets	1,705,315	1,513,048
Total Liabilities and Net Assets	\$ 14,187,752	\$ 14,456,300

STATE OF NEW MEXICO
Eldorado Area Water and Sanitation District
Management's Discussion and Analysis
June 30, 2009

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

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

	<u>2009</u>	<u>2008 Restated</u>
<i>Revenues:</i>		
Water sales (net of uncollectible amounts)	\$ 1,847,139	\$ 1,645,713
Ad valorem tax	984,778	949,709
Intergovernmental grants	-	66,484
Interest income	20,485	76,211
Miscellaneous income	3,060	-
	<u>2,855,462</u>	<u>2,738,117</u>
<i>Expenses:</i>		
Water and sanitation	1,858,898	1,935,940
Bond interest expense	753,600	757,350
Amortization of bond issue costs	50,697	51,668
	<u>2,663,195</u>	<u>2,744,958</u>
<i>Increase (Decrease) in Net Assets</i>	<i>192,267</i>	<i>(6,841)</i>
<i>Total net assets, beginning of year</i>	<i>1,128,018</i>	<i>1,491,948</i>
<i>Net Assets, restatement (note 16)</i>	<i>385,030</i>	<i>27,941</i>
<i>Total net assets - end of year</i>	<i>\$ 1,705,315</i>	<i>\$ 1,513,048</i>

STATE OF NEW MEXICO
Eldorado Area Water and Sanitation District
Management's Discussion and Analysis
June 30, 2009

Financial Analysis of the District's Funds and Fiscal Year 2009 Budgetary Highlights

As noted above, net assets increased by \$577,297 from Fiscal Year 2008 to Fiscal Year 2009. Total revenues increased by \$117,345, due to an increase in water sales revenue for the year. It should be noted that in the financial statements, water sales have been presented net of gross receipt taxes. In Fiscal Year 2009 water sales net of gross receipts was 1,847,139 (gross receipts taxes were \$84,509). Total expenses also decreased in Fiscal Year 2009 to \$2,663,195, a decrease of \$81,763 from the Fiscal Year 2008 expenses of \$2,744,958. Major factors for this decrease in spending were completion of Well 17, as well as a reduction in utility expense and in the expense for O&M contractual services.

Other Highlights of FY 2009 financial activities include:

- Approximately \$155,000 was spent on capital projects during the fiscal year.
- The District continued to develop its case 07-00169 UT before the NM Public Regulation Commission. The case was not finally resolved until December 2010 and constituted a significant expense to the District during fiscal years 2008 through 2011.
- The District continued the process of obtaining an operating permit for Well 17. This process was not concluded until the permit was obtained from the NM Office of the State Engineer on April 27, 2010. This case also constituted a significant expense to the District during fiscal years 2008 through 2010.
- During FY2009, these two cases consumed a great deal of the District's financial, management and oversight resources that could otherwise have been spent on maintaining and improving the utility.

A review of budget vs. actual performance shows that the District did not exceed budgeted expenses (\$2,646,755 spent on a non GAAP basis of accounting vs. \$2,780,731 budgeted). On the revenue side, ad valorem tax revenue was more than budgeted by \$173,728 and water sales was less than budgeted by \$131,928. A detailed breakout of budget vs. actual revenue and expenses can be found on page 36 of this report.

The board believes that the District is in good financial shape at the close of the Fiscal Year 2009. From July 01, 2008 through June 30, 2009, District deposits from water sales averaged \$137,142 per month. The monthly average is expected to increase by approximately 10% as consequence of the implementation of phase I rates beginning in October and reflected starting with the November 2009 receipts.

Capital Asset Administration

The District's investment in capital assets for business-type activities as of June 30, 2009 totals \$11,057,253 (net of accumulated depreciation). Major capital events during the Fiscal Year included the following:

- Approximately \$155,000 in capital assets was added to the water utility system in FY 2009. Chief among these were location, mapping and replacement of the Air Relief Valves in the District's principal transmission line (approximately \$32,000) and installation of replacement meters and service line extensions (approximately \$46,000).

