

Accounting & Consulting Group, LLP

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Certified Public Accountants

**STATE OF NEW MEXICO  
ELDORAD AREA WATER AND SANITATION DISTRICT  
FINANCIAL STATEMENTS AND REQUIRED  
SUPPLEMENTARY INFORMATION  
WITH ACCOMPANYING AUDITORS' REPORTS  
YEAR ENDED JUNE 30, 2010**



**STATE OF NEW MEXICO  
ELDORADO AREA WATER AND SANITATION DISTRICT  
  
FINANCIAL STATEMENTS AND REQUIRED  
SUPPLEMENTARY INFORMATION  
WITH ACCOMPANYING AUDITORS' REPORTS  
  
YEAR ENDED JUNE 30, 2010**

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## **INTRODUCTORY SECTION**

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**STATE OF NEW MEXICO**  
 Eldorado Area Water and Sanitation District  
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 June 30, 2010

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**STATE OF NEW MEXICO**  
Eldorado Area Water and Sanitation District  
Directory of Officials  
June 30, 2010

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

**FINANCIAL SECTION**





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

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the business-type activities of the Eldorado Area Water and Sanitation District (District) as of and for the year ended June 30, 2010, 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, 2010, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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, 2010, 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, for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the budgetary comparison referred to above present fairly, in all material respects, the respective budgetary comparison for the year ended in conformity with the cash basis of accounting and more fully described in Note 3 to the financial statements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As described in Note 2, the Governmental Accounting Standards Board has issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, and is effective as of June 30, 2010. The new accounting standard requires the District to account for and report intangible assets. Retroactive reporting of these intangible assets is encouraged but not required. Also, retroactive reporting is not required but is permitted for intangible assets considered to have indefinite useful lives as of the effective date of this standard 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 has implemented the provisions of GASB Statement No. 51 as of June 30, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 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  
December 6, 2011

**STATE OF NEW MEXICO**  
Eldorado Area Water and Sanitation District  
Management's Discussion and Analysis  
June 30, 2010

## **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, 2010.

## **Financial Highlights**

Key events for the fiscal year 2010 are:

- The assets of the District exceeded liabilities at the close of the most recent fiscal year by \$2,784,584 (*total net assets*). The components of net assets include restricted net assets of \$1,741,767, unrestricted net assets, \$1,161,682 and assets invested in capital assets, net of related debt of (\$118,865).
- The District's total net assets increased by \$1,079,269 compared to the prior year net assets. This increase results from debt service of the general obligation bonds in the amount of \$344,130 and an increase for the current year's activity of \$347,397. The increase in current year operations is due to increased revenues and ongoing cost control efforts. Also, net assets increased \$387,742 for the reporting of intangible assets, restated for prior years for the implementation of GASB Statement No. 51.
- As of June 30, 2010, the District had current and noncurrent assets totaling \$918,648 and \$13,872,072, respectively. Capital assets, net of accumulated depreciation totaled \$11,446,135. Current liabilities includes \$47,900 in customer deposits, \$98,383 in accounts payable, \$289,125 in interest payable, \$3,294 in accrued payroll expenses and \$540,000 in bonds payable. Noncurrent liabilities includes \$2,434 in compensated absences and \$11,025,000 in G.O. and revenue bonds payable.
- 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, 2009 and made effective October 1, 2009. The effect of the increased rates on District Revenue in FY2010 was to increase sales revenues 21.6% despite a sales volume that was 1.1 % less than FY2009. Sales volume in FY2009 was 148.335 million gallons. Sales volume in FY2010 was 146.676 million gallons.

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

- A contract for the preliminary design and engineering for Well 18 was signed July 24, 2009. A Request for Bids for construction of Well 18 was issued in May 2010. One bid was received from K. D. Huey, Inc. The Board approved issuance of a contract with K. D. Huey on June 3, 2010. A legislative grant of \$50,000 (SAP-06-1238-GF) was used to purchase well casing and other materials for the project. A second grant of \$300,000 (SAP-07-4584-GF) was used in FY2011 for partial payment of construction of the well.
- The District hired a General Manager in December 2009. This has greatly reduced the burden of management duties previously placed on the District directors and has enhanced the District's ability to manage customer relations and to begin implementing its backlog of capital projects.
- The District joined NM Public Employees Retirement Association (PERA) in January 2010, with an effective date of January 31, 2010. District employees are covered under PERA Municipal Plan 2.
- The District's leases on its administrative office space and its maintenance and storage facilities expired in mid-FY2010 and the leases were not renewed. The District negotiated a lease for office space adjacent to the space already under lease that is used to house the Operations and Maintenance staff, and obtained storage space on a month-to-month rental basis. The new office space lease (\$4,000/mo for CY10) is considerably greater than the previous lease under very favorable terms with the Eldorado Community Improvement Association. A legislative grant of \$100,000 (SAP-06-0214-STB) was used to purchase office equipment and furniture needed to furnish the new administrative offices. The District has had to function without adequate maintenance and storage facilities since March 2010. Building the requisite facilities on property owned by the District is one of the District's top priorities for capital projects in the upcoming fiscal year.