Additional information on the District's capital assets can be found on page 29 of this report.

Long-Term Debt Administration

During Fiscal Year 2005, the District sold \$5,800,000 in water utility revenue bonds, \$175,000 of which is due in Fiscal Year 2009. During FY 2004, the District sold \$7,895,000 in general obligation bonds, of which \$305,000 is due during FY 2009. More information about the District's debt is presented in note 10, pages 29-32 of this report.

STATE OF NEW MEXICO
Eldorado Area Water and Sanitation District
Management's Discussion and Analysis
June 30, 2009

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 May 2009 and included on June 2009 water bills. These interim rates were in effect through September 2009 (reflected in the October bills).

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 first phase of the new rates was applied to the District's water sales in October 2009 (reflected in the ratepayer's bills beginning November 2009). Implementation of the second phase of the approved rate increase was contingent upon the District's obtaining loans for bond refinancing or capital improvements. An application to the NM Finance Authority for a \$1.44M capital projects loan was made in the spring of 2010. The Capital projects loan was approved in April 2010 and closed on July 16, 2010. On December 16, 2010, the Board approved a resolution to implement phase II rates that are projected to increase base fee revenue by \$21,000 and commodity sales revenue by approximately \$70,000, based on estimated annual sales of 145 million gallons. The phase II rates were filed with the NM PRC on December 29, 2010. They are scheduled to go into effect in February 2011, and will be reflected in the monthly bills to customers beginning March 2011.

The District's approved budget for Fiscal Year 2010 includes revenues of \$2,371,020 (operating) plus \$887,474 (property tax revenue) and cash balances of \$1,950,108. Proposed expenses total \$2,523,294 (operating and capital) plus \$731,800 (GO bond debt service) and \$508,000 (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, 1 Caliente Road Suite F Santa Fe, NM 87508.

STATE OF NEW MEXICO
Eldorado Area Water and Sanitation District
Statement of Net Assets
June 30, 2009

Exhibit A

	Business Type Activities
<i>Assets</i>	
<i>Current assets</i>	
Cash and cash equivalents (Note 4)	\$ 376,659
Investments (Note 4)	251,971
Ad valorem taxes receivable (Note 5)	50,412
Accounts receivable, net of allowance for doubtful accounts (Note 6)	339,629
Prepaid expenses (Note 7)	16,089
<i>Total current assets</i>	1,034,760
<i>Noncurrent assets</i>	
Restricted assets:	
Cash and cash equivalents (Note 4)	508,468
Investments (Note 4)	856,478
Capital assets, net of accumulated depreciation (Note 8)	11,057,253
Other assets:	
Deferred bond issue costs, net	730,793
<i>Total noncurrent assets</i>	13,152,992
<i>Total assets</i>	\$ 14,187,752
<i>Liabilities and net assets</i>	
<i>Current liabilities</i>	
Accounts payable (Note 9)	\$ 74,237
Interest payable	302,000
Customer deposits	26,200
General obligation bonds payable - current (Note 10)	325,000
Revenue bonds payable - current (Note 10)	190,000
<i>Total current liabilities</i>	917,437
<i>Noncurrent liabilities</i>	
General obligation bonds payable (Note 10)	6,455,000
Revenue bonds payable (Note 10)	5,110,000
<i>Total noncurrent liabilities</i>	11,565,000
<i>Total liabilities</i>	12,482,437
<i>Net assets</i>	
Restricted for:	
Cost of utility acquisition and improvements (Note 12)	133,240
Water rights acquisition (Note 12)	72,375
Debt service-revenue bonds (Note 12)	508,455
Debt service- G.O. bonds (Note 12)	625,553
Unrestricted	365,692
<i>Total net assets</i>	1,705,315
<i>Total liabilities and net assets</i>	\$ 14,187,752

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, 2009

Exhibit B

	Business Type Activities
<i>Operating revenues</i>	
Charges for sales and services:	
Water sales	\$ 1,847,139
<i>Total operating revenues</i>	1,847,139
<i>Operating expenses</i>	
Contractual services	1,155,192
Depreciation	445,743
Other operating costs	249,612
Supplies	1,903
Water conservation fee	5,256
Travel	1,192
<i>Total operating expenses</i>	1,858,898
<i>Operating (loss)</i>	(11,759)
<i>Non-operating revenues (expenses)</i>	
Ad valorem tax	984,778
Interest income	20,485
Miscellaneous income	3,060
Bond interest expense	(753,600)
Amortization of bond issue costs	(50,697)
<i>Total non-operating revenues (expenses)</i>	204,026
<i>Change in net assets</i>	192,267
<i>Total net assets, beginning of year, as originally reported</i>	1,128,018
<i>Net assets, restatement (note 15)</i>	385,030
<i>Total net assets, beginning of year, as restated</i>	1,513,048
<i>Total net assets, end of year</i>	\$ 1,705,315

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 Ended June 30, 2009

	Business Type Activities
<i>Cash flows from operating activities:</i>	
Cash received from customers	\$ 1,778,683
Cash paid to suppliers and contractors	(1,414,253)
<i>Net cash provided by operating activities</i>	364,430
<i>Cash flows from noncapital financing activities</i>	
Ad valorem taxes received	972,694
Miscellaneous revenue	3,060
<i>Net cash provided by noncapital financing activities</i>	975,754
<i>Cash flows from capital and financing activities</i>	
Purchase of capital assets	(157,869)
Bond principal payments	(480,000)
Bond interest payments	(753,600)
<i>Net cash (used) by capital and financing activities</i>	(1,391,469)
<i>Cash flows from investing activities</i>	
Proceeds from sale of investments	43,358
Interest income	22,611
<i>Net cash provided by investing activities</i>	65,969
<i>Net increase in cash and cash equivalents</i>	14,684
<i>Cash and cash equivalents - beginning of year</i>	870,443
<i>Cash and cash equivalents - end of year</i>	\$ 885,127

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 (loss)	\$ (11,759)
<i>Adjustments to reconcile operating (loss) to net cash (used) by operating activities:</i>	
Depreciation expense	445,743
<i>Changes in assets and liabilities:</i>	
(Increase) decrease in accounts receivable	(89,656)
(Increase) decrease in prepaid expenses	917
Increase (decrease) in accounts payable	(2,015)
Increase (decrease) in customer deposits	<u>21,200</u>
Net cash provided by operating activities	<u>\$ 364,430</u>
<i>Non-cash investing, capital and financing activities:</i>	
Amortization of bond issue costs	<u>\$ 50,697</u>
<i>Reconciliation of total cash and cash equivalents:</i>	
Current assets - cash and cash equivalents	\$ 376,659
Restricted assets - cash and cash equivalents	<u>508,468</u>
Total cash and cash equivalents	<u>\$ 885,127</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
Eldorado Area Water and Sanitation District
Notes to the Financial Statements
June 30, 2009

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.

STATE OF NEW MEXICO
Eldorado Area Water and Sanitation District
Notes to the Financial Statements
June 30, 2009

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.

STATE OF NEW MEXICO
Eldorado Area Water and Sanitation District
Notes to the Financial Statements
June 30, 2009

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 and 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, obligations of the U.S. Government, and the State Treasurer's Investment Pool.

Investments for the District 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
 Eldorado Area Water and Sanitation District
 Notes to the Financial Statements
 June 30, 2009

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.

STATE OF NEW MEXICO
 Eldorado Area Water and Sanitation District
 Notes to the Financial Statements
 June 30, 2009

NOTE 3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

Budgets for revenues and most expenses are adopted on a basis consistent with accounting principles generally accepted in the United States of America. The budgets are adopted on a Non-GAAP basis of cash receipts and disbursements due to the District not budgeting for depreciation expense or amortized issuance costs related to its outstanding debt and budgeting principal payments on its outstanding bonds; 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 the Non 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:

Budgeted Funds:	Excess (deficiency) of revenues over expenditures	
	Original Budget	Final Budget
	Water utility	\$ 152,663

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, 2009.