**STATE OF NEW MEXICO**  
Eldorado Area Water and Sanitation District  
Management's Discussion and Analysis  
June 30, 2010

**Financial Highlights (continued)**

- The District began implementing its meter replacement program in April 2010. The District's goal is to replace all customer meters more than 15 years old as quickly as financial and other resources permit, and to develop the resources necessary for a permanent replacement program of approximately 200 meters/year in order to maintain a maximum age of 15 years for District customer meters.
- In January 2009 the District's taxpayer-electors authorized 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. Late in the process of obtaining a loan for refinancing the series 2004 GO bond it was discovered that re-issuance of the bond in May 2005 had been approved by the District Board at that time. The re-issuance had not been discussed during Board turnover in 2006-2007, at which time the Board members sitting in 2005 had all been replaced. The re-issuance paperwork was not filed with the other Bond-related materials, and its existence wasn't known by current Board or staff until it was located in a mass of papers given to the District by its former legal counsel. The effect of the re-issuance was to make the early-redemption penalty terms of the 2004 GO bond the same as those of the 2005 Revenue bond, which was purchased by the 2004 GO bond holders. The 2% early redemption premium that was discovered to be in effect in 2010 would have negated projected savings from refinancing the GO bond at that time, and the Board voted to terminate the loan negotiation process on July 15, 2010.
- The Board negotiated a loan of \$1.43 million for three capital projects with the New Mexico Finance Administration. The loan was finalized on July 16, 2010. The projects to be financed are Well 18 (partial financing from the loan proceeds), a pipeline replacement project and installation of a second booster station, both in the Old Ranch Road area.

**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 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)*.

**STATE OF NEW MEXICO**  
 Eldorado Area Water and Sanitation District  
 Management's Discussion and Analysis  
 June 30, 2010

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

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

*The Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 22-35 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 budgetary 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 \$2,784,584 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 \$1,161,682 of net assets as unrestricted.

**Overview of the Statement of Net Assets**

	<b>2010</b>	<b>2009</b>	<b>Variance</b>
<i>Assets:</i>			
Current assets	\$ 918,648	\$ 1,034,760	\$ (116,112)
Capital assets, net	11,446,135	11,057,253	388,882
Other assets	2,425,937	2,095,739	330,198
<b>Total Assets</b>	<b>\$ 14,790,720</b>	<b>\$ 14,187,752</b>	<b>\$ 602,968</b>
<i>Liabilities:</i>			
Current liabilities	\$ 978,702	\$ 917,437	\$ 61,265
Noncurrent liabilities	11,027,434	11,565,000	(537,566)
<b>Total Liabilities</b>	<b>12,006,136</b>	<b>12,482,437</b>	<b>(476,301)</b>
<i>Net Assets:</i>			
Invested in capital assets, net of related debt	(118,865)	-	(118,865)
Restricted	1,741,767	1,339,623	402,144
Unrestricted	1,161,682	365,692	795,990
<b>Total Net Assets</b>	<b>2,784,584</b>	<b>1,705,315</b>	<b>1,079,269</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 14,790,720</b>	<b>\$ 14,187,752</b>	<b>\$ 602,968</b>

**STATE OF NEW MEXICO**  
Eldorado Area Water and Sanitation District  
Management's Discussion and Analysis  
June 30, 2010

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

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

	<u>2010</u>	<u>2009</u>	<u>Variance</u>
<b>Revenues:</b>			
Water sales (net of uncollectible amounts)	\$ 2,179,556	\$ 1,847,139	\$ 332,417
Ad valorem tax	929,975	984,778	(54,803)
Intergovernmental grants	82,675	-	82,675
Interest income	2,608	20,485	(17,877)
Miscellaneous income	-	3,060	(3,060)
<b>Total Revenues</b>	<b><u>3,194,814</u></b>	<b><u>2,855,462</u></b>	<b><u>339,352</u></b>
<b>Expenses:</b>			
Water and sanitation	1,740,665	1,858,898	(118,233)
Bond interest expense	711,925	753,600	(41,675)
Amortization of bond issue costs	50,697	50,697	-
<b>Total Expenses</b>	<b><u>2,503,287</u></b>	<b><u>2,663,195</u></b>	<b><u>(159,908)</u></b>
<b>Increase in Net Assets</b>	<b><u>691,527</u></b>	<b><u>192,267</u></b>	<b><u>499,260</u></b>
<b>Total net assets, beginning of year</b>	<b><u>1,705,315</u></b>	<b><u>1,513,048</u></b>	<b><u>192,267</u></b>
<b>Net Assets, restatement (note 13)</b>	<b><u>387,742</u></b>	<b><u>-</u></b>	<b><u>387,742</u></b>
<b>Total net assets - end of year</b>	<b><u>\$ 2,784,584</u></b>	<b><u>\$ 1,705,315</u></b>	<b><u>\$ 1,079,269</u></b>

**STATE OF NEW MEXICO**  
Eldorado Area Water and Sanitation District  
Management's Discussion and Analysis  
June 30, 2010