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 (FDIC), 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 \$250,000 in aggregate and separate from the \$250,000 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 District'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 District for at least one half of the amount on deposit with the institution.

STATE OF NEW MEXICO
 Eldorado Area Water and Sanitation District
 Notes to the Financial Statements
 June 30, 2009

NOTE 4. DEPOSITS AND INVESTMENTS (continued)

At June 30, 2009, bank accounts were collateralized as follows:

	First National Bank of Santa Fe
Amount of deposits	\$ 504,347
FDIC Coverage	(355,239)
Total uninsured public funds	149,108
Collateralized by securities held by pledging institutions or by its trust department or agent in other than the District's name	
	149,108
Uninsured and uncollateralized	\$ -
Collateral requirement (50% of uninsured funds)	
	\$ 74,554
Pledged Collateral	270,000
Over (Under) collateralized	\$ 195,446

Investments

Credit Risk

As of June 30, 2009, the District's investment in the State Treasurer Local Government Investment Pool was rated as AAAM by Standard & Poor's.

The Pool's investments are valued at fair value based on quoted market prices as of the valuation date. The New Mexico State Treasurer Investment Pool is not SEC registered. Section 6-10-10 I, NMSA 1978, empowers the State Treasurer, with the advice and consent of the State Board of Finance, to invest money held in the short-term investment fund in securities that are issued or backed by the United States Government or by its departments or agencies and are either direct obligations of the United States Government or agencies sponsored by the United States Governments. The Local Government Investment Pool's investments are monitored by the same policies and procedures that apply to all other state investments. The pool does not have unit shares. Per 6-10-10.I F, NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contribution entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the amounts were invested. Participation in the fund is voluntary. See Note 16 for additional information regarding the District's investment in the Local Government Investment Pool. The investment in the mutual funds were backed by the full faith and credit of the United States Government.

As of June 30, 2009, the District had the following investments and maturities:

Investment Type	Rating	Fair Value	Weighted Average Maturity
State Treasurer:			
Local Government Investment Pool			
Property Tax Revenue - G.O. Bonds	AAAm	\$ 639,318	43 Days
Utility Acquisition and Improvement	AAAm	136,096	43 Days
Operating Reserve	AAAm	333,035	43 Days
U.S. Treasury MM Mutual Fund	AAA	509,935	< 90 Days
Total investments		\$ 1,618,384	

STATE OF NEW MEXICO
 Eldorado Area Water and Sanitation District
 Notes to the Financial Statements
 June 30, 2009

NOTE 4. DEPOSITS AND INVESTMENTS (continued)

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.

Reconciliation to the Statement of Net Assets

Cash and cash equivalents - Exhibit A	\$ 885,127
Investments - Exhibit A	<u>1,108,449</u>
 Total cash, cash equivalents and investments	 1,993,576
 Add: outstanding checks	 129,155
Less: investments in NM State Treasurer's LGIP	(1,108,449)
Less: investments in U.S. Treasury MM Mutual Fund	<u>(509,935)</u>
 Bank Balance of Deposits	 <u><u>\$ 504,347</u></u>

NOTE 5. 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	<u><u>\$ 50,412</u></u>
-----------------------------	-------------------------

NOTE 6. ACCOUNTS RECEIVABLE

Accounts receivable is water utility revenue billed and unbilled but uncollected. The District has estimated that \$45,000 of the current account receivable balance will be uncollectible. Accounts receivable and the allowance for doubtful accounts are as follows:

Accounts receivable	\$ 384,629
Less: Allowance for doubtful accounts	<u>(45,000)</u>
 Net accounts receivable	 <u><u>\$ 339,629</u></u>

NOTE 7. PREPAID EXPENSES

The District prepaid directors' and officers' liability insurance and property insurance totaling \$12,998. The District has also prepaid rent in the amount of \$3,091.

STATE OF NEW MEXICO
Eldorado Area Water and Sanitation District
Notes to the Financial Statements
June 30, 2009

NOTE 8. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	Balance June 30, 2008	Restatement/ Reclassification	Additions	Deletions	Balance June 30, 2009
Capital Assets Not Depreciated:					
Land	\$ -	\$ 463,000	\$ -	\$ -	\$ 463,000
Capital Assets Depreciated:					
Water utility - original	11,216,996	(463,000)	-	-	10,753,996
Water utility - improvements	340,944	-	134,760	-	475,704
Water utility- Well 17	852,580	-	2,569	-	855,149
Vehicles	96,896	-	-	-	96,896
Furniture and fixtures	16,436	-	-	-	16,436
Office equipment	31,651	-	20,541	-	52,192
Total Capital Assets	12,555,503	-	157,870	-	12,713,373
Accumulated Depreciation:					
Water utility - original	1,157,553	(47,780)	358,467	-	1,468,240
Water utility - improvements	47,980	-	35,302	-	83,282
Water utility- Well 17	4,268	-	28,463	-	32,731
Vehicles	44,417	-	19,379	-	63,796
Furniture and fixtures	1,378	-	1,096	-	2,474
Office equipment	2,561	-	3,036	-	5,597
Total Accumulated Depreciation	1,258,157	(47,780)	445,743	-	1,656,120
Total Capital Assets, net	\$ 11,297,346	\$ 47,780	\$ (287,873)	\$ -	\$ 11,057,253

Depreciation expense for the year totaled \$445,743. G.O. and Revenue Bonds were sold to finance the acquisition of the water utility in fiscal year 2005. See Note 15 for disclosure of reclassification and restatement of beginning net assets.

NOTE 9. ACCOUNTS PAYABLE

Accounts payable consists of \$74,237 due for contractual services, various operating costs and gross receipts tax on water sales.

NOTE 10. LONG-TERM DEBT

During the year ended June 30, 2009, 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
Business-type activities					
Bonds:					
General obligation bond- Series 2004	\$ 7,085,000	\$ -	\$ 305,000	\$ 6,780,000	\$ 325,000
Water Utility System Revenue Bond- Series 2005	5,475,000	-	175,000	5,300,000	190,000
Total	\$ 12,560,000	\$ -	\$ 480,000	\$ 12,080,000	\$ 515,000

STATE OF NEW MEXICO
 Eldorado Area Water and Sanitation District
 Notes to the Financial Statements
 June 30, 2009

NOTE 10. 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 Board of Directors of the District, by resolution 05-05-16 adopted on May 23, 2005, amended and restated the resolution of March 28, 2003 (03-01-03). The 2005 resolution amended the optional redemption provisions relating to the Series 2004 bonds and provided for issuance of a replacement bond reflecting this and other technical amendments (corrections to statement of final maturity date, statement of maximum allowable imposition of ad valorem property taxes by the District, statement that the District would impose additional taxes if necessary to ensure timely payment of the Series 2004 bond debt service).

The replacement bond significantly extended the pre-payment penalty period. The initial bond allowed optional redemption at 102% premium beginning 2/1/2008, declining to 101% beginning 2/1/2009 and at 100% beginning 2/1/2010 and thereafter. The replacement bond optional redemptions are stated below.

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, 2013 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 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, 2009, including interest payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2010	\$ 325,000	\$ 406,800	\$ 731,800
2011	340,000	387,300	727,300
2012	360,000	366,900	726,900
2013	385,000	345,300	730,300
2014	405,000	322,200	727,200
2015-2019	2,435,000	1,214,400	3,649,400
2020-2023	2,530,000	390.600	2,920,600
	\$ 6,780,000	\$ 3,433,500	\$ 10,213,500

STATE OF NEW MEXICO
 Eldorado Area Water and Sanitation District
 Notes to the Financial Statements
 June 30, 2009

NOTE 10. 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, 2009, including interest payments are as follows:

Fiscal Year Ending June 30.	Principal	Interest	Total
2010	\$ 190,000	\$ 318,000	\$ 508,000
2011	200,000	306,600	506,600
2012	210,000	294,600	504,600
2013	225,000	282,000	507,000
2014	235,000	268,500	503,500
2015-2019	1,420,000	1,112,100	2,532,100
2020-2024	1,885,000	632,100	2,517,100
2025	935,000	56,100	991,100
	<u>\$ 5,300,000</u>	<u>\$ 3,270,000</u>	<u>\$ 8,570,000</u>

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.