## **Financial Analysis of the District's Funds and Fiscal Year 2010 Budgetary Highlights**

As noted above, net assets increased by \$1,079,269 from fiscal year 2009 (originally reported) to fiscal year 2010. Total revenues increased by \$339,352, 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 receipts taxes. In fiscal year 2010 water sales net of gross receipts was \$2,179,556 (gross receipts taxes were \$102,902). Total expenses also decreased in fiscal year 2010 to \$2,597,953, a decrease of \$65,242 from the fiscal year 2009 expenses of \$2,663,195. 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 2010 financial activities include:

- Approximately \$143,000 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 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 FY2010, 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 \$2,610,517 spent on the non-GAAP budgetary basis of accounting vs. \$3,035,236 budgeted). On the revenue side, ad valorem tax revenue was less than budgeted by \$118,925 and water sales were less than budgeted by \$183,238. A detailed breakout of budget vs. actual revenue and expenses can be found on page 38 of this report.

The board believes that the District is in good financial shape at the close of the fiscal year 2010. From July 01, 2009 through June 30, 2010, District deposits from water sales averaged \$137,142 per month. The monthly average is expected to increase by approximately 10% as a 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, 2010 totals \$11,446,135 (net of accumulated depreciation). Major capital events during the Fiscal Year included the following:

- Approximately \$143,000 in capital assets were added to the water utility system in fiscal year 2010. Chief among these were the work in process construction of Well 18 (approximately \$142,000) and installation of replacement meters and service line extensions (approximately \$49,000).
- The District implemented GASB Statement No. 51 during the year ended June 30, 2011 resulting in the reclassification of Capital Assets in the amount of \$2,839,981 and a restatement in the amount of (\$387,742).

Additional information on the District's capital assets can be found at Note 8 of this report.

## **Long-Term Debt Administration**

During Fiscal Year 2005, the District sold \$5,800,000 in water utility revenue bonds, \$190,000 of which was paid in fiscal year 2010. During FY 2004, the District sold \$7,895,000 in general obligation bonds, of which \$325,000 was paid during fiscal year 2010. More information about the District's debt is presented in Note 10, pages 30-32 of this report.

**STATE OF NEW MEXICO**  
Eldorado Area Water and Sanitation District  
Management's Discussion and Analysis  
June 30, 2010

**Financial Outlook for Next Year**

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) and increased water sales receipts for fiscal year 2010.

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 2011 includes revenues of \$2,471,020 (operating) plus \$887,474 (property tax revenue) and cash balances of \$1,950,108. Proposed expenses total \$2,523,294 (operating and capital) plus \$743,082 (GO bond debt service plus administrative expense) and \$150,000 (capital funded from property taxes).

**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.



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## **BASIC FINANCIAL STATEMENTS**

**STATE OF NEW MEXICO**  
Eldorado Area Water and Sanitation District  
Statement of Net Assets  
June 30, 2010

Exhibit A

	<u>Business-Type Activities</u>
<i>Assets</i>	
<i>Current assets</i>	
Cash and cash equivalents (Note 4)	\$ 139,245
Investments (Note 4)	308,805
Ad valorem taxes receivable (Note 5)	51,542
Accounts receivable, net of allowance for doubtful accounts (Note 6)	399,621
Prepaid expenses (Note 7)	19,435
<i>Total current assets</i>	<u>918,648</u>
<i>Noncurrent assets</i>	
Restricted assets:	
Cash and cash equivalents (Note 4)	510,250
Investments (Note 4)	1,235,591
Capital assets, net of accumulated depreciation (Note 8)	11,446,135
Other assets:	
Deferred bond issue costs, net	680,096
<i>Total noncurrent assets</i>	<u>13,872,072</u>
<i>Total assets</i>	<u><u>\$ 14,790,720</u></u>
<i>Liabilities and net assets</i>	
<i>Current liabilities</i>	
Accounts payable (Note 9)	\$ 98,383
Interest payable	289,125
Accrued payroll expenses	3,294
Customer deposits	47,900
General obligation bonds payable - current (Note 10)	340,000
Revenue bonds payable - current (Note 10)	200,000
<i>Total current liabilities</i>	<u>978,702</u>
<i>Noncurrent liabilities</i>	
Compensated absences (Note 10)	2,434
General obligation bonds payable (Note 10)	6,115,000
Revenue bonds payable (Note 10)	4,910,000
<i>Total noncurrent liabilities</i>	<u>11,027,434</u>
<i>Total liabilities</i>	<u>12,006,136</u>
<i>Net assets</i>	
Invested in capital assets, net of related debt	(118,865)
Restricted for:	
Cost of utility acquisition and improvements (Note 12)	189,459
Water rights acquisition (Note 12)	72,375
Debt service-revenue bonds (Note 12)	510,250
Debt service- G.O. bonds (Note 12)	969,683
Unrestricted	1,161,682
<i>Total net assets</i>	<u>2,784,584</u>
<i>Total liabilities and net assets</i>	<u><u>\$ 14,790,720</u></u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**  
Eldorado Area Water and Sanitation District  
Statement of Revenues, Expenses and Changes in Net Assets  
For the Year Ended June 30, 2010