STATE OF NEW MEXICO
Eldorado Area Water and Sanitation District
Notes to the Financial Statements
June 30, 2009

NOTE 10. 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 11. LEASES

The District leases administrative office space for \$250 per month. Effective July 1, 2008, a new twelve (12) month lease was signed through June 30, 2009. In March 2009, ECIA informed the District that it would not renew the current lease and a search was begun to locate new office space. A six-month extension of the FY2009 lease was granted in August 2009 and the District vacated the ECIA property in mid-December 2009. 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 \$2,368.29 per month through April 30, 2009 but increased to \$2,407.07 effective May 1, 2009. Either party may cancel the lease at any time upon ninety (90) days written notice to the other party.

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 owner of the property refused to renew the lease, but granted a month-to-month extension of the lease at \$1,000 per month. The property was vacated at the end of March 2010.

Since all leases have an early termination clause, there are no future minimum lease payments. Rent expense for the year ended June 30, 2009 was \$41,439.

NOTE 12. NET ASSETS

At June 30, 2009, net assets totaling \$133,240 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.

Net assets of \$508,455 are restricted while the 2005 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 \$625,553 are restricted for general obligation bond debt service. Also, net assets of \$72,375 are restricted for water rights acquisition. The remaining net assets of \$365,692 are unrestricted at June 30, 2009.

NOTE 13. 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, and directors' and officers' liability. The premiums paid on the policies during the year were \$30,782.

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, 2009

NOTE 14. 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 was 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 paid 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 contract was renewed on July 1, 2008 for fiscal year 2009. The original base fee for fiscal year 2009 was \$820,000, but was adjusted through the budget process to \$766,966. The aggregate commitment under this agreement for fiscal year 2009 was \$772,109, which was adjusted through the budget process to \$784,264.

NOTE 15. NET ASSETS RESTATEMENT

In the prior year the entire amount of accrued interest expense was overstated by \$337,250, due to an error in the calculation. In addition, the allocation attributable to land has been reclassified to reflect the portion allocable to the original acquisition price of the utility system in the amount \$463,000. Net assets have been restated in the amount of \$47,780 to correct the depreciation attributable to land in the prior years. The total adjustment to beginning net assets reflected in the financial statements is \$385,030.

NOTE 16. SUBSEQUENT EVENTS

We have evaluated all events subsequent to the balance sheet date of June 30, 2009 through the date of issuance of these financial statements, February 4, 2011, 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 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.

An application to the NM Finance Authority for a \$1.44M capital projects loan was made in the spring of 2010. The Capital projects loan was approved in April 2010 and closed on July 16, 2010.

On December 16, 2010, the Board approved a resolution to implement phase II rates, which are projected to increase base fee revenue by \$21,000 and commodity sales revenue by approximately \$70,000, based on estimated annual sales of 145 million gallons. The phase II rates were filed with the NM PRC on December 29, 2010. They are scheduled to go into effect in March 2011, and will be reflected in the monthly bills to customers beginning April 2011.

STATE OF NEW MEXICO
Eldorado Area Water and Sanitation District
Notes to the Financial Statements
June 30, 2009

NOTE 16. SUBSEQUENT EVENTS (continued)

LGIP Investment in the Reserve Primary Fund

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

On May 5, 2009, the U.S. Securities and Exchange Commission ("SEC") filed a civil lawsuit in federal court against the operators of the Reserve Primary Fund, alleging fraud; seeking the pro rata distribution of the remaining 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 17. SUBSEQUENT PRONOUNCEMENTS

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 District is analyzing the effect that this standard will have on the financial statements, and currently believes it will have a 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 District is analyzing the effect that this standard will have on the financial statements.