Exhibit B

	Business-Type Activities
<i>Operating revenues</i>	
Water sales	\$ 2,179,556
<i>Total operating revenues</i>	2,179,556
<i>Operating expenses</i>	
Contractual services	966,684
Depreciation	357,073
Other operating costs	289,410
Personnel services	64,190
Supplies	51,714
Water conservation fee	5,034
Travel	6,560
<i>Total operating expenses</i>	1,740,665
<i>Operating income</i>	438,891
<i>Non-operating revenues (expenses)</i>	
Ad valorem tax	929,975
Interest income	2,608
Bond interest expense	(711,925)
Amortization of bond issue costs	(50,697)
<i>Total non-operating revenues (expenses)</i>	169,961
Income before contributions and transfers	608,852
Capital grants	82,675
<i>Total capital grants</i>	82,675
<i>Change in net assets</i>	691,527
<i>Total net assets, beginning of year, as originally reported</i>	1,705,315
<i>Net assets, restatement (note 13)</i>	387,742
<i>Total net assets, beginning of year, as restated</i>	2,093,057
<i>Total net assets, end of year</i>	\$ 2,784,584

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, 2010

	Business-Type Activities
<i>Cash flows from operating activities</i>	
Cash received from customers	\$ 2,141,264
Cash paid to suppliers and contractors	(1,298,602)
Cash paid to employees for services	(58,462)
	784,200
<i>Cash flows from noncapital financing activities</i>	
Ad valorem taxes received	928,845
	928,845
<i>Cash flows from capital and financing activities</i>	
Intergovernmental capital grants received	82,675
Purchase of capital assets	(358,213)
Bond principal payments	(515,000)
Bond interest payments	(724,800)
	(1,515,338)
<i>Cash flows from investing activities</i>	
Purchase of investments	(435,947)
Interest income	2,608
	(433,339)
<i>Net decrease in cash and cash equivalents</i>	(235,632)
<i>Cash and cash equivalents - beginning of year</i>	885,127
<i>Cash and cash equivalents - end of year</i>	\$ 649,495

The accompanying notes are an integral part of these financial statements

	<u>Business-Type Activities</u>
<i>Reconciliation of operating income to net cash provided by operating activities</i>	
Operating income	\$ 438,891
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	357,073
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(59,992)
(Increase) decrease in prepaid expenses	(3,346)
Increase (decrease) in accounts payable	24,146
Increase (decrease) in accrued payroll expenses	3,294
Increase (decrease) in compensated absences	2,434
Increase (decrease) in customer deposits	<u>21,700</u>
Net cash provided by operating activities	<u>\$ 784,200</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	\$ 139,245
Restricted assets - cash and cash equivalents	<u>510,250</u>
Total cash and cash equivalents	<u>\$ 649,495</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, 2010

**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, 2010

**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, 2010

**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, 2010

**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. During the year, the District implemented GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The District retroactively included their non depreciable water rights and easements during the year ended June 30, 2010 resulting in a restatement of Net Assets in the amount of \$2,839,981. 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 Expenses:** 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.

**STATE OF NEW MEXICO**  
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**NOTE 3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)**

6. Formal budgetary integration is employed as a management control device during the year.

Budgets for revenues and most expenses 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:

	Excess (deficiency) of revenues over expenditures	
	Original Budget	Final Budget
Budgeted Fund:		
Water utility	\$ 158,932	\$ 149,208

**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, 2010.

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 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 negotiable order of withdrawal (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. However, on October 14, 2008, the FDIC announced a new Transaction Account Guarantee (TAG) Program, that provides depositors' with unlimited coverage through December 31, 2010, for insured depository institutions (IDIs) currently participating in the TAG program, with the possibility of an additional extension of up to 12 months without additional rulemaking, upon a determination by the FDIC's Board of Directors that continuing economic difficulties warrant further extension. With regards to this Transaction Guarantee Program, noninterest-bearing checking accounts include Demand Deposit Accounts (DDA's) and any other transaction accounts that has unlimited withdrawals and that cannot earn interest. Also included in this program are low-interest NOW accounts that cannot earn more than 0.5% interest.

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). The District is not exposed to custodial credit risk as of June 30, 2010 as 100% of their deposits are fully insured.

**STATE OF NEW MEXICO**  
 Eldorado Area Water and Sanitation District  
 Notes to the Financial Statements  
 June 30, 2010

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

At June 30, 2010, bank accounts were collateralized as follows:

	First National Bank of Santa Fe
Amount of deposits	\$ 346,920
FDIC Coverage	(346,920)
Total uninsured public funds	-
Collateralized by securities held by pledging institutions or by its trust department or agent in other than the District's name	
Uninsured and uncollateralized	\$ -
Collateral requirement (50% of uninsured funds)	
Pledged Collateral	422,159
Over (Under) collateralized	\$ 422,159

**Investments**

Credit Risk

As of June 30, 2010, 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 6-10-10.1 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 was backed by the full faith and credit of the United States Government.

As of June 30, 2010, 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	\$ 971,893	50 Days
Utility Acquisition and Improvement	AAAM	189,920	50 Days
Operating Reserve	AAAM	382,583	50 Days
U.S. Treasury MM Mutual Fund**	AAA	510,250	< 90 Days
Total investments		\$ 2,054,646	

**STATE OF NEW MEXICO**  
 Eldorado Area Water and Sanitation District  
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 June 30, 2010

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

\*\*These U.S. Treasury MM Mutual Fund amounts are classified as a cash equivalents due to their weighted average maturity of less than 90 days.

*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	\$ 649,495
Investments - Exhibit A	<u>1,544,396</u>
 Total cash, cash equivalents and investments	 2,193,891
 Add: outstanding checks	 207,675
Less: investments in NM State Treasurer's LGIP	(1,544,396)
Less: investments in U.S. Treasury MM Mutual Fund	<u>(510,250)</u>
 Bank Balance of Deposits	 <u><u>\$ 346,920</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>\$ 51,542</u></u>
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**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	\$ 444,621
Less: Allowance for doubtful accounts	<u>(45,000)</u>
 Net accounts receivable	 <u><u>\$ 399,621</u></u>

**NOTE 7. PREPAID EXPENSES**

The District prepaid directors' and officers' liability insurance and property insurance totaling \$14,671. The District has also prepaid rent in the amount of \$4,270 and other miscellaneous prepaid items in the amount of \$494.

**STATE OF NEW MEXICO**  
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**NOTE 8. CHANGES IN CAPITAL ASSETS**

The following is a summary of capital assets and changes occurring during the year ended June 30, 2010. Land, easements, and water rights are not subject to depreciation.

	Balance June 30, 2009	Restatement/ Reclassification	Additions	Deletions	Balance June 30, 2010
<b>Capital Assets Not Depreciated:</b>					
Land	\$ 463,000	\$ -	\$ -	\$ -	\$ 463,000
Easements	-	459,548	-	-	459,548
Water Rights	-	2,380,433	-	-	2,380,433
<b>Capital Assets Depreciated:</b>					
Water utility - original	10,753,996	(2,839,981)	-	-	7,914,015
Water utility - improvements	475,704	-	171,366	-	647,070
Water utility- Well 17	855,149	-	1,731	-	856,880
Water utility- Well 18	-	-	141,640	-	141,640
Vehicles	96,896	-	-	-	96,896
Furniture and fixtures	16,436	-	-	-	16,436
Office equipment	52,192	-	43,476	-	95,668
<b>Total Capital Assets</b>	<b>12,713,373</b>	<b>-</b>	<b>358,213</b>	<b>-</b>	<b>13,071,586</b>
<b>Accumulated Depreciation:</b>					
Water utility - original	1,468,240	(387,742)	263,801	-	1,344,299
Water utility - improvements	83,282	-	42,934	-	126,216
Water utility- Well 17	32,731	-	28,555	-	61,286
Vehicles	63,796	-	15,350	-	79,146
Furniture and fixtures	2,474	-	1,095	-	3,569
Office equipment	5,597	-	5,338	-	10,935
<b>Total Accumulated Depreciation</b>	<b>1,656,120</b>	<b>(387,742)</b>	<b>357,073</b>	<b>-</b>	<b>1,625,451</b>
<b>Total Capital Assets, net</b>	<b>\$ 11,057,253</b>	<b>\$ 387,742</b>	<b>\$ 1,140</b>	<b>\$ -</b>	<b>\$ 11,446,135</b>

Depreciation expense for the year totaled \$357,073. G.O. and Revenue Bonds were sold to finance the acquisition of the water utility in fiscal year 2005.

The District implemented GASB Statement No. 51 *Accounting and Financial Reporting for Intangible Assets* during the year ended June 30, 2010 resulting in a reclassification of Capital Assets in the amount of \$2,839,981 and a restatement in the amount of (\$387,742). See Note 13 for more information.

**NOTE 9. ACCOUNTS PAYABLE**

Accounts payable consists of \$98,383 due for contractual services, various operating costs and gross receipts tax on water sales.

**STATE OF NEW MEXICO**  
 Eldorado Area Water and Sanitation District  
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**NOTE 10. LONG-TERM DEBT**

During the year ended June 30, 2010, the following changes occurred in the liabilities reported in the statement of net assets:

	Balance June 30, 2009	Additions	Deletions	Balance June 30, 2010	Due Within One Year
Business-type activities					
Bonds:					
General obligation bonds- Series 2004	\$ 6,780,000	\$ -	\$ 325,000	\$ 6,455,000	\$ 340,000
Water Utility System Revenue Bonds- Series 2005	5,300,000	-	190,000	5,110,000	200,000
Subtotal bonds	<u>12,080,000</u>	<u>-</u>	<u>515,000</u>	<u>11,565,000</u>	<u>540,000</u>
Accrued compensated absences	<u>-</u>	<u>2,434</u>	<u>-</u>	<u>2,434</u>	<u>-</u>
Total	<u>\$ 12,080,000</u>	<u>\$ 2,434</u>	<u>\$ 515,000</u>	<u>\$ 11,567,434</u>	<u>\$ 540,000</u>

**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%

**STATE OF NEW MEXICO**  
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**NOTE 10. LONG-TERM DEBT (continued)**

- 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 Bonds as of June 30, 2010, including interest payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
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	430,000	297,900	727,900
2016-2020	2,585,000	1,068,300	3,653,300
2021-2023	1,950,000	238,800	2,188,800
	<u>\$ 6,455,000</u>	<u>\$ 3,026,700</u>	<u>\$ 9,481,700</u>