STATE OF NEW MEXICO
 Eldorado Area Water and Sanitation District
 Schedule of Revenues, Expenses and Changes in Net Assets
 Budget (Non GAAP Basis) and Actual
 For the Year Ended June 30, 2009

Schedule I

	Budgeted Amounts		Non GAAP Basis	Variances Favorable (Unfavorable)
	Original	Final	Actual	Final to Actual
<i>Revenues and sources:</i>				
Water sales	\$ 2,055,373	\$ 1,979,067	\$ 1,847,139	\$ (131,928)
Ad valorem taxes	843,550	811,050	984,778	173,728
Intergovernmental grant	-	370,000	-	(370,000)
Interest income	46,600	58,800	20,485	(38,315)
<i>Total revenues and sources</i>	<u>2,945,523</u>	<u>3,218,917</u>	<u>\$ 2,855,462</u>	<u>\$ (363,455)</u>
<i>Expenses and uses:</i>				
Contractual services	1,179,115	1,190,999	1,155,192	35,807
Other operating costs	231,145	207,133	249,612	(42,479)
Personnel services	137,566	137,565	-	137,565
Supplies	4,151	4,151	1,903	2,248
Water conservation fee	6,079	6,079	5,256	823
Travel	1,204	1,204	1,192	12
Debt service				
Principal	480,000	480,000	480,000	-
Interest	753,600	753,600	753,600	-
<i>Total expenses and uses</i>	<u>2,792,860</u>	<u>2,780,731</u>	<u>2,646,755</u>	<u>133,976</u>
<i>Excess (deficiency) of revenues and sources over expenses and uses</i>	<u>\$ 152,663</u>	<u>\$ 438,186</u>	208,707	<u>\$ (229,479)</u>
Depreciation			(445,743)	
Principal payments on bonds			480,000	
Amortized issuance costs			<u>(50,697)</u>	
<i>Change in net assets, Exhibit B</i>			192,267	
<i>Net assets - beginning of year, as originally reported</i>			1,128,060	
<i>Net assets - restatement</i>			<u>384,988</u>	
<i>Net assets - beginning of year, as restated</i>			1,513,048	
<i>Net assets - end of year</i>			<u>\$ 1,705,315</u>	

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
 Eldorado Area Water and Sanitation District
 Schedule of Collateral Pledged by Depository For Public Funds
 June 30, 2009

<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>
First National Bank of Santa Fe	Santa Fe NM Community College District	8/1/2011	801901GW3	\$ 270,000	Fifth Third Bank of Cincinnati

* 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, 2009

Account Name/Type	Deposits		Investments		Totals
	First National Bank of Santa Fe	U.S. Treasury MM Mutual Fund	NewMexigrow LGIP	NewMexigrow LGIP	
Deposits:					
First National Bank of Santa Fe					
Demand	\$ 399,108	\$ -	\$ -	\$ -	\$ 399,108
Savings	105,239	-	-	-	105,239
Investments:					
Revenue Bond Trust Department	-	509,922	-	-	509,922
G.O. Bond Trust Department	-	13	-	-	13
LGIP	-	-	639,318	-	639,318
LGIP	-	-	136,096	-	136,096
LGIP	-	-	333,035	-	333,035
Total deposits and investments	504,347	509,935	1,108,449	-	2,122,731
Reconciling items	(129,155)	-	-	-	(129,155)
Reconciled balance	\$ 375,192	\$ 509,935	\$ 1,108,449	\$ -	\$ 1,993,576
Total unrestricted cash and cash equivalents per Exhibit A					\$ 376,659
Total unrestricted investments per Exhibit A					251,971
Total restricted cash and cash equivalents per Exhibit A					508,468
Total restricted investments per Exhibit A					856,478
Total cash and cash equivalents					\$ 1,993,576

See accompanying independent auditor's report



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, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents, and have issued our report thereon February 21, 2011. We have also audited the budgetary comparison for the year ended June 30, 2009, presented as supplementary information. 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 as items FS 2007-01, FS 2007-02 and FS 2007-03.