**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.

**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.



**STATE OF NEW MEXICO**  
 Eldorado Area Water and Sanitation District  
 Notes to the Financial Statements  
 June 30, 2010

**NOTE 10. LONG-TERM DEBT (continued)**

- c. The annual requirements to amortize the Water Utility System Revenue Bonds as of June 30, 2010, including interest payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
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	250,000	254,400	504,400
2016-2020	1,505,000	1,026,900	2,531,900
2021-2025	2,485,000	519,000	3,004,000
	<u>\$ 5,110,000</u>	<u>\$ 2,952,000</u>	<u>\$ 8,062,000</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.

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**

From July 1 through mid-December 2009, the District leased administrative office space for \$250 per month from the Eldorado Community Improvement Association. Beginning December 15, 2009, the District began leasing office space from the Crossingham Trust, from which the District was already leasing space for the water utility operations office. The existing lease was superseded by a new lease for both the administrative and utility operations office areas, for \$4,000 per month plus approximately \$1,500 per month for common area maintenance (CAM) charges. Either party may cancel the lease at any time upon ninety days written notice to the other party.

Until the end of March 2010, the District leased real property (storage yard and maintenance shed) for storing trucks, heavy equipment, materials, and machinery and for limited maintenance activities. The lease rate was \$600 per month. The lease expired December 31, 2009 and the owner of the property refused to renew the lease. A month-to-month extension of the lease at \$1,000 per month was granted. The property was vacated at the end of March 2010.

After the storage and maintenance facility was vacated, the District began leasing storage space from both Crossingham Trust (two units at \$60 per month) and renting from Eldorado Self Storage (one unit at \$150 per month). The Crossingham unit lease may be canceled at any time upon ninety days written notice to the other party. The Eldorado Self Storage rental agreement is month-to-month.

Since all leases have an early termination clause, there are no future minimum lease payments. Rent expense for the year ended June 30, 2010 was \$52,663.

**STATE OF NEW MEXICO**  
Eldorado Area Water and Sanitation District  
Notes to the Financial Statements  
June 30, 2010

**NOTE 12. NET ASSETS**

At June 30, 2010, net assets totaling \$189,459 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 \$510,250 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 of \$969,683 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 \$1,161,682 are unrestricted at June 30, 2010.

**NOTE 13. NET ASSETS RESTATEMENT**

The District has implemented GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which requires financial statements beginning after June 15, 2009 to retroactively report intangible assets. The allocation attributable to the easements and water rights has been reclassified to reflect the portion allocable to the original acquisition price of the utility system in the amount of \$2,839,981 as a result of properly recording easements and water rights with balances of \$459,548 and \$2,380,433, respectively. Net assets have been restated in the amount of \$387,742 to remove depreciation attributable to the easements and water rights in prior years.

**NOTE 14. RISK MANAGEMENT AND LITIGATION**

The District covers its insurance needs through various insurance policies. The coverage includes business and personal property, commercial general liability, owned, non-owned and hired automobiles, and directors' and officers' liability. The premiums paid on the policies during the year were \$39,936.

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

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

**NOTE 15. COMMITMENTS AND CONTINGENCIES**

Effective March 15, 2004, the District hired a contractor to provide day-to-day operations and management of the water system upon acquisition by the District. The term 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, 2009 for fiscal year 2010. The original base fee for fiscal year 2010 was \$821,400, but was adjusted through the budget process to \$692,058. The aggregate commitment under this agreement for fiscal year 2010 was \$838,785, which was adjusted through the budget process to \$817,738.

**NOTE 16. SUBSEQUENT EVENTS**

**Water Utility Rates**

On August 4, 2009, the New Mexico Public Regulation Commission (NM PRC) issued its final order granting, with minor modifications, the District's proposed rates from 2007. The final NM PRC approved rates are higher, and the approved rates are phased. The first phase was applied to the District's water sales in September 2009, and appeared on the ratepayer's bills

**STATE OF NEW MEXICO**  
Eldorado Area Water and Sanitation District  
Notes to the Financial Statements  
June 30, 2010

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

in October 2009. The second phase was contingent upon the District's obtaining loans for bond refinancing or capital improvements. A capital projects loan for \$1.44 million from the New Mexico Finance Administration was approved by the Board in April 2010 and closed July 16, 2010. In November 2010 the Board directed members of the District Finance Committee to negotiate the details of implementation of the second phase of the 2009 rate increase with staff of NM PRC. A rate increase schedule developed by District and NM PRC staff was approved by the Board in December 2010. The second phase was applied to the District's water sales in March 2011, and appeared on the ratepayer's bills in April 2011.

**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.

On July 15, 2010, the Reserve announced that it will begin its seventh distribution to Primary Fund shareholders on or about July 16, 2010. The distribution, in the amount of approximately \$215 million, represents approximately 67% of the Fund's remaining asset value of \$323 million as of the close of business on July 9, 2010. Including this seventh distribution, \$50.7 billion of Fund assets as of the close of business on September 15, 2008, will have been returned to investors. There is \$108 million still remaining with the Reserve at this time and the State Treasurer's Office has no information about timing nor amounts of potential future distributions. 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 date to which events occurring after June 30, 2011, the date of the most recent statement of net assets, have been evaluated for possible adjustment to the financial statements or disclosures is December 6, 2011 which is the date on which the financial statements were issued.

**NOTE 17. SUBSEQUENT PRONOUNCEMENTS**

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.

In November 2010, GASB Statement No. 60 *Accounting and Financial Reporting for Service Concession Arrangements*, Effective Date: For financial statements for periods beginning after December 15, 2011. The provisions of this Statement generally are required to be applied retroactively for all periods presented. The District is still evaluating the possible effects of this standard.

In November 2010, GASB Statement No. 61 *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*, Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Earlier application is encouraged. The standard is expected to have no effect on the District in upcoming years.

In December 2010, GASB Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, Effective Date: The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged. The provisions of this Statement generally are required to be applied retroactively for all periods presented. The District will implement this standard during fiscal year June 30, 2013.

**STATE OF NEW MEXICO**  
Eldorado Area Water and Sanitation District  
Notes to the Financial Statements  
June 30, 2010

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

In June 2011, GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* Effective Date: The provisions of Statement 63 are effective for financial statements for periods beginning after December 15, 2011, with earlier application encouraged. The standard is expected to have no effect on the District in upcoming years.

In June 2011, GASB Statement No. 64 *Derivative Instruments: Application of Hedge Accounting Termination Provisions*—an amendment of GASB Statement No. 53 Effective Date: The provisions of Statement 64 are effective for financial statements for periods beginning after June 15, 2011, with earlier application encouraged. The standard is expected to have no effect on the District in upcoming years.

**NOTE 18. PERA PENSION PLAN**

*Plan Description:* Substantially all of the District's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11 NMSA 1978.) The Public Employee Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing, multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P. O. Box 2123, Santa Fe, New Mexico 87504-2123. The report is also available on PERA's website at [www.pera.state.nm.us](http://www.pera.state.nm.us)

*Funding Policy:* Plan members are required to contribute the following percentages of their gross salary: 9.15% for District employees. The District is required to contribute the following percentages of the gross covered salary: 9.15% for District plan members. The contribution requirements of plan members and the District are established in State Statute under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The District's contributions to PERA for the fiscal year ended June 30, 2010 were \$6,694, which equal the amount of the required contributions for each fiscal year.

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**SUPPLEMENTARY INFORMATION**

**STATE OF NEW MEXICO**  
Eldorado Area Water and Sanitation District  
Schedule of Revenues, Expenses and Changes in Net Assets  
Budget (Non-GAAP Budgetary Basis) and Actual  
For the Year Ended June 30, 2010

Schedule I

	Budgeted Amounts		Non-GAAP Budgetary Basis	Variances
	Original	Final	Actual	Favorable (Unfavorable) Final to Actual
<i>Operating revenues</i>				
Water sales	\$ 2,362,794	\$ 2,362,794	\$ 2,179,556	\$ (183,238)
<i>Total operating revenues</i>	2,362,794	2,362,794	2,179,556	(183,238)
<i>Operating expenses</i>				
Contractual services	1,331,325	1,334,900	966,684	368,216
Other operating costs	231,814	231,762	289,410	(57,648)
Personnel services	215,482	215,482	64,190	151,292
Supplies	4,441	4,441	51,714	(47,273)
Water conservation fee	-	6,201	5,034	1,167
Travel	2,650	2,650	6,560	(3,910)
Debt service				
Principal	515,000	515,000	515,000	-
Interest	724,800	724,800	711,925	12,875
<i>Total operating expenses</i>	3,025,512	3,035,236	2,610,517	424,719
<i>Non-operating revenues (expenses)</i>				
Ad valorem taxes	811,050	811,050	929,975	118,925
Interest income	10,600	10,600	2,608	(7,992)
<i>Total non-operating revenues (expenses)</i>	821,650	821,650	932,583	110,933
<i>Income (loss) before contributions and transfers</i>				
Capital grant	-	-	82,675	82,675
<i>Total grants and transfers</i>	-	-	82,675	82,675
<i>Excess (deficiency) of revenues and sources over expenses and uses</i>				
	\$ 158,932	\$ 149,208	584,297	\$ 435,089
Depreciation			(357,073)	
Principal payments on bonds			515,000	
Amortized issuance costs			(50,697)	
<i>Change in net assets, Exhibit B</i>			691,527	
<i>Net assets - beginning of year, as originally reported</i>			1,705,315	
<i>Net assets - restatement</i>			387,742	
<i>Net assets - beginning of year, as restated</i>			2,093,057	
<i>Net assets - end of year</i>			\$ 2,784,584	

The accompanying notes are an integral part of these financial statements

**SUPPORTING SCHEDULES**



**STATE OF NEW MEXICO**  
 Eldorado Area Water and Sanitation District  
 Schedule of Collateral Pledged by Depository For Public Funds  
 June 30, 2010