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 2007-01, FS 2007-02 and FS 2007-03 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is 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, 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

Accounting & Consulting Group, LLP
Albuquerque, NM
February 21, 2011

STATE OF NEW MEXICO
Eldorado Area Water and Sanitation District
Schedule of Findings and Responses
June 30, 2009

A. SUMMARY OF AUDIT RESULTS

Financial Statements:

1. Type of auditors' report issued	Unqualified
2. Internal control over financial reporting:	
a. Material weakness identified?	Yes
b. Significant deficiencies identified not considered to be material weaknesses?	No
c. Noncompliance material to the financial statements noted?	Yes

B. FINDINGS-FINANCIAL STATEMENT AUDIT

FS 2007-01 — Audit Report Submitted Late (repeated)

Condition: The District's audit report for the year ended June 30, 2009 was not submitted to the State Auditor by the required due date of December 1, 2009. The audit was submitted to the State Auditor on February 18, 2011.

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, 2009 in a timely manner. Accounting & Consulting Group, LLP was not engaged to perform the audit until August 2010.

Auditor's Recommendation: We recommend that the District become current with their audits and submit their fiscal year 2011 audit by the December 1, 2011 deadline.

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.

Details of the District's experience with the FY2008 audit are presented in the management response to FS 2007-01 in the FY2008 audit. The FY2008 audit was completed May 28, 2010. It was approved by the NM Office of the State Auditor on June 30, 2010.

The District obtained NMOSA approval for the Accounting and Consulting Group to perform the FY2009 audits on July 28, 2010, and work on the FY2009 audit was started at that time.

The District has finite resources for carrying out its financial reporting duties, including the conduction of the annual audit.

The District is aware of the financial and legal requirements for completing its audits in a timely manner. It has engaged the independent public accounting firm Accounting & Consulting Group for the FY2010 audit. The District plans to complete the FY2010 audit no later than June 30, 2011, and will make a concerted effort to complete the FY2011 and subsequent annual audits in a timely manner.

B. FINDINGS-FINANCIAL STATEMENT AUDIT (continued)

FS 2007-02 — Preparation of Financial Statements and Journal Entries (repeated)

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, accounts payable, capital assets and long term debt.

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 appropriate training in preparation and analysis of financial statements as outlined in Government Accounting Standards Bulletin (GASB)-34. The Finance Committee has begun reviewing the Committee of Sponsoring Organizations (COSO) "Internal Control Framework" and plans to 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 FY2009 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 the fall of 2010 the District collaborated with its Operations and Maintenance Contractor, OMI, to replace the existing billing software system with a more capable system from Harris Software. One of the benefits of the new software is greatly improved reporting capabilities, specifically in regard to aged accounts receivable. Additional and more detailed receivables 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 (repeated)

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 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 segregation of duties, particularly with respect to financial reporting, transaction processing, and information technology
- Lack of formal monitoring activities by the governing board

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 2009 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 Policies 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
- Code of conduct for employees and management
- Whistleblower process that meets regulatory compliance requirements and promotes internal control and allows for anonymity
- Segregation of duties, particularly with respect to financial reporting, transaction processing, and information technology
- Monitoring activities by the governing board

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.

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 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.

STATE OF NEW MEXICO
Eldorado Area Water and Sanitation District
Schedule of Findings and Responses
June 30, 2009

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	Resolved

STATE OF NEW MEXICO
Eldorado Area Water and Sanitation District
Other Disclosures
June 30, 2009

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 February 17, 2011. The following individuals were in attendance.

Eldorado Area Water and Sanitation District
Roberta Armstrong, Secretary of Board of Directors
Gene Schofield, Treasurer (Non-Director)
Paul Butt, Financial Coordinator
Elizabeth Roghair, Finance Committee Member (Non-Director)

Accounting & Consulting Group, LLP
Ray Roberts, CPA
Bobby Cordova, CPA