<u>Name of Depository</u>	<u>Description of Pledged Collateral</u>	<u>Maturity</u>	<u>CUSIP Number</u>	<u>Fair Market Value June 30, 2010</u>	<u>Name and Location of Safekeeper</u>
<b>First National Bank of Santa Fe</b>	Friendswood TEX WTR & SWR REV	3/1/2020	358595ER3	\$ 422,159	Fifth Third Bank of Cincinnati

See accompanying independent auditor's report

**STATE OF NEW MEXICO**  
 Eldorado Area Water and Sanitation District  
 Schedule of Deposit and Investment Accounts  
 June 30, 2010

Account Name/Type	Deposits		Investments		Totals
	First National Bank of Santa Fe	U.S. Treasury MM Mutual Fund	NewMexigrow LGIP		
Deposits:					
First National Bank of Santa Fe					
Demand	\$ 315,261	\$ -	\$ -		\$ 315,261
Savings	31,659	-	-		31,659
Investments:					
Revenue Bond Trust Department	-	510,236	-		510,236
G.O. Bond Trust Department	-	14	-		14
LGIP	-	-	971,893		971,893
LGIP	-	-	189,920		189,920
LGIP	-	-	382,583		382,583
Total deposits and investments	346,920	510,250	1,544,396		2,401,566
Reconciling items	(207,675)	-	-		(207,675)
Reconciled balance	<u>\$ 139,245</u>	<u>\$ 510,250</u>	<u>\$ 1,544,396</u>		<u>\$ 2,193,891</u>
Total unrestricted cash and cash equivalents per Exhibit A					\$ 139,245
Total unrestricted investments per Exhibit A					308,805
Total restricted cash and cash equivalents per Exhibit A					510,250
Total restricted investments per Exhibit A					<u>1,235,591</u>
Total cash and cash equivalents and investments					<u>\$ 2,193,891</u>

See accompanying independent auditor's report

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**COMPLIANCE SECTION**



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

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited the accompanying financial statements of the business-type activities of the Eldorado Area Water and Sanitation District (District), as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents, and have issued our report thereon December 6, 2011. We have also audited the budgetary comparison for the year ended June 30, 2010, 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as 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 responses and, accordingly, we express no opinion on them.

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  
December 6, 2011

**STATE OF NEW MEXICO**  
Eldorado Area Water and Sanitation District  
Schedule of Findings and Responses  
June 30, 2010

**A. SUMMARY OF AUDIT RESULTS**

*Financial Statements:*

1. Type of auditors' report issued	Unqualified
2. Internal control over financial reporting:	
a. Material weaknesses 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, 2010 was not submitted to the State Auditor by the required due date of December 1, 2010. The audit report was submitted to the State Auditor on January 9, 2012.

**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 implemented GASB Statement 51, *Accounting and Financial Reporting for Intangible Asset*, during the year ended June 30, 2010 which took additional time to organize information to provide to the Independent Public Auditor to gain sufficient audit evidence in order to render an opinion for the year ended June 30, 2010.

**Auditor's Recommendation:** We recommend that the District become current with their audits and submit their fiscal year 2012 audit by the December 1, 2012 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.

Details of the District's experience with the FY2009 audit are presented in the management response to FS 2007-01 in the FY2009 audit. The FY2009 audit was completed February 28, 2011 and was approved by the NM Office of the State Auditor on April 1, 2011. Work on the FY2010 audit was started shortly thereafter.

The District is aware of the financial and legal requirements for completing its audits in a timely manner. It is in the process of engaging an independent public accounting firm for the FY2011 audit. The District plans to complete the FY2011 audit no later than May 31, 2012, and will make a concerted effort to complete the FY2012 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 has made progress in carrying out auditor's recommendations regarding training. In FY2010 and FY2011 the Financial Coordinator engaged in self-study activities focusing on implementation of the reporting requirements stated in GASB 51 and in reviewing GASB 34. Additional study and training is ongoing. Suitable training with a feasible schedule for developing a better understanding of the preparation of the District's financial statements, related footnote disclosures and adjusting journal entries is actively being sought.

The District Finance Committee is reviewing and implementing or updating District financial policies and procedures on an ongoing basis, with a primary emphasis on day to day operations and a secondary emphasis on developing and implementing policies and procedures to improve internal management of the information that flows into the District's financial statements and related footnote disclosures.

**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:

- Insufficient segregation of duties, particularly with respect to financial reporting, transaction processing, and information technology
- Insufficient 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 cannot 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.

**Cause:** 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:

- 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 policies on a monthly basis.

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

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

*Agency's Response:* The District Finance Committee has been tasked by the District Board to continue to address the other items 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. Foundation documents for drafting policy and procedure documents are Committee of Sponsoring Organizations of the Treadway Commission (COSO) publications, including "Internal Control over Financial Reporting — Guidance for Smaller Public Companies" and "Effective Enterprise Risk Management Oversight."

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, 2010

**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

**STATE OF NEW MEXICO**  
Eldorado Area Water and Sanitation District  
Other Disclosures  
June 30, 2010

**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 December 22, 2011. The following individuals were in attendance.

Eldorado Area Water and Sanitation District  
Jim Jenkins, President of Board of Directors  
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  
Robert Cordova, CPA



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